Hampden & Co.
BANKERS

2021

Annual Report and Financial Statements
For the year ended 31 December 2021

Contents

2021 Performance highlights

Deposits
Up 39% to £696m
2020: £501m

Loans and advances
Up 29% to £422m
2020: £326m

Total income
Up 29% to £13.2m
2020: £10.2m

Statutory loss before tax
Down 28% to £3.0m
2020: £4.1m

Underlying adjusted loss *
Down 67% to £0.8m
2020: £2.4m

Strong client endorsement
Achieved a Net Promoter Score of 73, with 'likely to recommend' averaging 9.1 out of 10.
2018: 71

High colleague engagement
84% Engagement Index score in 'Great Place to Work' survey.
2020: 87%

Award success
Awarded 'Most Outstanding Private Bank – UK Domestic Clients' by Private Banker International for 2nd year running.

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 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 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

*As defined in Chief Executive's Business Review on page 9

Company information

Directors	**S E C Miller***
	G T Hartop (Chief Executive Officer)
	A K Mulligan (Chief Financial Officer)
	D C Huntley*
	C H Taylor* (appointed 8 February 2021)
	F F Williamson*
	R A Macpherson* (appointed 18 October 2021)
	P A Sparkes* (resigned 19 January 2022)

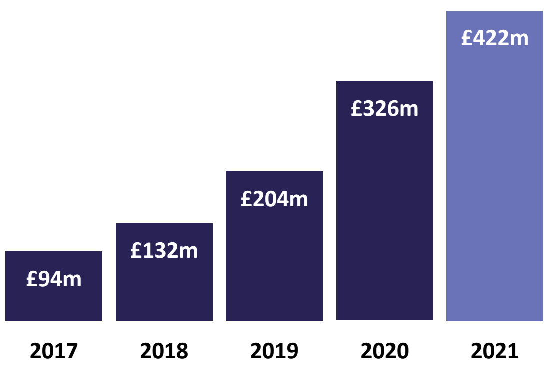
* Non-Executive Director

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**

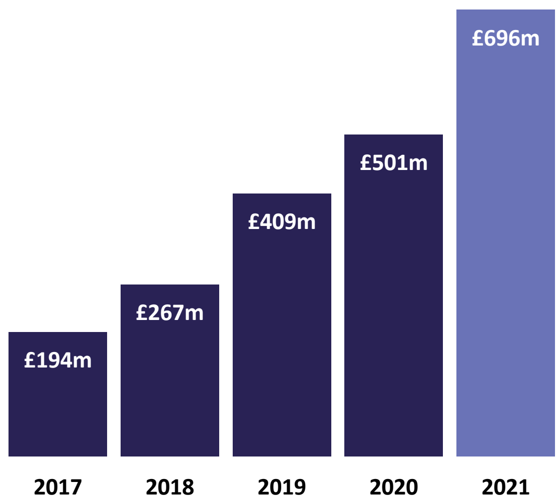
Five-year performance summary

	2017	2018	2019	2020	**2021**	*Growth 2019-20*	***Growth 2020-21***
Loans and advances to clients	£94m	£132m	£204m	£326m	**£422m**	*+60%*	***+29%***
Deposits from clients	£194m	£267m	£409m	£501m	**£696m**	*+22%*	***+39%***
Total income	£3.9m	£6.4m	£8.7m	£10.2m	**£13.2m**	*+18%*	***+29%***
Statutory loss before tax	-£6.4m	-£5.8m	-£5.5m	-£4.1m	**-£3.0m**		
Shareholders' equity	£43.7m	£40.0m	£44.9m	£51.3m	**£57.3m**		

Lending growth



Deposits growth



Chairman's statement

Simon Miller
Chairman

Dear Shareholder

Hampden & Co (the Bank) made good progress during the year. The results demonstrate that the business performed well, displaying agility, resilience and delivering strong growth on both sides of the balance sheet, despite the headwinds from Covid-19 and historically low interest rates.

Performance

Hampden & Co has stepped up well to the challenges it faced during 2021. We have accommodated our work lives to deal with the constraints set by Covid-19. This has not been easy given the configuration of both the Edinburgh and London offices. The difficulties in winning and transacting business in these circumstances are not to be underestimated, but the results in terms of both lending and deposits have been remarkable. Throughout the Covid-19 pandemic we have continued to look after our clients and their families. In 2021 the loan book increased by 29% to £422m, deposits by 39% to £696m, while the number of clients grew by more than 15%. We made progress towards breakeven and are focusing our efforts on achieving profit towards the end of 2022.

Achieving profitability will be a seminal event for the Bank and for its stakeholders. It signifies progress and represents another step along the road to maturity. It enables the Bank to be self-funding and not dependent on raising money on a regular basis from albeit a very supportive group of larger shareholders. To support business growth, these shareholders have committed to invest £8m in the first half of 2022.

The Bank continues to invest in its technology. The most significant programme is an upgrade of the core banking platform to the latest version of the software which will provide operational benefits. The Bank has outsourced its IT infrastructure and security services to improve resilience, reduce key person dependencies and to gain access to a wider pool of technology expertise.

Further information is contained in the Chief Executive's Business Review on page 7.

A strong culture

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

We support our people in different ways to help them deliver for clients. Regular coaching on aspects of physical and mental well-being and support for flexible working are helping to ensure all our people have access to a suitable, comfortable and safe working environment. In 2022, we will introduce private medical care for all those who work for Hampden & Co. The annual staff survey, conducted towards the end of the year, had a 91% response rate and 86% of employees said "this is a great place to work". The Board and the Executive Management Committee (EMC) pay particular attention to this review and how to address employee feedback.

The Bank continues to invest in training and development. As well as regular on-the-job and regulatory training for all employees, the banking team participated in coaching to support their efforts to seek and welcome new clients and to enhance the levels of service.

A socially responsible private bank

The Bank is committed to reducing its impact on the environment and to making a positive contribution to our communities. The Bank's Sustainability Group, which is led by the Chief Executive Officer and overseen by the Board, is championing the achievement of net-zero carbon by 2030. Its plan to achieve this has four elements; reducing the Bank's carbon footprint, investing in carbon capture to offset any small residual emissions, supporting clients with environmental projects and promoting sustainable practices with employees. You can read more about this in the Sustainability Report on pages 11 to 13.

Our stakeholders

The Bank has many stakeholders and the Board focuses on four in particular. These are our clients, our employees, our regulators and of course our shareholders. Keeping them aligned is important and this continues to be our focus. This is substantially achieved by honest and open dialogue on everyone's part.

I have always taken the view that building a private bank is a long-term exercise and that the rewards would be long in coming. Our Cornerstone Investors have been staunch in their support and our individual shareholders have been patient and loyal. The path to profitability is now much clearer.

In January this year, we invited clients to tell us about their levels of satisfaction with the Bank, their banker and the services they are receiving. The responses to the survey are helping the Bank to understand how well it is performing from the clients' perspective. The many responses received indicate a high degree of satisfaction with clients scoring the Bank an average of 9.1 out of 10 when asked 'How likely would you be to recommend Hampden & Co to a friend, family member or colleague?'. Measured as a Net Promoter Score (NPS), the Bank has achieved a score of 73 which compares favourably with the NPS of 71 in 2018 when this survey was last undertaken. The executive management team are reviewing the results to consider any services clients would like to be made available or to be improved upon.

The Hampden & Co Board

Finlay Williamson, who joined the Board in 2020, was appointed Senior Independent Director in May 2021.

As announced in last year's report and accounts, Caroline Taylor joined the Board as a Non-executive Director in February and is chairman of the Remuneration Committee. Angus Macpherson joined the Board as a Non-executive Director in October. Angus is CEO of Noble & Co who have advised Hampden & Co for many years. To avoid any conflict, Noble & Co will step down as financial adviser. Angus is chairman of Henderson Diversified Income PLC, Chairman of Pacific Horizon Investment Trust PLC and a Non-executive Director of the Schroder Japan Growth Fund PLC. He will bring a wealth of experience to the Board's deliberations.

In June, Andy Mulligan advised the Board that he intended to retire. Andy has been Chief Financial Officer since 2011. His contribution to the formation of the Bank, to the process of obtaining the necessary consents, to the various fund raisings, not to mention his role as right hand man to Graeme Hartop, cannot be underestimated. He has done an outstanding job and we wish him well in his retirement. Jonathan Peake joined the Bank in March 2022 as Andy's successor, allowing time for a smooth transition. Jonathan has previously held senior roles at Standard Bank International, Deutsche Bank International, and KPMG.

Peter Sparkes stepped down from the Board in January for personal reasons. Peter was a Non-executive Director for seven years. He has been an active and supportive member of the Board. He has consistently provided constructive challenge and encouraged the Bank's sustainability agenda. The Board is most grateful for his contribution. He will continue to be involved with the Bank as a member of the Cornerstone Investors forum.

Building on our reputation

Following in-depth research with existing and prospective clients, colleagues and other stakeholders, the Bank launched a new website and marketing materials to reflect our focus on clients and to present a compelling proposition to prospective clients. A section of the site is dedicated to investors. You can visit the new site and find the latest information and documents for investors at www.hampdenandco.com/investors.

The Bank was once again recognised by Private Banker International at their annual awards. Hampden & Co was announced as 'Outstanding Private Bank of the Year – UK – Domestic Clients' for the second year in a row, with the judges citing the Bank's reputation for delivering high levels of client satisfaction. The Bank was also recognised by both Spear's Wealth Management and by Mortgage Introducer in their awards shortlist for 'Private Bank of the Year'. This is welcome independent endorsement of the Bank in recognition of its high levels of service.

Looking forward

It is hard to predict the economic outlook for 2022. Rising inflation will impact interest rates and indeed, the first rate increases from the historic lows of the last two years took place in December 2021 followed by two further increases in the first quarter of 2022. Increasing rates should have a beneficial impact on profitability, but as I write, the conflict in Ukraine has delivered a shock to the geopolitical landscape. While the Bank has no direct exposure to Russia or Ukraine, the outlook for the economy and the property market has become less certain.

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

Yours sincerely

Simon Miller
Chairman
5 April 2022

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 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 deliver a highly personal form of banking designed for those who want the simple things done well, and the complicated things done simply.

We believe 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 depends on providing excellent banking for our clients and by competing primarily on bespoke service, rather than on price or credit risk.

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 no competitive threat to these potential partners; and
- We benefit from a simpler business model relative to other private banks.

The Bank seeks to attract clients by occupying specific niches in the UK private banking market by undertaking current account, deposits and lending business, which together command margins which we believe will be sufficient for the Bank to meet its business plan. For current accounts and 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, it is in being able, in terms both of time and skills, to understand and underwrite lending business too complex to fit within 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.

The Bank's strategy requires a strong reputation for integrity and management of risk. Building such a 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 business and safe growth remain key priorities. In addition, the Bank seeks to promote a culture of integrity and ethical values supported by a sound risk management and control framework.

I was delighted that high value lending enquiries continued to be received in 2021 despite the pandemic, with client lending growing by 29% to £422m in the year, both from private banking clients and direct from mortgage intermediaries. The Bank continued to support clients directly rather than through the government backed lending support schemes and remains as supportive as possible to our clients while maintaining our appetite for safe lending. It is pleasing to see that the quality of our lending book remains high.

In 2021, the Bank launched our self-build mortgage service and we welcome enquiries from clients seeking finance and guidance for Passivhaus developments and other environmentally-friendly home and renewable energy initiatives. We also offer finance for environmental projects such as forestation and peatland restoration. We continue to develop our lending proposition across all our lending services including portfolio lending.

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 establish and maintain 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.

Priorities for 2022

In 2022 and beyond, as part of its ongoing development, the Bank's focus will be on delivering profitability, continuing to grow its loan and deposit book, including from additional professional connections; maximising the client benefits of its relationship-driven, high-quality service business model; and growing its reputation 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 has embarked 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, wealth and other professionals; and
- investment in upgrading the core banking platform.

Financial performance

In 2021 the Bank's Loss Before Tax reduced by 28% to £3.0m (2020: £4.1m), and the Underlying Adjusted Loss (as defined on page 9) reduced by 67% to £0.8m (2020: £2.4m). Monthly results continue to progress towards profitability. Total income grew by 29% to £13.2m (2020: £10.2m), driven by continued balance sheet growth. Operating expenses were £16.2m (2020: £14.2m) including £0.4m of costs associated with the core banking upgrade. Impairment on loans and advances is a credit of £5k (2020: charge of £173k). The Bank has had no loan write-offs to date and the level of impairment allowances remains low, both of which are reflective of strong asset quality. Client lending increased by 29% to £422m (2020: £326m), driven by demand from new and existing clients for banking expertise and a high-quality service. Deposits from clients grew by 39% to £696m (2020: £501m).

Our intermediary mortgage channel continues to develop with growth of over 60% during 2021.

The Bank's capital and liquidity levels exceeded regulatory requirements throughout 2021. At 31 December the regulatory capital base comprised Total Equity of £57.3m (2020: £51.3m) less Intangible Assets of £2.0m (2020: £1.7m) equating to £55.3m (2020: £49.6m), an increase of £5.7m in the year. The key items behind the increase in Total Equity were £8.0m capital raised in 2021, partially offset by the £3.0m loss for the year.

At year end the Tier 1 Capital Ratio was 19% (2020: 20%). The movement in the Tier 1 Capital Ratio was due to the increase in lending, and the trading loss.

During 2021, shareholders invested £8m to support balance sheet growth, costs and regulatory requirements. The majority of this came from the four largest investors. Further capital investment is required until a profitable scale is reached which is currently forecast within the next 12 months. Many factors influence the timing of that, most significantly the economic environment and the pace of growth. In the period from December 2021 to March 2022 the Bank of England bank rate increased from 0.10% to 0.75% with market sentiment suggesting further increases. The increase in rates above what has been the lowest level in UK history will have a positive impact on the Bank's revenues. In December 2021, Cornerstone Investors committed £8m to be invested in the first half of 2022 of which £4.25m was capitalised in Q1 2022. Further details are provided in the Going Concern section of the Directors' Report on pages 38 to 39.

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:

	2021	2020
Statutory loss before tax	£3.0m	£4.1m
Underlying adjusted loss*	£0.8m	£2.4m
Income growth	29%	18%
Lending growth	29%	60%
Deposit growth	39%	22%
Client loan: deposit ratio	61%	65%
Total capital ratio	19%	20%

Economic and political context

The pandemic cast a shadow over 2021 and whilst the vaccination program allowed the country to emerge from lockdown and return to growth, there remained unprecedented economic uncertainty including, the possibility of negative bank rates in the first half of the year and the emergence of the Omicron variant in November. However, the success of the vaccine programme is encouraging, and there is now a tangible prospect of a return to normality during 2022.

* Underlying adjusted loss excludes items noted below and was used as a key performance indicator during 2021. It reconciles to statutory loss before tax as follows:

	2021	2020
	£'m	£'m
Statutory loss before tax	3.0	4.1
Non-recurring costs – banking platform upgrade	(0.4)	–
Depreciation and amortisation	(0.8)	(0.7)
Share option costs	(1.0)	(1.0)
Underlying adjusted loss	**0.8**	**2.4**

The UK government has started to unwind various initiatives that had been put in place to support consumers and businesses, including the furlough scheme which appears to have achieved its aim of avoiding mass unemployment but at high financial cost. In addition, two years on, 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 uncertainty will continue to affect the UK's economic growth trajectory and it remains to be seen how the economy will recover from the pandemic and the economic impact of the recent events in Ukraine.

Outlook

The Bank's income has been depressed by the low bank rate. However, inflation returning to levels not seen in many years has led to the Bank of England increasing the UK bank rate three times from December 2021 to 0.75% in March 2022. The Bank may have a rare tailwind on the path to profitability.

Despite the ongoing economic uncertainty, the Bank performed well over 2021. Significant challenges continue to be faced by the industry however we look forward in good spirit and with confidence. We expect to see continued balance sheet growth, securing necessary capital investment for the development of the Bank and achieving profitable scale in this coming year.

Graeme Hartop
Chief Executive Officer
5 April 2022

Sustainability report

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

The Bank's sustainability strategy aims to address the Bank's carbon footprint and our contribution to the causes of global climate change as they impact on our operations. It also aims to help our clients, staff and other stakeholders to identify opportunities as the economy transitions to net-zero carbon.

This strategy is set and managed by the Sustainability Steering Group and overseen by the Board. The Group, led by the Chief Executive Officer and supported by members of the executive management team and other colleagues, is responsible for identifying and mitigating the corporate risks of climate change, and for setting, embedding and governing high standards of environmental and social practices. The Group is supported by working groups focused on the delivery of planned environmental, social and governance initiatives and meets regularly to review performance against targets and delivery of initiatives against the plan.

Measuring the Bank's environmental impact

We have engaged an environmental consultancy to measure our carbon footprint and to record and categorise our operational emissions. The Covid-19 pandemic has meant that almost all colleagues worked from home during 2020 and for large parts of 2021. Consequently, with very low levels of business travel over this period, we have used 2019 as a benchmark of the Bank's emissions, against which we will measure our performance and our efforts to reduce our carbon footprint.

Based on our use of resources during normal business times, we have categorised our footprint into three categories:

Scope 1	**All direct emissions**	Emissions from the activities under the Bank's control. This would include fuel used in offices, such as gas.
Scope 2	**Indirect emissions**	Emissions created during the production of the energy and eventually used in offices, such as electricity.
Scope 3	**All other indirect emissions**	Emissions from sources not owned or controlled by the Bank, occurring from Bank activities, such as business travel and commuting, and procurement of consumables such as paper, plastics and water.

The results for 2019, shown in the table below, highlighted that the top four contributors to our emissions were business travel by air, business travel by road, commuting by road and electricity consumption.

Carbon dioxide (CO_2e/y) in tonnes	All scopes	Scope 1	Scope 2	Scope 3
Business travel	241.272	–	–	241.272
Employee commuting	100.662	–	–	100.662
Electricity	33.067	–	26.748	6.319
Water	0.513	–	–	0.513
Gas	0.345	0.305	–	0.040
Other (paper/waste)	0.255	–	–	0.255
Total	**376.114**	**0.305**	**26.748**	**349.061**

Our commitment to reducing our emissions

The Bank is working to reduce and offset its operational emissions and has set a goal of becoming **net-zero carbon by 2030**. Below, we set out the steps we are taking to achieve this goal, which has four areas of focus:

Reducing our footprint	The Bank is committed to reducing the contributors to operational carbon emissions including travel, energy and waste. We aim to facilitate the reduction in business travel and commuting achieved throughout 2020 by promoting: • use of virtual meetings • rail travel over air travel • a hybrid model of working that balances office and home working • special terms for colleagues on the lease of electric vehicles • a cycle to work scheme We are targeting a reduction in energy consumption by 10% per capita and will continue to source 100% of our electrical energy from renewable sources. We aim to reduce business waste sent to landfill to zero.
Investing in carbon capture to offset residual emissions	From 2022 onwards, as we make progress towards our 2030 net-zero carbon goal, we will offset any residual emissions so that the Bank operates as carbon-neutral. This will be achieved through investment in carbon capture schemes, primarily involving tree planting, that are validated in the UK by the Woodland Carbon Code.
Supporting clients with environmental projects	We will seek to finance client projects that complement our environmental aims, such as funding for the purchase, building or redevelopment of properties that include eco features, or land that is used for environmental purposes such as forestry or renewable energy. The Bank is undertaking quantitative analysis of the climate risks on the balance sheet and assessing the climate risks of new client applications.
Promoting sustainable practices with colleagues	Our colleagues are committed to reducing carbon emissions and ongoing education is promoted through: • Regular communication of our sustainability strategy, targets and progress • Regular communication of corporate fundraising activities, Charity of the Year, and support for personal fundraising initiatives • Online training modules on actions to combat climate change • Online forum for sharing topical information to encourage discussion, debate and action • Information about sustainability-themed investment funds available in the corporate L&G pension fund.

Maximising climate-related opportunities

We will seek to finance client projects that complement our environmental aims and commitment and are also setting a target to fund new projects that demonstrate environmentally-friendly credentials, that is, initiatives that help to reduce carbon emissions.

Work to prepare a measure of our 2021 carbon footprint is underway in conjunction with our environmental consultant, and whilst Covid-19 restrictions meant 2021 was another year when colleagues typically worked from home and fewer travelled for work or to the office, this will allow us to monitor progress against our 2019 benchmark.

Supporting our communities

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

In 2021, for the first time, we appointed a charity partner to become the main beneficiary of our fundraising efforts. Colleagues were invited to nominate a charity of their choosing and the list of charities nominated were submitted for consideration and a vote by all colleagues. Once the votes were counted, we announced FACE as our charity partner.

FACE as our charity partner

FACE supports patients and families who have been affected by cancer by raising funds to provide the 'little things' that can make a difference to their comfort and environment. Run entirely by volunteers who have been directly or indirectly impacted by cancer, FACE has no paid members of staff and no offices to maintain, thereby keeping administration costs to a minimum and directing the funds raised towards providing help.

John Macaulay MBE, Convenor of FACE, presented to colleagues at a Lunch & Learn session and highlighted the many ways in which donations are used, many of which are suggested by patients, visitors and nursing staff. These include maintaining the hospital grounds and waiting areas to provide comfortable surroundings, such as seating, air conditioning, aromatherapy and a supply of newspapers and flowers. They also provide trips for sick children to see Santa Claus in Lapland.

As well as the funds raised throughout the year by colleagues, Hampden & Co made a corporate donation to support FACE and their work.

Supporting worthy causes

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 support their efforts in a range of different ways:

Matched funding	Colleagues who are raising funds for registered charities can apply for funding to match the money they raise, up to £250 per colleague.
Volunteering	Each colleague can request one paid personal volunteering day and one paid day for a corporate volunteering opportunity working with other colleagues.
Payroll giving	We offer an easy, safe and tax-friendly way for colleagues to support the charities they care about through payroll giving, also known as 'Give As You Earn'. This enables them to donate straight from their monthly pay to any UK registered charity. Donations are deducted from gross pay, before tax is deducted, which gives immediate tax relief.

In 2021, Hampden & Co was awarded a Silver Payroll Giving Quality Mark Award for our commitment to Payroll Giving.

SILVER AWARD 2021

PAYROLL GIVING

People and culture

A positive, inclusive culture engages and supports our colleagues and is key to achieving our vision, purpose and strategy. Our values reflect what is important to us and these are displayed in our behaviours. We have summarised these as ‘Think of the client’, ‘Take ownership’ and ‘Deliver at pace’, which we call ‘The Hampden Way’. In 2021, we continued to embed ‘The Hampden Way’ to align it with our vision and purpose.

Colleague engagement

The ‘Great Place To Work’ survey is one of our principal measures of colleague engagement, motivation and commitment. It provides insights into colleagues’ views and has had a consistently high response rate. The survey conducted in November 2021 achieved a positive colleague engagement score of 84%.

2021 saw most colleagues continue to work from home due to the Covid-19 pandemic and keeping connected was very important. We sought colleagues’ views on how they were coping during this challenging period and action was taken to enhance support and communicate through virtual townhalls, intranet guides and wellbeing activities. Our Employee Assistance Programme provides confidential support for financial, physical, and mental wellbeing and includes access to a qualified counsellor. We also provide an internal, qualified mental health first aider.

Diversity and inclusion

We are committed to promoting equality of opportunity for all colleagues and job applicants. We believe that a diverse workforce and an inclusive, caring environment that respects and nurtures people improves colleague engagement and business performance.

We aim to create a working environment in which all individuals can make best use of their skills, free from discrimination or harassment, and where all decisions are based on merit. These principles also apply to the way we treat clients, visitors, and suppliers.

We recognise we have further to go to achieve our aim of a diverse workforce and we are committed to identifying strategies to achieve greater gender balance and representation of people from Black, Asian and minority Ethnic groups.

As at 31 December 2021 our gender diversity was:

Female/male

Category	% Female	% Male
Board	14%	86%
Executive Management	14%	86%
Colleagues	40%	60%
All	37%	63%

In the November 2021 ‘Great Place To Work’ survey, the ‘Fair Treatment’ category score was 94%. This includes statements on how fairly colleagues feel people are treated.

Colleague development

We continue to invest in our colleagues and support them with their professional and personal development. In 2021, we completed our development programme designed for our banking team which included a series of masterclasses, workshops and lunch & learn initiatives.

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 2021 in this regard were:

New Board appointments

Finlay Williamson, who joined the Board in 2020, was appointed Senior Independent Director during 2021. In this role he is responsible for leading the assessment of the performance of the Chairman of the Board. Caroline Taylor and Angus Macpherson joined the Board during the year as Non-executive Directors.

Andy Mulligan will retire as Chief Financial Officer in 2022 and will be replaced by Jonathan Peake (subject to regulatory approval). Jonathan has previously held senior roles at Standard Bank International, Deutsche Bank International and KPMG. A period of overlap will ensure a smooth transition.

Capital investment to support business growth

The Bank raised £8m during 2021. In December 2021 the Cornerstone Investors committed to invest a further £8m in the first half of 2022. This capital is required to support the business growth plans.

Investment in technology

The Bank has embarked on a significant upgrade of its core banking platform to the latest software version, due to complete in 2022. This upgrade will deliver significant operational benefits.

In addition, the Bank took the decision to outsource its IT infrastructure and security services during 2021. This will improve resilience, reduce key person dependencies and give the Bank access to a wider pool of technology expertise.

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 91% of employees with a positive engagement score of 84% (2020: 87%). 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 reward, career development and team working. Action plans are being developed.

Due to the pandemic, the majority of employees continued to work from home during 2021. Communication remained a key area of focus, with regular colleague townhalls and departmental meetings. The Bank also organised various wellbeing sessions for colleagues, run by an external specialist, and offered free flu vaccinations.

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

Clients

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 commission based sales incentives to ensure focus is maintained on the needs of clients and providing them with exceptional client service.

Client satisfaction surveys are conducted periodically. The most recent survey (in January 2022) returned a positive Net Promoter Score of over 73 (2018:71). The results are reviewed to consider any services clients would like to be made available or to be improved upon.

Suppliers

The Bank works responsibly with its suppliers in accordance with its Supplier Management Framework. This is monitored by the Board. Designated managers are responsible for maintaining and building relationships with suppliers as well as ensuring that contractual obligations are met. They work with suppliers to improve quality, reduce costs, mitigate supplier risk. New suppliers are subject to suitability and due diligence checks. 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 develops 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 as described on page 13.

Environment

The Bank has a small environmental footprint but is working to minimise its impact by reducing and offsetting its operational emissions and has set a goal of becoming net-zero carbon by 2030. This will be achieved by:

- reducing the Bank's footprint;
- investing in carbon capture to offset residual emissions;
- supporting clients with environmental projects; and
- promoting sustainable practices with colleagues.

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 through regular communications and interactive shareholder forums.

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 36 to 40.

The Bank is exposed to business and capital risks in its early years until the Bank is capital accretive. 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 continuing to achieve 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; required actions are discussed by both 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. To date no material exposure to financial risks from climate change have 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. The Bank continues to monitor climate related risks and opportunities as it enhances its understanding of the implications of climate change, including enhancing the measurement of the Bank's exposure to the physical and transition risks that may arise. Further details are set out in the Sustainability Report on pages 11 to 13. 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. At key times of high virus prevalence office attendance has been restricted to a small number of staff and only for essential tasks which cannot be undertaken remotely. More generally as the virus prevalence reduces, the Bank is intending to adopt a hybrid working model going forward. 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 have consistently delivered 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 full 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.

Brexit has had little direct impact on the Bank, although there is continued uncertainty about its longer-term effects on the economy and trade. The conflict in Ukraine has delivered a shock to the geopolitical landscape. While the Bank has no direct exposure to Russia or Ukraine, the outlook for the economy and the property market has become less certain. 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 capital base that meets the capital requirement level set for it by the regulator, the Prudential Regulation Authority (PRA).

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 (CC), Risk Management Committee (RMC), Board Risk Committee (BRC) and approved by the Board.

The impact of the Covid-19 pandemic, rising interest rates and higher inflation on lending clients is uncertain and continues to be closely monitored. The Bank aims to support its clients through this challenging period and it is recognised that clients may require forbearance as the economy recovers and government support unwinds. The expected credit losses at 31 December 2021 (total provisions £176k) recognises the uncertainty 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 CC, RMC, 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 risk arises only from Banking activity – the Bank does not operate a trading book. Sensitivity to interest rate changes is managed within set limits by the Treasury function and regularly reported to, and reviewed by, ALCO, RMC, BRC 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 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 a 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. The Bank's insurance coverage is reviewed annually.

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 Q3 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, the UK's departure from the European Union, the geopolitical impact of the conflict in Ukraine 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).

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

Graeme Hartop
Chief Executive Officer
5 April 2022

Climate-related financial disclosures

Overview

Climate change represents an emerging risk and the Bank is in the process of developing its capabilities to measure, monitor and manage climate-related risks. As part of this journey, the Bank is committed to increasing and improving its reporting of climate-related financial information. Although not a requirement, the Bank supports the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD).

The information set out below will be further developed in future years as the Bank's understanding of the impact of climate change evolves and it progresses on its journey to embed climate change considerations in all aspects of its governance and operational activity.

Governance

The Bank has a robust and well-established governance framework (as set out on pages 28 to 29). Therefore, the Bank considers sustainability issues within its existing governance structure, supported by a Sustainability Steering Group (SSG). The SSG was established in 2021 as part of the Bank's Environmental, Social and Governance (ESG) programme and operates under delegated authority from the EMC. It is chaired by the Chief Executive Officer and its membership includes the Chief Financial Officer, Chief Commercial Officer, HR Director, Head of Risk and Deputy Chief Operating Officer. The SSG's purpose is to oversee the work of the ESG programme, which exists to deliver on the Bank's strategic aim of being a socially and environmentally sustainable private bank over the long-term. It meets monthly and reports monthly to the EMC and quarterly to the Board.

The Bank's senior policy-making body is the Board. During 2021 the Board reviewed the Bank's strategy for responding to climate-related risks to ensure that the approach is both appropriate and consistent across the Bank. From 2022 the Board will receive regular climate-related reporting to enable it to monitor and oversee progress against goals and targets for addressing climate-related issues.

Sustainability and associated climate-related risks are discussed regularly at the Bank's senior committees and the Bank has assigned the Chief Executive Officer as the Executive Sponsor for climate risk issues. The Executive Sponsor is responsible for recommending to the Board the Bank's strategy for addressing the risks that climate change poses to its objectives and for overseeing implementation of the Sustainability Strategy.

The Board Audit Committee (BAC) and BRC assist the Board in its responsibility for maintaining effective risk management, internal control and financial reporting. Going forward, in line with these responsibilities, BAC and BRC will consider climate-related financial disclosures and risk management, respectively.

Climate-related financial risks manifest through risks captured in the Bank's Risk Governance Framework and are considered at the relevant risk governance committees:

- Credit risks resulting from climate change are considered and monitored at CC
- Balance sheet risks resulting from climate change are considered and monitored at ALCO

The Terms of Reference for CC and ALCO include the monitoring of climate-related financial risks.

Operational risks from climate change, which are not classified as financial risks, fall within the remit of the Operational Risk Committee.

Strategy

Sustainability

The Bank has developed a Sustainability Strategy the aims of which are to:

- Reduce the Bank's impact on the environment and its contribution to the causes of global climate change, and to make a positive contribution to the communities in which it operates.
- Enable management of the risks arising from climate change across its operations and to help improve the understanding of these risks within the Bank.
- Help clients, investors and staff to identify opportunities in the transition to a net-zero carbon economy.

Further details are provided in the Sustainability Report on pages 11 to 13.

Managing climate-related risks

The Bank is committed to understanding and mitigating the risks from climate change. The most material climate-related risks to which the Bank is exposed are financial risks and are expected to manifest over a medium (1-5 years) to long (+5 years) time horizon. These risks may impact as transition risks, arising from the adjustment to a carbon-neutral economy, or as physical risks, arising from increasing severity and frequency of climate and weather-related events.

The initial assessment is that the Bank's exposure to climate-related financial risk is low, due to the nature of its lending activity. It is expected that a small proportion of lending exposures are secured on property in flood-risk zones and a detailed analysis is underway to quantify this exposure. For new lending, an assessment of climate-change risk now forms part of the acquisition process. This considers the potential impact of climate change on the client's business or income as well as the susceptibility of any property held as security to environmental factors such as flooding.

The Bank is also exposed to other (non-financial) climate-related risks, for example from its third-party suppliers for office space, software and other services. For office space, a property strategy review is underway and will consider climate-related issues. The Bank is also collecting climate-related information from key suppliers, to assess their climate credentials and ensure that they have adequately considered and mitigated their exposure to climate-related risk.

During 2022, stress scenarios will be further developed to assess the potential impacts of climate change. The results of these will inform the Bank's financial planning process, risk appetite and thresholds for climate-related risk. Scenario analysis will also allow the Bank to assess the resilience of its Sustainability Strategy under different climate-change scenarios.

Maximising climate-related opportunities

Part of the Bank's Sustainability Strategy is to help support clients, investors and staff to identify opportunities in the transition to a carbon-neutral economy. The Bank will seek to assist clients in positive environmental-related activities with new products and services adapted to this specific need. Further details are provided in the Sustainability Report on pages 11 to 13.

Risk management

From its initial assessment, the Bank has concluded that the risks from climate change manifest across its existing principal risks. Accordingly, the Bank's approach is to embed the management of climate-related risks within its existing risk management framework, rather than treating climate change as a separate, distinct risk. The Bank will continue to evolve its approach and develop methodologies as its understanding of climate-related risks progresses.

The risks from climate change can take two forms: **transition risks**, which arise from the adjustment to a low-carbon economy, and **physical risks**, which arise from increasing severity and frequency of climate and weather-related events.

The table below provides a summary of the Bank's initial assessment of how its principal risks are impacted by climate-related risks and how these risks are being managed:

	Identifying and assessing climate-related risks	Managing climate-related risks
Credit risk		
Lending Collateral	The Bank accepts a wide range of collateral through its lending operations. Climate-related risk questions will be included in the due diligence process for loan collateral. This includes asking for information on the expected impact of climate change, how climate-related risks are factored into valuations, and in the case of a commercial loan how climate-related risks are integrated into risk management business plans.	The Bank uses credit assessments, risk committees and a limit and threshold structure to keep its exposures within agreed risk tolerance limits. The Bank will refine its risk management methodologies to incorporate relevant climate related risk information. Changes to financial risk tolerances will be considered for inclusion within the Bank's risk appetite in the future to reflect climate related risks more explicitly.
Financial Counterparties	As a result of placing surplus funds with third party financial institutions, including the Bank of England, the Bank is exposed to climate related risks from these institutions. This risk incudes factors such as the extent to which climate-related risks are factored into counterparty business models and the impact of geographical and sector concentrations on counterparties' long-term loan books.	Information provided by the financial institutions will assist the Bank in understanding the climate change credentials of these third parties. The Bank will use Your Treasurer, a third-party Treasury services provider, to provide benchmark analysis that will inform investment decisions.
Liquidity risk		
Funding & Liquidity	The Bank relies on retail depositors to fund lending activities. A client, or group of clients, representing a significant deposit balance may be required to withdraw funds because of exposure to climate-related financial risk.	There remains a risk that both the physical and transitional risks of climate change will result in cash calls and subsequent withdrawal of funds from clients.
Operational risk		
Property	The Bank is finalising an assessment of its property exposure to climate-related risk. It is likely that the assessment will show that the buildings are located in areas with low flood risk; however, an increase in carbon price could expose the Bank to rising energy costs.	The Bank will commit to being supplied with 100% renewable energy (electricity and gas) across all its offices. The Property Strategy review planned for 2022 will consider climate related issues.
Third Party	The Bank could be exposed to climate-related risks from its external suppliers for equipment, software, and facilities. To identify these potential risks, the Bank will collect climate-related information from key suppliers, such as evidence of having considered their exposure to climate-related risk (physical and transition risks).	The information provided by suppliers will aid the Bank's understanding of its supply chain vulnerabilities. If suppliers are deemed high-risk based on this information, the Bank may consider excluding them from the procurement process.
Business/strategic risk		
Client Activity	The Bank could be exposed to reputational risk and consequent financial risk through any business relationships with non-carbon friendly clients and investors. To identify this potential risk an assessment of the commercial, ethical and reputational risk of developing a relationship with the client is required.	Broadening our current approach to reputational risk and not directly associated to the Bank's carbon footprint this risk overlaps with the "Social" agenda of the ESG initiative and will be addressed there. Consideration will be given to the source of funds, purpose of loan and business type and may require decline or ceasing a relationship.

Metrics and targets

Climate-related risks

The Bank's initial focus is on information gathering to inform the identification and assessment of potential climate-related risks within the loan book, principally the risk of climate change impacting on collateral values. Further risk assessment methodologies and risk management techniques are expected to be developed over the near term.

The Bank's understanding and measurement of its exposure to physical and transition risks will be developed over time. This will include scenario analysis to provide the Bank with a view of the potential outlook in terms of how climate change may impact the physical and transition risks it is exposed to.

The Bank's carbon footprint

The Bank is working to reduce and offset its operational emissions and has set a goal of becoming net-zero carbon by 2030.

An assessment of the Bank's environmental impact and the steps being taken to achieve this goal are set out in the Sustainability Report on pages 11 to 13.

Climate-related opportunities

The Bank is committed to helping clients to finance projects that complement its environmental aims. Details of targets and initiatives in relation to maximising client-related opportunities are set out in the Sustainability Report on pages 11 to 13.

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

Finlay Williamson
Non-Executive Director

Angus Macpherson
Non-Executive Director

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 and culture.

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.

Angus Macpherson
Non-Executive Director

A R RC

Appointed: Non-executive Director, 18 October 2021

Key areas of experience: Financial services, including corporate finance, capital markets and investment banking

Current external appointments: CEO of Noble & Co, Chairman of Henderson Diversified Income PLC, Chairman of Pacific Horizon Investment Trust PLC and a Non-executive Director of the Schroder Japan Growth Fund PLC.

Previous experience: Lazard Brothers, Merrill Lynch & Smith New Court.

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, Chairman of Independent Investment 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

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 and Floors Castle Outdoor Events Limited.

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

Finlay Williamson
Non-Executive Director

A N R

Appointed: 26 May 2020, Chair of Audit Committee and Senior Independent Director

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

Current external appointments: Non-executive Director of Secure Trust Bank PLC and member of the Risk and Nomination Committees

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.

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.

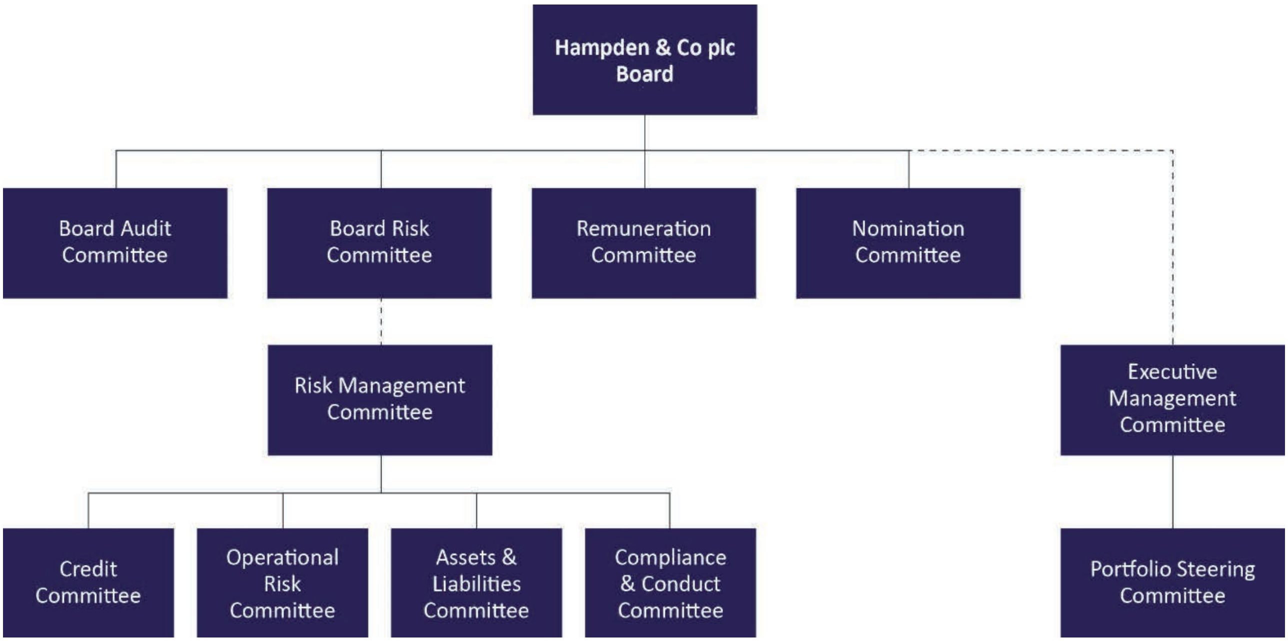
Board and Committee attendance record

Member	Non-Executive	Board	Audit	Risk	Remuneration	Nomination
Simon Miller	Y	6/6	n/a	n/a	4/4	1/1
Graeme Hartop	N	6/6	n/a	n/a	n/a	n/a
David Huntley	Y	6/6	4/4	5/5	n/a	n/a
Angus Macpherson[1]	Y	2/2	n/a	n/a	n/a	n/a
Andy Mulligan	N	6/6	n/a	n/a	n/a	n/a
Peter Sparkes[2]	Y	6/6	4/4	5/5	2/4	n/a
Caroline Taylor[3]	Y	5/5	n/a	n/a	4/4	1/1
Finlay Williamson	Y	6/6	4/4	5/5	n/a	0/1

The table shows attendance at scheduled meetings only, held during 2021. The Board and Committees also meet on an ad hoc basis when required.

1. Angus Macpherson was appointed to the Board on 18 October 2021. He attended all Board meetings held from his date of appointment.
2. Peter Sparkes resigned from the Board on 19 January 2022.
3. Caroline Taylor was appointed to the Board on 8 February 2021. She attended all Board meetings held from her date of appointment.

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 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.

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.

CC has responsibility for approving new (and renewing existing) credit facilities, agreeing and monitoring individual personal banker and credit team delegated sanctioning authorities, proposing credit risk policies, monitoring the credit risk appetite metrics and quality of the loan portfolio.

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.

Portfolio Steering Committee has responsibility for the Bank's Change framework and for managing Change in line with direction from EMC.

Committee reports

Audit Committee

Finlay Williamson	Non-Executive Director Chairman of the Committee
David Huntley	Non-Executive Director
Peter Sparkes	Non-Executive Director (To 19 January 2022)
Angus Macpherson	Non-Executive Director (From 20 January 2022)

Finlay Williamson
Chairman of the Audit Committee

I am pleased to present the report of the Audit Committee for the financial year ended 31 December 2021. At the year end, the Committee comprised of 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 this Committee.

During the year the Committee met four times.

This report 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 continued 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; 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, and to better facilitate this during the year I instituted regular meetings with both internal and external audit functions. 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. With regard to the effectiveness of the internal audit function, as highlighted last year, a review was carried out to assess this and provide recommendations to ensure that the internal audit programme would be completed effectively in future. I am pleased to note that the Audit Committee accepted all of the recommendations proposed and that the internal audit plan for 2021 has been completed to the satisfaction of the Committee.

In the coming financial year the Committee's main priorities will include:

- continued monitoring of developments of the IFRS 9 response to the Covid-19 pandemic as the economic, regulatory and client impacts become clearer;
- considering ongoing developments in accounting, financial reporting and auditing to ensure that the Bank is well positioned to respond appropriately, including climate-related financial disclosures; and
- continued monitoring of the effectiveness of the internal audit function within the Bank.

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
5 April 2022

Risk Committee

David Huntley
Chairman of the Risk Committee

David Huntley	Non-Executive Director Chairman of the Committee
Finlay Williamson	Non-Executive Director
Peter Sparkes	Non-Executive Director (To 19 January 2022)
Angus Macpherson	Non-Executive Director (From 20 January 2022)

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 2021 the Committee met ten times, five scheduled meetings plus a further five ad hoc occasions.

The primary points of focus for the Committee during the past twelve 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 to the Board for approval;
- scrutiny and challenge of 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 impact. This included updates on the Compliance Monitoring plan and any actions arising from Compliance Reviews and Risk Assurance reviews during the period;
- consideration of the current risks facing the business as well as those emerging on the horizon; and
- review of the Committee terms of reference including an assessment of how they were fulfilled together with a review of the effectiveness of the Committee itself.

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 complete the transition to those required as an 'established' firm;
- the ongoing development of the Bank's risk and control framework and systems as a further part of this transition;
- the risks associated with the completion of the upgrade of the Bank's core platform; and
- the embedding 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.

David Huntley
Chairman of the Risk Committee
5 April 2022

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 (To 19 January 2022)
Angus Macpherson	Non-Executive Director (From 20 January 2022)

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 2021 the Committee met six 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.

During 2021 the main areas of focus for the Committee were:

- Review of the 2021 salary, and 2020 variable pay proposals, for recommendation to the Board
- Approval of remuneration packages for the new COO and CFO, and the departing CFO
- Review of the executive management share option scheme, and the grant of options to newly joined executives
- Review, and recommendation to the Board, of tax advantaged company share option plan awards to colleagues
- Review of remuneration benchmarking for senior executives and the proposals for the strategic remuneration review
- Approval of the Malus and Clawback policy
- Approval of remuneration for the Material Risk Takers
- Approval of a one-off Christmas award in 2021 for all colleagues at a fixed rate of £300
- Approval of the electric car salary sacrifice scheme
- Review of CRD V remuneration regulations
- Annual review of the Committee terms of reference
- Annual review of the Remuneration Policy

In last year's annual report we noted that a review of the provision of external technical consultancy advice to the Committee would be carried out in the second half of 2021. In July, we appointed Mark Quinn of QQPM Ltd, as a Senior Independent Consultant, to conduct a holistic review of existing remuneration arrangements for the board directors, members of the executive management team, and more broadly all colleagues to ensure these are sustainable and appropriate as the Bank moves forward to long-term profitability.

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.

Caroline Taylor
Chairman of the Remuneration Committee
5 April 2022

Nomination Committee

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

Simon Miller
Chairman

The Committee's principal task is to review the effectiveness and composition of the Board and considers the succession plans for the executive and non-executive directors.

The committee met six times during the year. Committee meetings are attended by the CEO and HR Director. They exclude themselves from discussions relating to their respective positions.

In February 2021 Caroline Taylor joined the Board, as notified in last year's Annual Report and Financial Statements. She has become chairman of the Remuneration Committee.

Following a review of the Board and Committees' composition, in May 2021 Finlay Williamson was appointed Senior Independent Director. In October 2021 Angus Macpherson joined the board as a non-executive director. He is CEO of Noble and Co, chairman of Pacific Horizon Trust and Henderson Diversified Income Trust, and a non-executive director of Schroder Japan Growth Fund.

As announced previously, Andy Mulligan announced his intention to retire from the Board following the AGM. The Committee appointed external head-hunters to undertake an extensive market search for a new CFO. The Committee reviewed and interviewed shortlisted candidates, following which a recommendation was made to the Board for the appointment of Jonathan Peake as Chief Financial Officer.

An internal board review was carried out during the course of the year. This concluded that the Board operated satisfactorily during the exacting period of Covid. It also recommended that improved dissemination and quality of information would lead to more strategic Board discussions. The Chairman also conducted one to one performance reviews with each of the directors. The Committee also reviewed and approved the succession plan for the EMC.

The Committee and Board continues to recognise the importance of developing with the appropriate balance of skills, experience and diversity.

Simon Miller
Chairman of the Nomination Committee
5 April 2022

Directors' report

The Directors present their report and financial statements for the year ended 31 December 2021. 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 28 to 29.

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 25 to 27.

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 CC. 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 bank.

<u>Risk and internal control governance framework</u>

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 regularly, comprising executives and other senior managers. Collectively, these management 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 Management 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 which 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 reinforced by Board objectives, 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 and 27.

During 2021 the Bank raised additional capital of £8.0m.

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

Shareholder	Number of shares at 31 December 2021	% of voting rights
Drake Enterprises AG	16,770,357	19.9%
Euripides Investments Limited	11,875,984	14.1%
Miamoo Investments Pty Limited	11,834,442	14.0%
XL Bermuda Limited	11,557,435	13.7%
Hampden Holdings Limited	7,604,247	9.0%

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 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;
- Business projections;
- 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 on the Bank's clients is more clearly understood; and
- the emergence of effective vaccines.

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 the ability for 98% of staff to work remotely, if required, 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 Bank's business projections provide the basis for the Bank's financial forecasts which include a detailed annual budget for year one (2022) and forecasts for years two to five (2023-2026). These form an integral part of the assessment of the quantum and timing of capital and funding required to reach profitability and capital self-sufficiency. To support anticipated business growth ambitions the Directors will seek to raise additional capital in 2022.

Cornerstone Investors have committed to participate in this funding round. In December 2021 key Cornerstone Investors committed £8m to be invested in the first half of 2022. Additionally, they have committed to provide further capital, 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 making this assessment of going concern, the Directors have conducted a review of the business projections and relevant sensitivity analysis and stress scenarios. Key considerations when making this assessment include the availability of capital, 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 performed demonstrates that throughout the going concern period the Bank would remain above Total Capital Requirements. For the more severe stress scenarios, the Bank may require limited use of capital buffers. As a result of these assessments, 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 2021. See note 15 for further details.

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 has embarked 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.

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 2021 and the date of this report are disclosed in note 31.

On behalf of the Board

Richard Lyon
Company Secretary
5 April 2022

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 United Kingdom adopted 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 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; 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 United Kingdom adopted international accounting standards.

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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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; and • The measurement of expected credit losses on loans and advances to clients Within this report, key audit matters are identified as follows: Similar level of risk

Materiality	The materiality that we used in the current year was £574k (2020: £512k) which was determined on the basis of 1% of the total equity balance as at 31 December 2021 (31 December 2020: 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	There have been no significant changes in our approach in the current year.

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 statement of financial position, the company's accumulated losses since inception, and the capital required to sustain its forecast lending growth to reach profitability and capital self-sufficiency, the Directors will continue to seek to raise additional capital in 2022, following the capital raised during the financial year, and after the statement of financial position date, but before the approval of the financial statements.

	Given the judgement required in determining the company's ability to meet the company's forecast capital 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 38 to 39, with the related accounting policy disclosure on page 57.
How the scope of our audit responded to the key audit matter	We performed the following procedures to evaluate the Directors' assessment of the company's ability to continue to adopt the going concern basis of accounting 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 continuing uncertain economic environment, the requirements of the applicable financial reporting framework, and the system of internal control. **Controls** We obtained an understanding of and tested the relevant 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 2021. We 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 2021 and forecasts regarding the future macroeconomic 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. **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.

	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 and sale subscription agreements 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. This follows the capital raised during the financial year, and after the statement of financial position date, but before the approval of the financial statements. We 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. We inspected the capital that was received from the Cornerstone Investors during the financial year, and that which was received after the statement of financial position date, but before the approval of the financial statements. **Disclosures** We assessed 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 £168k at 31 December 2021 (31 December 2020: £171k) on loans and advances to clients of £422,328k (31 December 2020: £326,425k). 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 macroeconomic information into the measurement of expected credit losses. Management incorporates five macroeconomic scenarios 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 current uncertain macroeconomic environment. 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 and the key inputs used in management's modelling of loan impairment provisions. **Controls** We obtained an understanding of the overall loan impairment provisioning process. We performed a specific assessment of the relevant management review controls over the loss given default assumption and the selection of different macroeconomic scenarios, their probability weightings and the adjustments to the key model inputs under each scenario. **LGD calibration** For a sample of loans, we assessed 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 having undertaken our fraud risk assessment 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 macroeconomic information into the measurement of expected credit losses** We challenged the macroeconomic scenarios selected by management, including the related probability weightings, with involvement of our internal economic modelling specialists. This included comparison of the appropriateness of selected macroeconomic variables and weightings to those used by peer lenders for the macroeconomic forecasts, the probability weightings and the adjustments to the key model inputs under each scenario. We assessed whether there was sufficient downside risk in the modelled approach given the heightened economic uncertainty.

	We assessed the performance of the macroeconomic model to confirm whether the economic variables previously selected were still appropriate in light of the uncertain economic environment through considering the modelled macroeconomic results relative to those observed in historical recessions and tested their arithmetical accuracy.
Key observations	Based on the work performed, we concluded that the company's expected credit losses were reasonably stated.

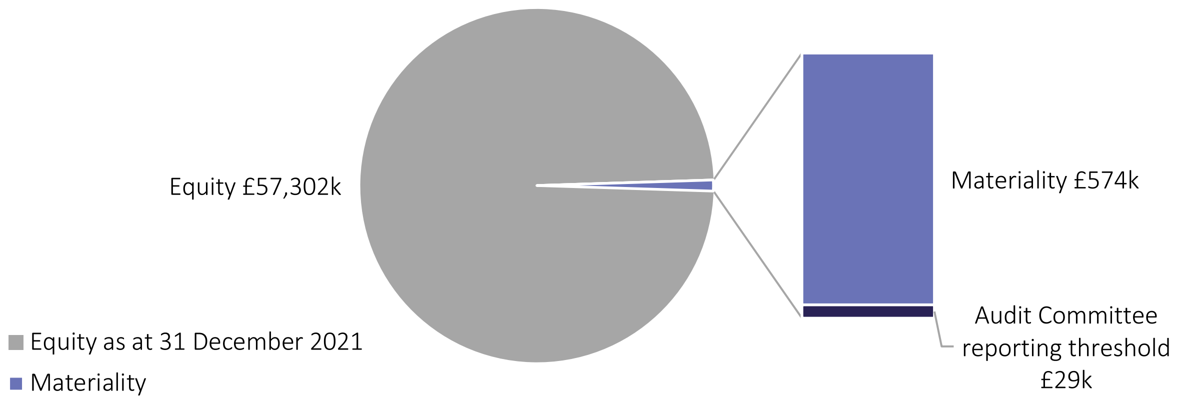
6. Our application of materiality

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	£574k (2020: £512k)
Basis for determining materiality	Materiality has been determined on the basis of 1% of the total equity balance as at 31 December 2021 (2020: 1% of the total equity balance as at 31 December 2020).
Rationale for the benchmark applied	In our professional judgement, the equity balance was determined as the appropriate measure as the statement of comprehensive income 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 2021 audit (2020: 70%).

In determining performance materiality, we considered our understanding of the company its environment, and our risk assessment, including our assessment of the company's overall control environment and that we considered it appropriate to rely on controls over a number of relevant business processes.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £28,700 (2020: £26,000), 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 company and its environment, including controls, and assessing the risks of material misstatement. 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 assessed the operating effectiveness of the general IT controls of the system and relied on those controls. Our risk assessment 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, foreign exchange income, 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 payments and reconciliations, foreign exchange income, and the automated application of interest to customer accounts in the current period. With regards to the controls related to the processing of client account openings, 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. We undertake a rotational approach to testing these controls. Under our rotational approach 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.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the company’s business and its financial statements.

The company continues to develop its assessment of the potential impacts of climate change and its related risk management. As stated in the strategic report on page 22, the most material climate-related risks to which the company is exposed are financial risks relating to financial assets that are expected to manifest over a medium (1-5 years) to long (+5 years) time horizon. The initial assessment is that the company’s exposure to climate-related financial risks is low, due to the nature of its lending activity. It is expected that a small proportion of lending exposures are secured on property in flood-risk zones and a detailed analysis is underway to quantify this exposure. For new lending, an assessment of climate-change risk now forms part of the acquisition process. This considers the potential impact of climate change on the client’s business or income as well as the susceptibility of any property held as security to environmental factors such as flooding.

The company will continue to evolve its approach and develop methodologies as its understanding of climate-related risks progresses.

Based on enquiries with management to understand their process for identifying and assessing climate-related risks, their process for managing the identified risks and their determination of mitigating actions as well as the impact on the company's financial statements, we did not identify any additional risks of material misstatement. Our procedures also included reading disclosures included in the strategic report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

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 and we identified the greatest potential for non-compliance with laws and regulations in the appropriateness of preparing the financial statements using the going concern basis of accounting. 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 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 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 2021 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 this matter.

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 ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 years, covering the years ended 31 December 2015 to 31 December 2021.

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
5 April 2022

Statement of comprehensive income

	Note	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Interest receivable and similar income		12,542	10,144
Interest payable and similar charges		(868)	(1,233)
Net interest income	4	11,674	8,911
Non-interest income		758	631
Net non-interest income	5	758	631
Income from currency operations		775	695
Total income		13,207	10,237
Administrative expenses		(15,006)	(13,007)
Depreciation and amortisation		(1,176)	(1,193)
Operating expenses	6	(16,182)	(14,200)
Operating loss before impairment losses		(2,975)	(3,963)
Impairment credit/(charge) on loans and advances to clients	12	5	(173)
Loss before tax	6	(2,970)	(4,136)
Tax income	8	–	57
Loss for the year from continuing operations (attributable to equity holders) and total comprehensive loss		(2,970)	(4,079)

Statement of financial position

	Note	2021 £'000	2020 £'000
Assets			
Cash and balances at central banks	17	139,948	117,058
Loans and advances to banks	17	189,686	108,358
Loans and advances to clients	12	422,160	326,254
Prepayments and accrued income		913	727
Other assets		212	215
Property, plant and equipment	13	85	111
Right-of-use assets	14	1,139	1,650
Intangible assets	15	2,038	1,752
Total assets		756,181	556,125
Liabilities			
Deposits from clients	17	695,590	501,163
Accruals and deferred income	16	2,014	1,795
Lease liabilities	14	1,134	1,665
Other liabilities		18	38
Provisions	26	123	125
Total liabilities		698,879	504,786
Equity			
Share capital	21	4,223	3,823
Share premium account	21	16,555	9,064
Retained earnings	22	36,524	38,452
Total equity		57,302	51,339
Total liabilities and equity		756,181	556,125

The financial statements on pages 53 to 90 were approved by the Board of Directors and authorised for issue on 5 April 2022 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	Retained earnings £'000	Total equity £'000
At 1 January 2020		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
Loss for the year and total comprehensive loss		–	–	(2,970)	(2,970)
Issue of share capital	21	400	7,600	–	8,000
Direct share issue costs	21	–	(109)	–	(109)
Equity settled share-based payments	11	–	–	1,042	1,042
At 31 December 2021		4,223	16,555	36,524	57,302

Statement of cash flows

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Cash flows from operating activities		
Loss before tax	(2,970)	(4,136)
Reconciliation from loss before tax to net cash flows from operating activities:		
Depreciation and amortisation	1,176	1,193
Equity settled share-based payments	1,042	989
Impairment (credit)/charge for the year	(5)	173
(Increase) in prepayments and accrued income	(185)	(13)
Increase/(decrease) in accruals and deferred income	353	(14)
(Increase) in loans and advances to clients and banks	(132,311)	(139,270)
Increase in deposits by clients and banks	194,668	91,418
Decrease in other assets	3	17
(Decrease)/increase in other liabilities and provisions	(22)	34
Elimination of foreign exchange differences	(9)	7
Cash generated from/(used in) operations	61,740	(49,602)
Income tax received	–	57
Net cash inflow/(outflow) from operating activities	61,740	(49,545)
Cash flows from investing activities		
Purchase of property, plant and equipment	–	(2)
Purchases/development of intangible assets	(1,145)	(158)
Net cash outflow from investing activities	(1,145)	(160)
Cash flows from financing activities		
Repayment of lease liabilities	(445)	(412)
Proceeds from issue of shares	8,000	10,015
Direct costs of share issuance	(109)	(272)
Net cash inflow from financing activities	7,446	9,331
Net increase/(decrease) in cash and cash equivalents	68,041	(40,374)
Cash and cash equivalents at beginning of year	160,960	200,970
Effects of foreign exchange rate changes on cash and cash equivalents	(233)	364
Cash and cash equivalents at end of year	228,768	160,960

Analysis of cash and cash equivalents at end of year		
Cash and balances at central banks	139,948	117,058
Loans and advances to banks repayable on demand	88,820	43,902
	228,768	160,960

Notes to the financial statements
For the year ended 31 December 2021

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 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 United Kingdom adopted 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 have assessed the outlook of the Bank over a longer period than twelve months. To support anticipated business growth, the Directors will seek to raise additional capital in 2022. In anticipation of this next capital raise, key Cornerstone Investors have committed to provide additional capital, up to a pre-defined amount, to support growth and, if appropriate, to 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. 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 going concern basis of preparation to be appropriate.

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 Summary of significant accounting policies *(continued)*

2.2 Intangible assets

Intangible assets, which represent developed software specific to the Bank and perpetual 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.

2.4 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.

2 Summary of significant accounting policies *(continued)*

2.5 Leases *(continued)*

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.

2.7 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.

Foreign exchange gains or losses on translation 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.

2 Summary of significant accounting policies *(continued)*

2.8 Financial instruments *(continued)*

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 credit 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.

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.

2 Summary of significant accounting policies *(continued)*

2.8 Financial instruments *(continued)*

Determining significant increase in credit risk since origination (continued)

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:

- 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.

2 Summary of significant accounting policies *(continued)*

2.8 Financial instruments *(continued)*

Write-off policy (continued)

No assets were written off during the years ended 31 December 2021 and 2020.

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 are 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 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 ECL of zero.
- 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 deemed to have an immaterial 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. 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.

2 Summary of significant accounting policies *(continued)*

2.8 Financial instruments *(continued)*

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.

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 2021 (2020: nil).

2.9 Non-interest income

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

2 Summary of significant accounting policies *(continued)*

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.

2.13 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.

3 Critical accounting judgements and key sources of estimation uncertainty *(continued)*

Forward-looking macroeconomic scenarios

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. Particular attention is given to the calibration of LGD assumptions for loans with a loan to value of over 65% and secured by commercial property or undeveloped land. The scenarios and probability weightings as set out in note 12.4 were approved by CC but it is recognised that, due to the impact of Covid-19 and the conflict in Ukraine, 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 2021 £'000	Year ended 31 December 2020 £'000
Interest income and receivables from banks and central bank	228	982
Interest income on loans and receivables to clients	12,314	9,162
Interest receivable	12,542	10,144
Interest expense on deposits from clients	(761)	(1,091)
Interest expense on lease liabilities	(107)	(142)
Interest payable	(868)	(1,233)
Net interest income	11,674	8,911

5 Net non-interest income

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Banking income	758	631
Net non-interest income	758	631

6 Loss before tax

Loss before tax is stated after charging:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Staff costs & Directors' remuneration	8,951	8,326
Depreciation of property, plant and equipment (note 13)	26	31
Depreciation of right-of-use assets (note 14)	425	443
Amortisation of intangible assets (note 15)	725	718
Expenses relating to successful and unsuccessful acquisitions	–	51
Other property-related expenses	432	437
Other administrative expenses	5,623	4,194
Operating expenses	16,182	14,200

7 Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Fees payable to the Bank's auditor and its associates for the audit of the Bank's annual financial statements*	194	166
Total audit fees	194	166
Total non-audit fees	–	–

* The fees for 2021 include £7k in respect of the audit of the 2020 financial statements that was billed in 2021 and 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 £nil for the year ended 31 December 2021 (2020: £57k).

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 2021 £'000	Year ended 31 December 2020 £'000
Loss before tax	(2,970)	(4,136)
Tax on loss before tax at UK corporation tax rate of 19 per cent (2020: 19 per cent)	(564)	(786)
Effects of:		
– Research and development tax credit	–	(57)
– Expenses not deductible for tax purposes	9	13
– Increase in unrecognised deferred tax assets	555	773
Total tax credit for the year	–	(57)

R&D eligible deductions resulted in a tax credit from HMRC of £nil (2020: £57k).

The standard rate of UK corporation tax applied to reported profit is 19% (2020: 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 £38,065k (2020: £36,264k). 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 £1,820k, comprising fixed asset temporary differences (£1,733k), pension contributions unpaid at the balance sheet date (£50k) and transitional adjustments arising under IFRS 9 and IFRS 16 that are spread for tax purposes (£37k).

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021, and the unrecognised UK deferred tax asset as at 31 December 2021 has been calculated based on this rate.

9 Employees

The monthly average Full Time Equivalent number of employees (including Directors) was 102 (2020: 95).

Aggregate remuneration for the year comprised:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Wages and salaries	6,403	5,935
Social security costs	925	858
Pension costs	581	544
Share-based payments	1,042	989
	8,951	8,326

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 2021 £'000	Year ended 31 December 2020 £'000
Short term employee benefits	845	758
Post-employment benefits	15	14
	860	772

The total amount of Directors' remuneration in accordance with Schedule 5 to the Accounting Regulations was £845k (2020: £758k) relating to salary and variable pay and £15k of contributions to a money purchase pension scheme (2020: £14k).

One director has retirement benefits accruing under a defined contribution scheme (2020: one).

No Directors exercised share options during the year. Remuneration of the highest paid Director in respect of qualifying services was £359k (2020: £352k). 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 2021 (2020: both parts).

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.

11 Share-based payments *(continued)*

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

	2021		2020	
	Number	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)
At 1 January	12,957,500	192.4	12,500,000	195.8
Granted during the year	472,000	100.0	457,500	100.0
Exercised during the year	–	–	–	–
Forfeited during the year	–	–	–	–
Expired during the year	–	–	–	–
At 31 December	13,429,500	189.2	12,957,500	192.4
Options exercisable at the end of the year	–	–	–	–
Weighted average remaining contractual life	16 years		17 years	
Fair value of options awarded during the year (pence)	33.2		33.2	

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:

	2021	2020
Weighted average share price (pence)	100.0	100.0
Weighted average exercise price (pence)	100.0	100.0
Expected volatility	27%	30%
Expected life	9 years	8 years
Risk-free rate	0.56%	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:

	2021		2020	
	Number	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)
At 1 January	1,212,969	115.3	718,712	130.0
Granted during the year	473,707	100.0	610,257	100.0
Exercised during the year	–	–	–	–
Forfeited during the year	(125,000)	107.2	(93,000)	125.8
Expired during the year	(15,000)	120.0	(23,000)	126.1
At 31 December	1,546,676	111.2	1,212,969	115.3
Options exercisable at the end of the year	–	–	–	–
Weighted average remaining contractual life	8.1 years		8.6 years	
Fair value of options awarded during the year (pence)	24.5		21.9	

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

	2021	2020
Weighted average share price (pence)	100.0	100.0
Weighted average exercise price (pence)	100.0	100.0
Expected volatility	27%	25%
Expected life	5 years	5 years
Risk-free rate	0.41%	-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 2021 the Bank recognised a total expense of £1,042k related to equity settled share-based payments transactions (2020: £989k).

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 2021	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Gross loans and advances to clients	402,514	19,690	124	422,328
Impairment allowances	(106)	(56)	(6)	(168)
Net loans and advances to clients	**402,408**	**19,634**	**118**	**422,160**
Coverage ratio	**0.026%**	**0.284%**	**4.839%**	**0.040%**

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%**

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 2021	< 30 days past due £'000	>30 <= 90 days past due £'000	Total £'000
Gross loans and advances to clients	19,690	–	19,690
Impairment allowances	(56)	–	(56)
Net loans and advances to clients	**19,634**	–	**19,634**
Coverage ratio	**0.284%**	–	**0.284%**

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%**

Analysis of stage 3 loans

The table below analyses the accounts in stage 3 as at 31 December 2021 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. There were no accounts in stage 3 as at 31 December 2020.

As at 31 December 2021	> 90 days past due £'000	Realisations £'000	Total £'000
Gross loans and advances to clients	124	–	124
Impairment allowances	(6)	–	(6)
Net loans and advances to clients	**118**	–	**118**
Coverage ratio	**4.839%**	–	**4.839%**

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

12.2 Movements in impairment allowances

Year ended 31 December 2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loss allowance as at 1 January 2021	94	77	–	171
Changes in the loss allowance				
– Increase in credit risk due to change in credit risk	–	–	6	6
– Decrease due to change in risk parameters	(1)	(38)		(39)
New financial assets originated or purchased	36	18	–	54
Financial assets that have been derecognised due to repayment	(23)	(1)	–	(24)
Loss allowance as at 31 December 2021	**106**	**56**	**6**	**168**

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**

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 2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amount as at 1 January 2021	313,209	13,216	–	326,425
Changes in the gross carrying amount				
– Transfer to stage 1	–	–	–	–
– Transfer to stage 2	(5,114)	5,114	–	–
– Transfer to stage 3	–	(120)	120	–
New financial assets originated or purchased	172,131	4,107	–	176,238
Financial assets that have been derecognised due to repayment	(63,233)	(4,153)	–	(67,386)
Other changes	(14,479)	1,526	4	(12,949)
Gross carrying amount as at 31 December 2021	**402,514**	**19,690**	**124**	**422,328**

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

12.2 Movements in impairment allowances *(continued)*

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**

12.3 Impairments charged to income

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

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Impairment (credit)/charge on loans and advances to clients	(3)	164
Impairment (credit)/charge on loan commitments	(2)	9
Total impairment (credit)/charge	(5)	173

12.4 Forward-looking macroeconomic scenarios

IFRS 9 requires ECLs to reflect a range of possible outcomes and consider possible future economic conditions. 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 by the Bank and the fifth is based on the Bank of England's 2021 solvency stress test scenario.

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 2021 these sources included forecasts produced by the Office of Budget Responsibility and the PRA as well as private sector economic research bodies.

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 and extent of recovery or otherwise from the Covid-19 pandemic and therefore a different economic impact.

There are no post-model adjustments as the impact of the different assumptions are fully reflected in the modelled ECL for each economic scenario.

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

12.4 Forward-looking macroeconomic scenarios *(continued)*

Base case	Covid-19 vaccines continue to be effective and protect against new variants of concern across the UK. A sense of normality returns and the economy slowly recovers. Tighter monetary policy helps to curb inflation.
Upside	No new variants of concern emerge and vaccines provide long-term protection. Increased confidence and an uplift in public mood drives an accelerated economic recovery and inflation returns to more stable levels.
Severe downside	New variants of concern and lower duration of immunity require further vaccine boosters. Consumer confidence is dampened and economic recovery stalls.
Very severe downside	Vaccine effectiveness drops and new significant strains spread across the UK, with the risk of new lockdowns in certain parts of the country. GDP shrinks, unemployment increases and inflation rises.
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 bank rate	House price inflation*	Unemployment
Base case	50%	3.7%	1.02%	1.7%	4.2%
Upside	10%	4.1%	1.32%	3.5%	4.1%
Severe downside	25%	2.5%	1.42%	-0.2%	6.2%
Very severe downside	12%	-3.5%	2.42%	-6.7%	8.8%
BoE solvency stress test scenario	3%	3.9%	-0.06%	-35.0%	9.9%

* To lowest point

The asymmetry in the scenarios is demonstrated by comparing the probability-weighted impairment allowance at 31 December 2021 with the impairment allowance from the base case scenario.

	2021 £'000	2020 £'000
Probability-weighted impairment allowance	176	181
Base case scenario impairment allowance (100% weighted)	80	123
Effect of multiple economic scenarios	96	58

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

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.

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 £176k (2020: £181k):

	2021		2020	
	Impairment allowance £'000	Difference £'000	Impairment allowance £'000	Difference £'000
Base case	80	(96)	123	(58)
Upside	23	(153)	46	(135)
Severe downside	191	15	276	95
Very severe downside	454	278	613	432
BoE solvency stress test scenario	1,040	864	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 (2020: £13k).

Significant increase in credit risk

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 Covid-19 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 £9k (2020: £13k).

13 Property, plant and equipment

	Leasehold improvements £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2021	241	203	444
Additions	–	–	–
At 31 December 2021	241	203	444
Depreciation			
At 1 January 2021	134	199	333
Charge for the year	23	3	26
At 31 December 2021	157	202	359
Net book value			
At 31 December 2021	84	1	85

	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

14 Leases

Right-of-use assets

	2021 £'000	2020 £'000
Cost		
At 1 January	2,536	2,536
Adjustments	(86)	–
At 31 December	2,450	2,536
Depreciation		
At 1 January	886	443
Charge for the year	425	443
At 31 December	1,311	886
Carrying amount		
At 31 December	1,139	1,650

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 2021 was 2 years 4 months (2020: 3 years 4 months).

There are no leases to which the Bank was committed and which had not yet commenced at 31 December 2021 (2020: none).

Amounts recognised in the statement of comprehensive income

	2021 £'000	2020 £'000
Depreciation expense on right-of-use assets	425	443
Interest expense on lease liabilities	107	142
Expense relating to leases of low-value assets	51	92

Total cash outflow for leases during the year ended 31 December 2021 was £605k (2020: £645k).

Lease liabilities

	2021			2020		
	Current £'000	Non-current £'000	Total £'000	Current £'000	Non-current £'000	Total £'000
Lease liabilities – property	378	756	1,134	440	1,225	1,665

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. 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 2021	4,299	896	5,195
Additions	397	614	1,011
At 31 December 2021	4,696	1,510	6,206
Amortisation			
At 1 January 2021	2,728	715	3,443
Charge for the year	619	106	725
At 31 December 2021	3,347	821	4,168
Net book value			
At 31 December 2021	1,349	689	2,038

During the year £71k of costs incurred on the development of mobile banking were capitalised (2020: £60k). The carrying amount of mobile banking software was £666k at 31 December 2021 (2020: £725k) with a remaining amortisation period of 6.9 years at 31 December 2021 (2020: 7 years).

The total carrying value of intangible assets whereby amortisation had not yet commenced was £918k as at 31 December 2021 (2020: £nil).

	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

16 Accruals and deferred income

	2021 £'000	2020 £'000
Deferred fee income	137	149
Expense accruals	1,878	1,646
	2,015	1,795

17 Financial instruments

Categories of financial instruments

	2021		2020	
	Financial assets at amortised cost £'000	Total £'000	Financial assets at amortised cost £'000	Total £'000
Financial assets:				
Cash and balances at central banks	139,948	139,948	117,058	117,058
Loans and advances to banks	189,686	189,686	108,358	108,358
Loans and advances to clients	422,160	422,160	326,254	326,254
Total financial assets	751,794	751,794	551,670	551,670

	2021		2020	
	Financial liabilities at amortised cost £'000	Total £'000	Financial liabilities at amortised cost £'000	Total £'000
Financial liabilities:				
Deposits from clients	695,590	695,590	501,163	501,163
Lease liabilities	1,134	1,134	1,665	1,665
Total financial liabilities	696,724	696,724	502,828	502,828

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 2021 and none existed at the year end (2020: 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 2021 or at the year end (2020: 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 2021	**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	139,948	–	–	–	–	–	139,948
Loans and advances to banks	104,622	55,226	29,838	–	–	–	189,686
Loans and advances to clients	348,611	–	15,888	57,610	–	51	422,160
Other assets	–	–	–	–	–	4,387	4,387
Total assets	**593,181**	**55,226**	**45,726**	**57,610**	**–**	**4,438**	**756,181**
Liabilities							
Deposits from clients	543,549	43,415	107,728	898	–	–	695,590
Other liabilities and	–	–	–	–	–	3,289	3,289
Total liabilities	**543,549**	**43,415**	**107,728**	**898**	**–**	**3,289**	**698,879**
Interest rate sensitivity gap	**49,632**	**11,811**	**(62,002)**	**56,712**	**–**	**1,149**	
Cumulative gap	**49,632**	**61,443**	**(559)**	**56,153**	**56,153**	**57,302**	

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**	

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 2021 and 31 December 2020 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. It also has access to deposit aggregators as an additional funding stream, when required. 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 below differ from those in the statement of financial position due to the inclusion of contractual future interest flows.

At 31 December 2021	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	139,948	–	–	–	–	139,948
Loans and advances to banks	104,623	55,234	29,864	–	–	189,721
Loans and advances to clients	39,515	9,696	33,558	236,626	165,139	484,534
Total financial assets	**284,086**	**64,930**	**63,422**	**236,626**	**165,139**	**814,203**
Financial liabilities						
Deposits from clients	543,554	43,430	107,846	899	–	695,729
Lease liabilities	–	114	341	843	–	1,298
Total financial liabilities	**543,554**	**43,544**	**108,187**	**1,742**	–	**697,027**
Maturity gap	**(259,468)**	**21,386**	**(44,765)**	**234,884**	**165,139**	
Cumulative gap	**(259,468)**	**(238,082)**	**(282,847)**	**(47,963)**	**117,176**	

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**	

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 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 CC and Board. CC 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.

	2021 **£'000**	**2020** **£'000**
Exposure	508,420	412,049
Collateral	1,316,269	1,024,920
Cover	259%	249%

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, negligible risk of default and/or very low loan to security value

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

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

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

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

The table below provides a summary of the Bank's asset quality analysed by ICG. At 31 December 2021 the ECL was £168k against loans and advances (2020: £171k) and £8k against commitments (2020: £10k).

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

No balances were in category ICG 5 in 2021 or 2020.

At 31 December 2021	**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	139,948	–	–	–	–	–	–	139,948
Loans and advances to								
Stage 1	189,686	–	–	–	–	–	–	189,686
Loans and advances to								
Stage 1	361,761	10,000	29,652	1,101	–	–	(106)	402,408
Stage 2	17,860	–	1,825	5	–	–	(56)	19,634
Stage 3	–	–	124	–	–	–	(6)	118
	709,255	**10,000**	**31,601**	**1,106**	–	–	**(168)**	**751,794**
Commitments								
Stage 1	71,288	1,223	6,106	7,234	–	–	(8)	85,843
Stage 2	416	–	–		–	–	–	416
Stage 3	–	–	–	–	–	–	–	
	71,704	**1,223**	**6,106**	**7,234**	–	–	**(8)**	**86,259**

19 Financial risk management *(continued)*

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**

Collateral

The Bank has £247k (2020: £244k) of financial assets which it has pledged as collateral.

20 Reconciliation of liabilities arising from financing activities

	At 1 January 2021 £'000	Financing cash flows £'000	Non-cash movements £'000	At 31 December 2021 £'000
Lease liabilities	1,665	(445)	(86)	1,134
Financing liabilities	**1,665**	**(445)**	**(86)**	**1,134**

	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**

21 Share capital

Ordinary shares

	2021		2020	
Allotted, called up and fully paid	**Number**	**£'000**	**Number**	**£'000**
At 1 January (£0.05 per share)	76,459,698	3,823	66,445,142	3,322
Issued ordinary shares	8,000,000	400	10,014,556	501
At 31 December (£0.05 per share)	**84,459,698**	**4,223**	**76,459,698**	**3,823**

During the year 8,000,000 (2020: 10,014,556) ordinary shares were issued at a gross premium of £7,600k (2020: £9,514k). Direct issue costs of £109k (2020: £450k) associated with fundraising have been recorded in the share premium account.

At 31 December 2021 121,683,854 (2020: 121,683,854) ordinary shares were authorised with a par value of £0.05 (2020: £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	**2021**	**2020**
	£'000	**£'000**
At 1 January	9,064	–
Premium arising on issue of equity shares	7,600	9,514
Direct share issue costs	(109)	(450)
At 31 December	**16,555**	**9,064**

22 Retained earnings

	2021	**2020**
	£'000	**£'000**
At 1 January	38,452	41,542
Loss for the year attributable to equity holders	(2,970)	(4,079)
Equity settled share-based payments	1,042	989
At 31 December	**36,524**	**38,452**

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.

Key management personnel and their close family members' aggregate deposits were £183,546 (2020: £175,197) and aggregate lending was £1,804,377 (2020: £1,902,926) at year end. Committed loans at 31 December 2021 were £nil (2020: £nil).

Noble & Company (UK) Limited became a related party during the year by virtue of the significant influence of a member of the Bank's key management personnel. During 2021, from the date it became a related party, Noble & Company (UK) Limited charged fees of £36,774 for corporate advisory services. At 31 December 2021 the amount owed by the Bank to Noble & Company (UK) Limited was £15,000.

24 Related parties *(continued)*

No impairment losses have been recognised in respect of amounts owed by related parties (2020: £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.

	2021 £'000	2020 £'000
Commitments to lend	86,259	85,795
Commitments for intangible asset development	394	–
	86,653	85,795

26 Provisions

	2021		2020	
	Loss provision £'000	Dilapidation provision £'000	Loss provision £'000	Dilapidation provision £'000
At 1 January	10	115	1	115
(Released)/provided during the year	(2)	–	9	–
Utilised during the year	–	–	–	–
At 31 December	8	115	10	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 Bank's capital is measured using the regulatory framework defined by the Capital Requirements Directive and Capital Requirements Regulation (together CRD IV) as implemented and enforced in the UK by the PRA.

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.

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 the Bank did not adopt any new accounting standards or amendments to standards which became effective in the current year which had any significant impact on its 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 2022 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.

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 53.

(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 53.

(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

The four largest shareholders have committed to provide £8m in the first half of 2022, of which £4.25m was subscribed and fully paid up prior to the approval of the financial statements.

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