Hampden & Co.
BANKERS

2023

Annual Report and Financial Statements

For the year ended 31 December 2023

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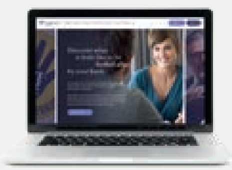
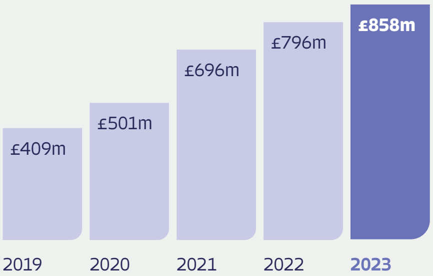


For more information on Hampden & Co, please visit our website at **hampdenandco.com/investors**

2023 Performance highlights

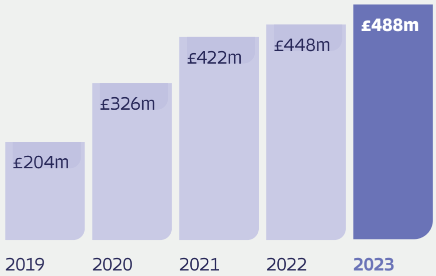
Deposits from clients

Up 8% to £858m



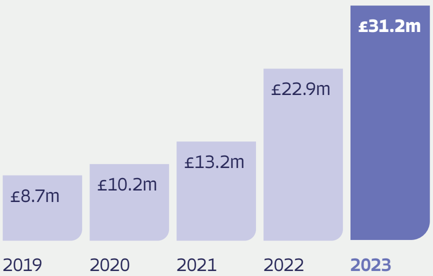
Loans and advances to clients

Up 9% to £488m



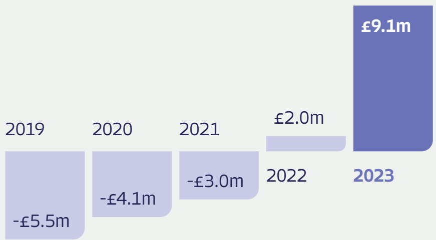
Total income

Up 36% to £31.2m



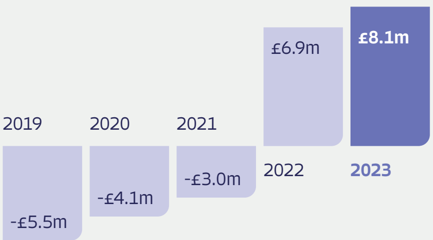
Profit/(loss) before tax

Up 347% to £9.1m



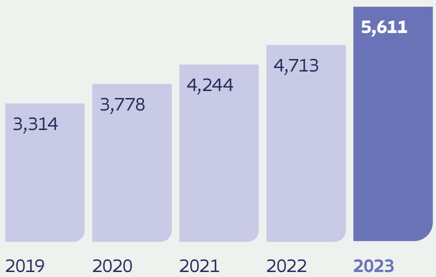
Profit/(loss) after tax

Up 18% to £8.1m



Client numbers

Up 19% to 5,611



A client-centred bank

“It’s five years today since my account was opened. Definitely something to celebrate. Five years of immaculate, faultless, perfect service run by friends. How many people can say that about their bankers?

Chairman's statement

Simon Miller
Chairman

"We continue to invest in the Bank to deliver an exceptional banking service, personalised to the particular needs of high-net-worth clients, their families and associated businesses.

The Hampden & Co Board of Directors and General Counsel

2023 was a tough year for worldwide economies and international markets. In the UK, interest rates started the year at 3.5% and rose to 5.25% by the year end as the Bank of England sought to curb inflation. Events in the Middle East added to international tension and general uncertainty.

Economists had predicted a recession in western economies, caused principally by rising interest rates. Although this emerged in the UK towards the end of the year, evidence suggests the dip has been relatively shallow. Inflation has fallen from 10.1% at the start of 2023 to below 4% at the time of writing and interest rate reductions are therefore anticipated.

Continued performance

Hampden & Co (the Bank) has had a good year. Lending increased by 9% to £488m and deposits increased by 8% to £858m. Profit before tax was up by over £7 million, from £2.0m in 2022 to £9.1m. The Chief Executive Officer's business review on pages 6 to 8 contains greater detail on the performance of the business.

Profitability is a function of the growth of the Bank and increased interest rates. As you will see from the report and accounts, there is a continuing and steady growth in the number of clients and this is reflected in the levels of deposits and lending. Last year the Bank benefited from rising interest rates. However this year rates are expected to fall. Should this occur it is likely the Bank will experience some margin compression.

As I said in my report last year, the average interest rate for the period from 1971 to 2022 was around 7%. Most commentators believe that UK rates will, in the short to medium term, settle in the range of 3% to 5%.

Dividend

As the Bank is now profitable, it is entirely appropriate that an inaugural dividend is paid to shareholders. Achieving profitability and becoming self-funded has taken considerable time and regulatory demands necessitate a conservative approach in the payment of dividends.

The Board is therefore recommending that a dividend of 1.6p per share be paid. If approved by members at the 2024 Annual General Meeting, the Board intends to pay this dividend in June. The Board recognises that this represents a modest initial dividend and has the intention to pay a fuller dividend in 2025, subject to the Bank's capital position.

Chief Executive Officer and Board appointments

Graeme Hartop indicated last year that he wished to retire during 2024. Graeme joined Hampden in 2013, before it opened to business, and he has led it masterfully through the development phase into profitability. His contribution to the business is enormous and he will be greatly missed.

We have made good progress in selecting a new Chief Executive Officer and I expect to make an announcement regarding this in advance of our upcoming Annual General Meeting.

Two appointments strengthened the Board in 2023. As announced in my statement last year, Kaushalya Somasundaram, a chartered certified accountant and an MBA, joined the Board as a Non-Executive Director in April. She spent much of her executive career at HSBC. Andrew Bell, who is the Bank's Chief Commercial Officer responsible for client service, products and marketing, joined the Board in July as an Executive Director.

A modern bank

We continue to invest in the Bank to deliver an exceptional banking service, personalised to the particular needs of high-net-worth clients, their families and associated businesses.

During the past year, greater focus has been directed towards technology. The Board's Digital Transformation Sub Committee is now chaired by Kaushalya Somasundaram, who was formerly Global Head of FinTech Partnerships at HSBC. Our banking technology is expected to catch up and then keep pace with other providers. Client feedback has for example emphasised the importance of Apple Pay and Google Pay and these new services will be available in 2024, along with a new and significantly improved digital app. A new Client Relationship Management system is also being introduced to support the Bank's marketing and relationship strategies.

The Bank will move to new premises at 20/21 Charlotte Square later this summer, very close to our existing office. This should bring together all Edinburgh-based employees, with modern facilities including an integrated auditorium capable of hosting networking and presentation events. The upgraded building will help the Bank achieve its environmental goal of becoming net-zero by 2030.

Next year the lease on our London office will expire and the process for finding new premises has begun.

Coinciding with the move of the Edinburgh office, the branding of the Bank will transition from 'Hampden & Co' to 'Hampden Bank'. This subtle but important change will help to communicate the brand with greater clarity. The legal name of the Bank, Hampden & Co plc, will not change.

Investing in people

People are at the core of our business and we strive to ensure that each member of staff is trained, motivated, rewarded and generally looked after. The newly re-constituted People & Remuneration Committee will increase the Board's focus on the people strategy, whilst also continuing the work of the previous Remuneration Committee.

The work force increased from 125 to 154 in 2023. Joiners were spread throughout the business, with the majority going to the Commercial and Operations teams. This reflects both the growth in the Bank and the ability to fund these roles.

Approximately 40% of the Bank's workforce is female. The Board is conscious that this figure is not yet reflected at the most senior levels and is determined that the diversity of our colleagues and clients should be better reflected in the Bank's leadership.

Looking forward

By any measure 2023 was an excellent year for Hampden & Co. However, the Bank is now facing a rapidly changing economic and market environment. As a consequence of the necessary investment in the business and the more challenging operating conditions, shareholders should expect a period of consolidation, rather than anticipating similar rates of growth in profitability.

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

Simon Miller
Chairman

28 March 2024

Chief Executive Officer's business review

Graeme Hartop
Chief Executive Officer

> "Our focus is exclusively on serving our clients' banking needs.

We are proud to have served our many clients over the year, and to have welcomed many new clients seeking the benefits of a personal banking service that is tailored to their needs. As a result, 2023 was another good year for the Bank with a strong financial performance delivered against a challenging economic backdrop. It is often during uncertain times that the service of an expert banker is most valued.

Strategy and vision

The Bank's purpose is to help high-net-worth individuals, their families and associated businesses to achieve their aspirations. With an unwavering commitment to the highest levels of service, we aim to be timely, knowledgeable and personalised when meeting their needs in the moments that matter to them.

Our focus is exclusively on serving our clients' banking needs. This differentiates us from most other private banks who combine banking and wealth management services. It enables us to work in partnership with other professional advisers for the benefit of our clients. With no other competing priorities, we can add value through our extensive network. Wealth managers, financial advisers, solicitors, accountants and mortgage intermediaries are a strong and valued source of introductions to new clients seeking an exceptional banking service.

Market backdrop

Rising interest rates was a prevalent theme in 2022 and this continued into 2023. Having raised the bank rate eight times in 2022, the Bank of England raised it a further five times over the year as it sought to combat rising inflation. The rate, which started the year at 3.5%, reached 5.25% by the year end, increasing the cost for borrowers while rewarding depositors.

Several trends were evident as bankers helped clients take action to either benefit from, or minimise the impact of, rising rates. Some clients with cash on deposit switched money from call accounts into higher interest-bearing term and notice accounts. Some lending clients sought the certainty of a fixed rate and switched from variable rates to commit to a two- or five-year term. A small number of depositors chose to utilise deposits to pay down debt, which impacts both sides of the Bank's balance sheet. That we continued to grow both lending and deposits strongly throughout the year is testament to the Bank's resilience, to continued strong demand from clients and professional advisers and to greater awareness of and confidence in our services.

Financial performance

Against this changing and challenging market environment, the Bank delivered another strong financial performance in 2023.

Following an inaugural profit in 2022, the Bank delivered a significantly increased profit in 2023, with statutory profit before tax up 347% to £9.1m (2022: £2.0m). This was achieved from growth across all key measures, with income up 36% to £31.2m (2022: £22.9m). Lending increased by 9% to £488m (2022: £448m). Deposits also finished the year higher, up 8% to £858m (2022: £796m).

Many new clients were welcomed to the Bank with the total number up by 19%. Client retention rates remained exceptionally high at 99%. This is evidence of growing awareness of our brand, of our strong reputation for service excellence and of the demand for personalised banking.

With continued investment in growing the business and evolving services to meet the needs of clients, operating costs rose by 6% to £21.9m (2022: £20.8m). Inflationary pressures also had an impact.

Credit quality remained strong with very low levels of impairment and with only a very small number of accounts facing arrears. The quality of business and its safe, managed growth remain key priorities for the Executive Management Team and the Board.

Overall, the financial performance in 2023 is evidence that the Bank is well-established and built on solid foundations with strong demand for our distinctive proposition.

Significant developments

Investment in the business is helping to develop services that enhance the experience for clients, grow revenue and ensure the continued smooth operation of the Bank. Here is a summary of some of the key advances.

- Apple Pay and Google Pay were developed for launch in 2024. These new services will allow clients to make payments with their mobile devices without requiring their physical Hampden & Co bank cards.
- An upgraded digital banking service and app are in development to be launched in 2024. Many of our clients tell us that these card and digital services are essential to maximise their experience of banking with us.

Key Performance Indicators (KPIs)

The Bank's overall progress and performance is monitored continually by the Board and the management team. Performance for the year is summarised below:

Chief Executive Officer's business review (continued)

- We attracted more talented people across the business in both Edinburgh and London. This growth is being carefully managed to meet the needs and demands of our growing client base and to capitalise on the potential for new business. We welcomed six new bankers, including industry veteran, Mark Plummer, who joined as Head of Private Banking, London. The colleague survey told us that our teams are highly engaged while staff turnover is low. You can read more about our investment in people in the People and Culture report on pages 16 and 17.
- Placing our clients at the heart of all that we do necessitates having relevant and timely information to support our activities. We have introduced Microsoft Dynamics as our new Client Relationship Management (CRM) system which will improve the efficiency of our processes and provide greater insight into our business.
- The Financial Conduct Authority introduced new Consumer Duty regulation in 2023 which sets clear and higher standards of client protection across the financial services industry. Our detailed analysis of the enhanced requirements has reinforced my confidence that our personalised approach to banking meets the enhanced expectations of the regulation.
- We announced a new, enhanced tiering structure for our instant access Call Deposit, offering clients differentiated rates across the tiers on account balances in GBP and US$.

Looking forward

Economic and political change are set to continue through 2024 with national elections looming worldwide. In both the UK and US, pollsters are currently predicting new governments, which would inevitably bring policy changes and continued uncertainty.

This uncertainty creates opportunities for some, while others may be discouraged from taking action. With expectations that interest rates have peaked and that the Bank of England is likely to reduce the bank rate later in the year, there are signs that confidence is returning to the market.

The Bank is well positioned to help our existing clients, and to attract new clients who would benefit from the services of an expert banker. I am regularly told by clients how reassuring they find it during such uncertain times that they have a banker they know and that they can speak to as the person looking after their money. We are proud of the services we offer and how they are valued by our clients. The Executive Team and the Board remain extremely positive about the future of the Bank.

This is my last annual statement before I retire from the role of Chief Executive Officer later in 2024. It has been a challenging and thoroughly rewarding experience building the business and the team over the past 12 years. I joined before the Bank opened to new clients and I leave with it firmly established as one of the UK's most respected private banks. Thank you to our loyal shareholders and my colleagues for your support and commitment, and to our valued clients and professional partners for placing your trust in Hampden & Co.

Graeme Hartop
Chief Executive Officer
28 March 2024

Engaging with our stakeholders (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 2023 in this regard were:

New appointments

There were two new appointments to the Board. Kaushalya Somasundaram was appointed as a Non-Executive Director. She is a qualified chartered certified accountant and an MBA and much of her executive career was at HSBC where she was, most recently, Global Head of FinTech Partnerships. Kaushalya brings with her a depth of banking, financial and digital experience which will be beneficial for the next phase of the Bank's growth.

Andrew Bell, the Bank's Chief Commercial Officer, was appointed as an Executive Director, reflecting his valuable contributions to the Bank.

Capital investment to support business growth

The Bank raised £2.1m during 2023.

Investment in technology

During 2023 the management team commenced a major upgrade of the Bank's digital platform. Client feedback has highlighted the importance of Apple Pay and Google Pay and these new services will be available in 2024. This investment will deliver enhanced functionality for clients, improved and more efficient processes and will enable the Bank to further develop its services.

b. Employee engagement

The Bank now employs 154 colleagues across offices in Edinburgh and London, up from 125 in 2022.

The Bank's 5th 'Great Place to Work' colleague engagement survey was conducted in 2023, with a 93% response rate. The colleague engagement score of 85%, and 91% of colleagues responding positively to the statement 'Taking everything into account, I would say that this is a great place to work', reflects the strength of the Hampden & Co community and the collective engagement, dedication and collaboration of our colleagues, to the ultimate benefit of our clients. The Board reviews the colleague engagement survey results and action plans arising from the survey outputs and colleague focus groups.

The Remuneration Committee has been re-constituted as the People & Remuneration Committee with a specific responsibility for oversight of people strategy, which is central to the Bank's success. Caroline Taylor, as the Board's people champion and Chair of the People & Remuneration Committee, meets periodically with small groups of colleagues and provides an update to the Board on themes arising. Board members also meet informally with colleagues attending the Bank's leadership development programme.

A refreshed Diversity, Equity & Inclusion (DE&I) strategy was launched in 2023, to support all colleagues to thrive and reach their full potential in an inclusive culture where everyone is comfortable to be their authentic self.

The Bank is committed to providing colleagues with programmes and tools to lead a healthy and quality lifestyle and in 2023 the range of wellbeing initiatives was extended to include free health checks and flu vaccinations to all colleagues.

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 by the Board 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, including in respect of supplier payments. They work with suppliers to improve quality, reduce costs, and mitigate supplier risk. New suppliers are subject to suitability and due diligence checks. Critical suppliers are subject to

Engaging with our stakeholders (Section 172 statement) (continued)

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 that 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 12.

Environment

The Bank has a small environmental footprint but is working to reduce the contributors to operational carbon emissions, primarily from business travel and commuting.

This will help the Bank to achieve its target of being net-zero carbon by 2030. Further details are provided in the Sustainability Report on pages 11 and 12.

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

The Bank relies on its reputation to build its business and 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 Executive Risk Committee and the Board. All staff are required to comply with 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 continues to engage with all its shareholders through regular communications.

A section of the website is dedicated to investors and accessible to everyone. The latest information and documents can be found at www.hampdenandco.com/investors

Sustainability report

Hampden & Co is a socially responsible bank committed to reducing its 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 carbon footprint that arises from our operations and which contribute to the causes of global climate change. It also aims to help our clients, staff and other stakeholders to identify opportunities as the economy transitions to net-zero carbon. Environmental and social working groups are focused on planning and delivering initiatives which will help us meet medium- and long-term sustainability goals and they review performance against targets.

Environmental impact

The Bank is committed to reducing its carbon footprint and has set a goal of becoming net-zero carbon by 2030.

The emissions that result from running the Bank are measured in tonnes of carbon dioxide equivalent (tCO_2e) and are reported against a 2019 pre-Covid benchmark in three categories. The data is collated annually, with the most recently available being from 2022. Those emissions were:

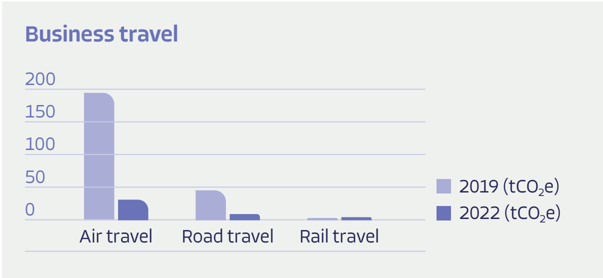
- **All direct emissions (scope 1)** – Emissions from the activities under our control. This includes fuel used in our offices, such as gas. Between 2021 and 2022, this increased by 5.774 tCO_2e to 10.161 tCO_2e.
- **Indirect emissions (scope 2)** – Emissions created during the production of the energy and eventually used in our offices, such as electricity. With all energy coming from renewable sources, this remained zero.
- **All other indirect emissions (scope 3)** – Emissions from sources we do not own or control occurring from our activities, such as business travel and commuting, and procurement of consumables such as paper, plastics and water. This reduced significantly in 2022, down 269.702 tCO_2e to 106.410 tCO_2e.

Between 2019 and 2022, total emissions have reduced by 231.854 tCO_2e across all categories, a reduction of 66.5%.

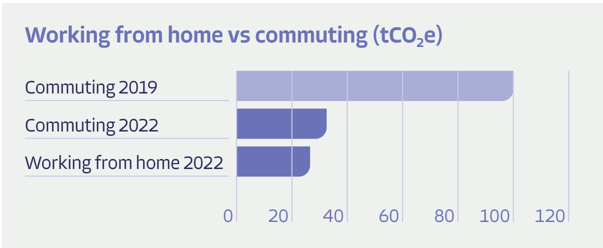
Reducing our footprint

The greatest proportion of the Bank's carbon footprint comes from business travel and commuting, and from procurement of consumables such as paper, plastics and water.

Reductions have been achieved through the embedding of a more environmentally friendly culture which has seen a sustained move to online meetings for business that can be carried out remotely, and to rail travel in favour of higher polluting air travel. Colleagues are encouraged to consider alternative means of transport when travelling for business, which has led to a 57% increase in rail travel.



Emissions generated by colleagues when working from home are also measured. With an expanding team, the working from home emissions have increased but have been more than offset by the reduction in commuter emissions.



Other methods for reducing emissions include a hybrid model of working that balances office and home working, attractive terms for colleagues on the lease of electric vehicles and a cycle to work scheme offering discounts and funding for the necessary equipment.

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Sustainability report (continued)

Supporting environmental projects

In March, the Bank signed a Memorandum of Understanding with NatureScot, Palladium and Lombard Odier in a private finance pilot that aims to help restore Scotland's native woodlands. Together, the group is targeting landowners who are interested in nature restoration and carbon capture programmes through capital investment. The pilot aims to mobilise up to £2bn in landscape scale restoration of native woodland. This joint endeavour is a 'national first' in ambition and scale and demonstrates our intent to be a leader in the nature restoration space.

Supporting worthy causes

The Bank is committed to contributing to and supporting the communities in which we live and work.

The Trussell Trust supports a nationwide network of food banks, providing emergency food and support to people locked in poverty. The Trust also campaigns for change and an end to the need for food banks in the UK. £5,000 was raised by staff and the Bank to support the charity during the year, together with a wide range of food and personal items.

Leuchie House is a charity providing transformational care and respite to people and families coping with neurological conditions. Staff volunteered their time to help raise money at charity fundraising events and also provided maintenance support at the grounds of Leuchie House. The Bank was proud to support their 'Double Our Impact' campaign event which was launched by HRH The Princess Royal.

Women@Hampden is a staff networking group where members work together to share advice. The group regularly donate high quality, interview appropriate clothing to SmartWorks a charity that dresses and coaches unemployed women in preparation for job interviews. The group also held events to raise money for Macmillan Cancer Research.

Many colleagues also support charitable causes that they care about, either financially through donations or fundraising, or by volunteering their time and skills. The Bank supports their efforts in a range of ways:

Payroll giving

Hampden & Co was awarded a Platinum Payroll Giving Quality Mark Award in 2023 by Charitiestrust in recognition of our commitment to 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, which gives immediate tax relief.

Matched funding

Colleagues who are raising funds for registered charities can apply for funding to match the money they raise, up to £350 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.

Climate-related financial disclosures

The Bank is committed to ensuring that the measurement, monitoring and reporting of climate-related financial information remains appropriate to the risk posed by climate change to its operations.

The Bank enhanced its capabilities to measure, monitor and manage climate-related risks in 2023 by introducing climate-related risk appetite metrics and stress testing climate risk scenarios as part of the Internal Capital Adequacy Assessment Process (ICAAP).

Governance

The Bank has a robust and well-established Governance Framework (as set out on page 23). The Executive Management Committee is responsible for ensuring that the Bank delivers on its strategic aim of being a socially and environmentally sustainable private bank over the long-term.

The senior policy-making body is the Board, which sets the Sustainability Strategy for responding to climate-related risks. The Board receives climate-related reporting to enable it to monitor and oversee progress against goals and targets for addressing climate-related issues, in line with the Sustainability Strategy.

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.

To support its responsibilities for implementing the Risk Management Framework, in relation to climate change, the Board receives recommendations from the Board Risk Committee (BRC) through oversight of the annual ICAAP and reporting from Executive Risk Committee to BRC of climate change metrics that fall outside of risk appetite, and from the Board Audit Committee (BAC) through oversight of climate-related financial disclosures.

Climate-related financial risks are considered at the Credit Committee as part of the ICAAP process. In addition, Climate-related risk appetite metrics are monitored by the Executive Risk Committee.

Managing climate-related risks

The Bank identifies, measures, and manages the impacts of climate-related risks (financial and non-financial) on its business model, and considers that the risks arising from climate change does not currently present a material threat.

Analysis of the Bank's business model and balance sheet identified credit risk as the most significant financial risk from climate change exposure. The Bank continues to embed climate change risk management into its credit process and policies 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. Stress testing to simulate the impact on the lending portfolio is completed using the Bank of England published climate risk scenarios for transition and physical risks, the results of which are assessed in the Bank's ICAAP.

The Bank collects 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.

Risk management

The risks from climate change manifest across the Bank's principal risks. The Bank continues to evolve its approach and develop methodologies as its understanding of climate-related risks progresses.

Climate-related financial disclosures (continued)

Principal risk: credit risk		
	Identifying and assessing climate-related risks	**Managing climate-related risks**
Collateral/ security protection	The Bank accepts a wide range of collateral through its lending operations. For new lending, credit application due diligence assesses the extent to which proposed lending is susceptible to climate change risks. This assessment includes Energy Performance Certificate (EPC) grades and Future Flood Risk Ratings.	The Bank uses credit assessments, risk committees (Credit Committee and Executive Risk Committee) and a limit and threshold structure to keep its exposures within agreed risk tolerance limits. The Bank continues to refine its risk management methodologies to incorporate relevant climate related risk information.
Counterparty	As a result of placing surplus funds with third party financial institutions, 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 assists the Bank in understanding the climate change credentials of these third parties. The Bank also uses Your Treasurer, a third-party Treasury services provider, to provide benchmark analysis to inform investment decisions.

Principal risk: funding and liquidity risk		
	Identifying and assessing climate-related risks	**Managing climate-related risks**
Funding and 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.	The Bank prepares stress scenarios that model potential outflows of deposits to ensure that it maintains sufficient high-quality liquid assets to meet the outflow demands under these scenarios.

Principal risk: operational risk		
	Identifying and assessing climate-related risks	**Managing climate-related risks**
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 Bank has introduced climate-risk related questions to its supplier due diligence process, which is used to onboard new suppliers, and in due diligence refreshes of existing supplier relationships over the past year. If suppliers are deemed high-risk based on this information, the Bank may consider excluding them from the procurement process.

Principal risk: strategic and business risk		
Client activity	**Identifying and assessing climate-related risks**	**Managing climate-related risks**
	The Bank could be exposed to reputational risk and consequent financial risk through any business relationships with clients and investors whose activities may have, or be perceived to have, a negative impact on climate change. To identify this potential risk an assessment of the commercial, ethical and reputational risk of developing a relationship with the client is required.	The Bank's credit governance assesses the financial and reputational risks associated with new and existing lending commitments. Risk assessment methodologies and risk management techniques will continue to be developed throughout 2024, including enhancement of the assessment of physical risks and the potential financial impacts on clients of transition risks. Reputational risk associated with deposit-taking is considered along with other risk factors when considering establishing client relationships.
Property	The Bank's office premises are located in areas with a low exposure to climate-related risk.	The Bank is committed to being supplied with 100% renewable energy (electricity and gas) across all its offices when it is possible to do so. The Bank is moving to a new Edinburgh property in 2024. The property will reduce climate-related risk as it will be supplied 100% by electricity in a building which it is anticipated will carry a category A EPC rating.

Metrics and targets

The Bank's carbon footprint

The Bank is working to offset and reduce its own 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 and 12.

The Bank's risk appetite

The Bank introduced climate-related risk appetite metrics in 2023. As part of the ongoing risk appetite statement development, consideration will be given to the introduction of further climate-related metrics across relevant principal risks.

People and culture

A positive, inclusive culture engages and supports our colleagues and is key to achieving our vision, purpose and strategy.

People strategy

We understand that our key strategic differentiator, that of superior client service and human relationships, is entirely dependent on our people. During 2023 we refreshed our people strategy to ensure it was aligned to the business goals and purpose and set out six key focus areas: Diversity & Inclusion, Values, Career Development, Leadership Development, Learning, and Performance Development.

Values

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 2023, we continued to embed The Hampden Way to align it with our vision and purpose. This included continuing to recognise colleagues, nominated by their peers, who have gone over and above to demonstrate and live 'The Hampden Way' at our summer and Christmas awards events.

Over the last year we have consulted with colleagues across the Bank and refreshed the principles that make our Bank the special place that it is. We relaunched our values by which we should hold each other to account on how we behave and interact: Proud Ownership, Total Inclusivity, Winning Teamwork, Purposeful Growth and Absolute Integrity. Our people and culture initiatives are focused on further embedding our values, so they are visible, true and part of our DNA.

Colleague engagement

2023 saw us conduct our 5th 'Great Place to Work' colleague engagement survey, with a 93% response rate. Our colleague engagement score of 85%, and 91% of colleagues responding positively to the statement '*Taking everything into account, I would say that this is a great place to work*', reflects the strength of the Hampden & Co community and the collective engagement, dedication and collaboration of our colleagues.

Our strong results underpin our culture and reflect the positive efforts made over the past 18 months (since the last survey) on key Company-wide focus areas, including reward. Whilst these results are highly encouraging, we are not complacent and it is crucial to not only identify ongoing areas of improvement, but also to sustain and build upon our successes. By maintaining our focus on continuous improvement and feedback we can further enhance colleagues' engagement and enjoyment.

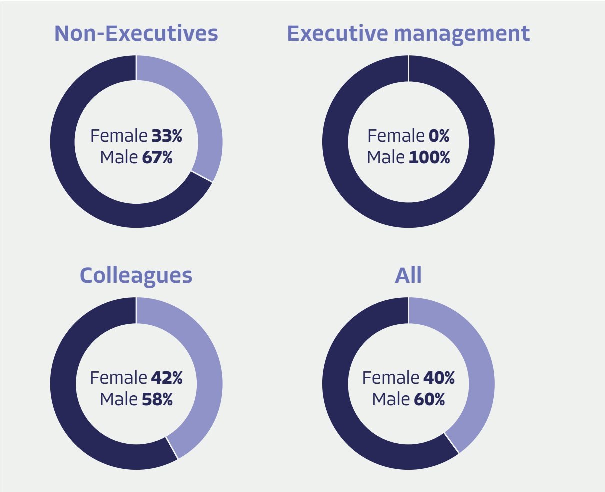
Diversity, equity and inclusion

We want Hampden & Co to be a diverse, inclusive, safe and fair workplace for all. To help us achieve this we refreshed our DE&I strategy in 2023 to help us develop an inclusive culture where everyone is comfortable to be their authentic self. Our ambition is that we all work together to ensure collaboration, development and success for all our people, supporting them to thrive and reach their potential, in a culture where true diversity of thought is nurtured and recognised as adding real value to how we interact with each other and our clients.

We know we still have further to go in supporting inclusivity in all its forms and we will continually seek opportunities for further education and learning around DE&I, helping us build our understanding of diverse experiences and foster a more inclusive culture and environment which will help to future-proof the Bank for continued success and sustainability.

We understand that leaders who are aware of their own biases actively seek out and consider different perspectives to inform their decision-making and collaborate more effectively with others. In Q1 2024 we are holding workshops for our senior leaders on 'Inclusive Leadership' as part of our DE&I strategy and focus on leadership accountability and building an inclusive culture.

As at 31 December 2023 our gender diversity was:



Wellbeing

We are committed to providing our colleagues with programmes and tools to lead a healthy and quality lifestyle. Our wellbeing initiatives focus on the physical, mental and financial wellbeing of our colleagues.

We offer private medical insurance and health cash plan schemes to all colleagues (who can add their partners and dependents), and in 2023 we offered free health checks and flu vaccinations to all colleagues, who also have access to our Employee Assistance Programme.

Our qualified mental health first-aiders continue to recognise and mark numerous wellbeing days throughout the year with opportunities for education and interaction with colleagues.

Hybrid working

In 2023 we continued to operate a hybrid working model (with 50% of the working week conducted in the office). We are committed to maintaining and enhancing the positive aspects of in-office work, whilst still offering the flexibility that working from home can bring. Hybrid working strikes a balance which works for our clients, our business, and our colleagues, whilst still benefiting from a collaborative and connected working environment.

Principal risks and uncertainties

The Board has identified 12 principal risks and uncertainties which could threaten the successful delivery of the Bank's strategy and business plan. Risk appetite and risk metrics for all principal risks are reviewed by the Board Risk Committee (BRC) and, if thought fit for purpose, are recommended for approval by the Board. Compliance with risk appetite is monitored and reported to the BRC and the Board to ensure action is taken if performance has, or is close to, moving outside of risk appetite. Risk management disclosures are set out in note 21 to the financial statements. Executive Management and Board Governance is set out on page 23.

Strategic and business risk

Strategic risk is the risk that the Bank fails to plan, understand and respond appropriately to material changes in the external or internal operating environments, which impairs its ability to deliver sustainable growth in line with shareholder expectations. Business risk is the risk that the Bank fails to maintain its reputation and franchise value and does not deliver its business and financial plans.

Climate change has significant implications for clients, suppliers, partners, and employees. No material financial risk exposure from climate change has been identified to date. The Bank monitors risks associated with climate change, including measurement of the Bank's exposure to the physical and transition risks that may arise. Further details are set out in the Sustainability Report.

The political and geopolitical landscape is monitored to evaluate potential risk to the Bank. Escalation of the wars in Ukraine and Israel-Gaza present risks to global economic prospects that could have a material impact on the UK economy. To date, no discernible impact on the Bank's risk profile has arisen from these uncertainties. The possible implications on economic policy and growth prospects arising from a UK General Election are also monitored closely.

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's capital, and capital adequacy, is monitored to ensure this exceeds regulatory requirements, with positions reported to the Board and the BRC. Early Warning Indicators are monitored to identify emerging capital concerns at an early stage, so that mitigating actions can be taken. The Bank's capital adequacy is assessed at least annually through consideration and approval of its Internal Capital Adequacy Assessment Process (ICAAP) by the Board, after review and challenge by the BRC.

The Bank's regulatory disclosure requirements under Pillar 3 (defined in note 31) are published annually and are available to review on the Bank's website (www.hampdenandco.com).

Credit risk

Credit risk is the risk of loss arising from the failure of clients, or third parties with credit-related obligations to the Bank, to meet their obligations in full or in a timely manner, whether such obligations are direct, indirect, or contingent. Safe growth and a prudent lending policy remain central to the Bank's risk appetite.

Funding and liquidity risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources available to enable it to meet its obligations as they fall due.

Funding risk is the risk that the Bank does not have stable sources of funding in the medium and long term to enable it to meet its planned commitments or to do so only at excessive cost.

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. The Treasury function seeks to minimise liquidity risk, with liquidity and funding positions reviewed daily.

Market risk

Market risk is the risk that the Bank's earnings and economic value may be volatile due to changes in the value of financial market prices. This includes interest rate risk in the banking book (IRRBB) and foreign exchange (FX) risk.

IRRBB 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. FX risk is the risk that arises due to volatility in FX rates. The Bank's FX risk is managed using natural hedges and FX forward contracts, and through adherence to agreed FX exposure limits.

Change risk

Change risk is the risk that, in executing change, the Bank fails to meet client, colleague, regulatory and legal requirements. Change risk arises when the Bank undertakes activities which require changes to existing, or the introduction of new products, processes, systems, suppliers or controls.

The Bank applies a Change Management Framework, which includes regular Executive Management governance and oversight of the change portfolio, to limit negative impacts on clients, colleagues and stakeholders as a result of change activity.

Conduct risk

Conduct risk is the risk that poor client outcomes arise through poor design and delivery of products and services, and through poor colleague culture or behaviours. 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 in line with the requirements of the Financial Conduct Authority's Consumer Duty rules.

Data risk

Data risk is the risk of the Bank failing to govern, manage and protect its data effectively, including data processed by third-parties, which can lead to unethical decision-making, poor client outcomes and financial loss. The Bank is developing its data strategy and risk management to ensure that data can be used to enhance its relationship management proposition and help deliver good client outcomes.

Financial crime risk

Financial crime risk is the risk that the Bank fails to prevent money laundering, terrorist financing, proliferation financing, tax evasion, sanctions violations, bribery, corruption, and fraud (external and internal).

During 2023, the Bank enhanced its financial crime policies, procedures and controls in line with the Bank's commitment to undertake business that complies with regulations and laws, and to prevent its products and services being exploited for illicit purposes and financial crime.

Operational risk

Operational risk is the risk that the Bank sustains losses through inadequate operational resilience or failed internal processes, people, systems, or external events, which may lead to poor client outcomes and reputational damage. Operational risks are also present when there is a reliance on third-party suppliers to provide services to the Bank or its clients.

The Bank enhanced its operational resilience and third-party oversight during 2023 and continues to enhance its IT security controls to protect clients and the Bank from cyber risks and to avoid service disruption for clients.

People risk

People risk is the risk that the Bank fails to adequately manage people resources, leading to poor client outcomes and low levels of staff satisfaction. Examples of people risk include the inability to attract, manage, motivate, develop, and retain staff, and the failure to support a positive training and competency culture for all colleagues in the Bank.

The Bank is taking active steps to create more diversity across the organisation. This includes developing and monitoring metrics in relation to DE&I and embedding DE&I within hiring processes.

Regulatory and legal risk

Regulatory and legal risk is the risk of financial loss, regulatory censure, criminal or civil enforcement and litigation action, or client detriment caused by a failure to comply with applicable law, regulations, standards and codes of conduct.

The Bank undertakes horizon scanning, to identify new and changing requirements, and conducts regular assurance and oversight activity, to test the effectiveness of controls which support continued regulatory and legal compliance.

Board of Directors

Simon Miller
Non-Executive Chairman

Graeme Hartop
Chief Executive Officer

Jonathan Peake
Chief Financial Officer

Andrew Bell
Chief Commercial Officer

Caroline Taylor
Non-Executive Director

David Huntley
Non-Executive Director

Finlay Williamson
Non-Executive Director

Angus Macpherson
Non-Executive Director

Kaushalya Somasundaram
Non-Executive Director

Committee membership key

- A Audit Committee
- N Nomination Committee
- P People & Remuneration Committee
- R Risk Committee
- Denotes Chair of Committee

Simon Miller
Non-Executive Chairman

N P

Appointed: 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: Senior Independent Director of STV Group PLC and Chair of Bankers Investment Trust 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.

Graeme Hartop
Executive Director – Chief Executive Officer

Appointed: 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. A qualified chartered accountant.

Jonathan Peake
Executive Director – Chief Financial Officer

Appointed: 25 April 2022.
Key areas of experience: Finance, risk, banking industry and financial services sector.
Previous experience: CFO of Standard Bank International, Head of Risk for Standard Bank and Deutsche Bank International and Senior Manager at KPMG Forensic. A qualified chartered accountant.

Andrew Bell
Executive Director – Chief Commercial Officer

Appointed: 31 July 2023.
Key areas of experience: Banking, wealth, private client and institutional investment management.
Previous experience: Commercial Director for Aegon Asset Management, Sales and Marketing Director for and co-founder of RBS Asset Management, Head of Products at Coutts Group.

Caroline Taylor
Non-Executive Director

P N

Appointed: 8 February 2021, Chair of the People & Remuneration Committee.
Key areas of experience: Remuneration, financial services, investment management, operations and compliance.
Current external appointments: Non-Executive Director of RBC Brewin Dolphin Limited and RBC Europe Limited.
Previous experience: Director of Goldman Sachs Asset Management International and Director of GS Luxembourg and Dublin Mutual Funds.

David Huntley
Non-Executive Director

R A

Appointed: 1 October 2020, Chair of the Risk Committee.
Key areas of experience: Risk, financial services, insurance and operations.
Current external appointments: 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, Huntley Consulting Limited and FIL Platform Solutions (UK) Limited.
Previous experience: MD of Pearl Life Ltd, CEO of Scottish Re Ltd and CEO of Swiss Re Life and Health Australia.

Finlay Williamson
Non-Executive Director

A N R

Appointed: 26 May 2020, Chair of the 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 Audit, 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.

Angus Macpherson
Non-Executive Director

P R

Appointed: 18 October 2021.
Key areas of experience: Financial services, including corporate finance, capital markets and investment banking.
Current external appointments: CEO of Noble & Co, Non-executive Director of the Schroder Japan Growth Fund PLC and Chair of Templeton Emerging Markets Investment Trust PLC.
Previous experience: Lazard Brothers, Merrill Lynch and Smith New Court.

Kaushalya Somasundaram
Non-Executive Director

A

Appointed: 25 April 2023.
Key areas of experience: Banking, finance, audit, digital and FinTech.
Current external appointments: Director of Pulaa Limited and Executive at UK FinTech Growth Partners LLP.
Previous experience: Managing Director, HSBC FinTech Partnerships and Strategic Innovation Investments. Former Executive Director of Square UK, a subsidiary of Block Inc. Served in Director, consultancy and advisory roles at various leading financial services firms. A qualified chartered certified accountant and MBA.

Corporate governance

Board and Committee attendance record

Member	Non-Executive	Board	Audit	Risk	People & Remuneration	Nomination
Simon Miller	Y	9/9	n/a	n/a	4/4	2/2
Andrew Bell[1]	N	4/4	n/a	n/a	n/a	n/a
Graeme Hartop	N	9/9	n/a	n/a	n/a	n/a
David Huntley	Y	9/9	4/4	9/9	n/a	n/a
Angus Macpherson	Y	9/9	n/a	9/9	4/4	n/a
Jonathan Peake	N	9/9	n/a	n/a	n/a	n/a
Kaushalya Somasundaram[2]	Y	6/6	2/2	n/a	n/a	n/a
Caroline Taylor	Y	9/9	n/a	n/a	4/4	2/2
Finlay Williamson	Y	9/9	4/4	9/9	n/a	2/2

The table shows attendance at scheduled meetings only, held during 2023.
The Board and Committees also meet on an ad hoc basis when required.

1. Andrew Bell was appointed to the Board on 31 July 2023 and attended all Board meetings held from his date of appointment.
2. Kaushalya Somasundaram was appointed to the Board on 25 April 2023 and attended all Board meetings held from her date of appointment.

Board and Committee roles

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.
- Ensures 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.

Chief Commercial Officer

- Supports the Chief Executive Officer in developing and implementing strategy.
- Oversees all Banking, Commercial Services and Marketing activity and related processes including payments, advice, client outcomes and complaints.
- Works with the Chief Executive Officer to develop the Bank's client offering, service and brand to support the agreed strategy.

Independent Non-Executive Directors

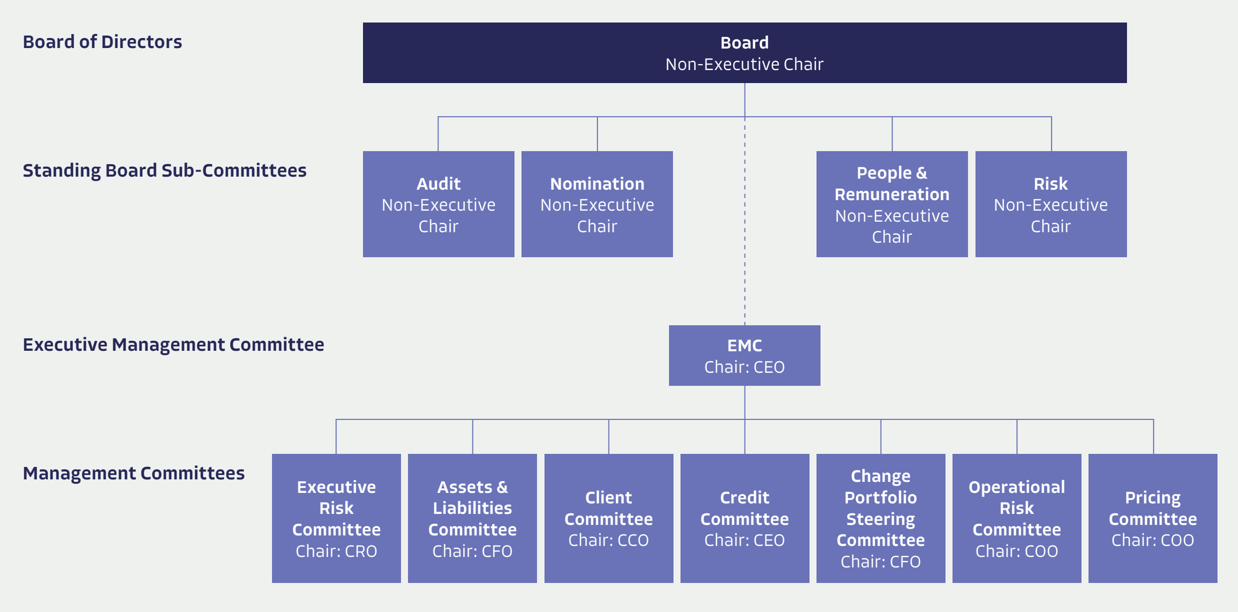
- Constructively challenge management and decisions taken at Board level.
- Oversee the performance of management in meeting agreed goals.
- Support the Chairman and Executive Directors in instilling appropriate culture, values and behaviours in the boardroom and across the Bank.

Board Committees

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

The Board has four standing committees to support proper discharge of its responsibilities.

Governance framework



- **People & Remuneration Committee**, to provide independent oversight and recommendations on people strategy and executive remuneration policies, including an independent review and assessment of any reward schemes. It also presents an annual Whistleblowing Policy and Report to the Board.
- **Audit Committee**, to recommend to the Board the internal and external audit approach. It recommends approval of the financial statements of the Bank, provides independent approval and oversight of internal and external audit policies and procedures.
- **Risk Committee**, to provide the Board with focused support and advice on risk governance, to develop a forward-looking resilient and sustainably successful organisation. It advises the Board on the appropriateness of the Bank's risk strategy and risk appetite in light of the Bank's purpose, goals, strategy and risk culture expectations.
- **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.

During 2023 the Board also established an ad hoc Digital Transformation Sub-committee to oversee the upgrade of the Bank's digital platform.

Executive Committees

- **Executive Management Committee** 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.
- **Executive Risk Committee** is chaired by the CRO and has responsibility for the development, maintenance and effectiveness of the Risk Management Framework, and for overseeing implementation of any action required to enhance the control environment.
- **Assets & Liabilities Committee** is chaired by the CFO and 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.
- **Client Committee** is chaired by the CCO and has responsibility to ensure that the Bank is delivering consistently good client outcomes.
- **Credit Committee** is chaired by the CEO and 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.
- **Change Portfolio Steering Committee** is chaired by the CFO has responsibility for the Bank's Change Framework and for managing change in line with direction from EMC.
- **Operational Risk Committee** is chaired by the COO and has responsibility for managing the Bank's operational risk profile within risk appetite, including operational resilience.
- **Pricing Committee** is chaired by the CCO and oversees the pricing of products and services.

Committee reports

Audit Committee

Finlay Williamson	Non-Executive Director Chair of the Committee
David Huntley	Non-Executive Director
Kaushalya Somasundaram	Non-Executive Director (from 25 April 2023)

Finlay Williamson
Chair of the Audit Committee

This, my third year as Chair of the committee, has been one of continued change for the Committee and the Bank. The Committee currently consists of three independent Non-Executive Directors. During the year, in April, David Huntley and myself were joined as members of the Committee by Kaushalya Somasundaram.

The Bank has also seen continued change over the course of the year, with the positives arising from growing profitability allowing the Bank to continue to mature successfully despite the strains of adapting to changing client behaviour in a higher inflation, higher interest rate environment. All of these factors present new considerations for the Committee as it assesses the appropriateness of the various accounting judgments required to compile these financial statements.

As a Committee, our responsibility is to ensure that the financial position published by the Bank properly represents its activities to all stakeholders in a way that is fair, balanced and understandable, as well as overseeing the effective delivery of both internal and external audit services. The Committee met four times during the year and invited appropriate executives, management and representatives of both the internal and external audit functions. The Committee reserves the right to request any of these individuals to withdraw and considers the need to meet privately with both internal and external audit at each meeting.

During the year the Committee's principal activities were:

- Review of the annual financial statements and any other financial information published by the Bank to ensure these properly represent the Bank's activities in accordance with law, accounting standards, regulation and market practice;
- Consideration of the appropriateness and application of the Bank's accounting policies, in particular for recognition of loan impairment;
- Assessment of the effectiveness of the system of internal controls over financial reporting;
- Review of the terms of reference of the Committee and approval of updates;
- Approval of the Bank's internal audit plan and monitoring its delivery;
- Consideration of the annual report of the internal auditor on the Bank;
- Review of the Internal Audit Charter;
- Review the performance of external audit;
- Receiving and considering reports on internal audit reviews conducted across the Bank;
- Monitoring the effectiveness of the internal audit function within the Bank.

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

- The level of impairment provision against loan assets and, in particular assessment of the impact of a higher inflation and higher interest rate environment arising from the global and local factors which have caused a cost-of-living crisis;
- The continued recognition of a deferred tax asset in respect of the expected future utilisation of historical tax losses;
- The ability of the Bank to report its financial results on a going concern basis in light of continued improving profitability and the capital position of the Bank taking into consideration any impact of the current economic environment.

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 and on the financial statements more generally and therefore resolved to recommend them to the Board for approval.

During the year the Committee also carried out its role in assessing the independence and effectiveness of both the external and internal audit functions currently carried out by Deloitte and Grant Thornton, respectively. From discussion with management and both sets of auditors the Committee was able to conclude that both the external audit and the internal audit function were effective during the year.

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

- Continued monitoring of any potential impact of the developing economic and political situation in the UK on the Bank's accounting, particularly in relation to loan impairment;
- Considering ongoing developments in accounting, financial reporting, regulation and auditing to ensure that the Bank is well-positioned to respond appropriately;
- Ensuring the Bank's control processes and internal audit capabilities continue to evolve as the Bank matures;
- Assessing the impact on the Bank of proposed reforms to the UK's audit and corporate governance framework;
- Running a tender exercise for the Bank's external audit, with the selected firm taking up their appointment for the 2025 financial year.

I would like to thank my colleagues on the Committee for their support and diligence during the course of this year and to note the Committee's sincere appreciation for the work done by management and the external and internal auditors to facilitate our deliberations.

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
Chair of the Audit Committee
28 March 2024

Committee reports (continued)

Risk Committee

David Huntley
Chair of the Risk Committee

David Huntley	Non-Executive Director Chair of the Committee
Finlay Williamson	Non-Executive Director
Angus Macpherson	Non-Executive Director

The purpose of the BRC is to provide the Board with focused support and advice on risk governance, to develop a forward-looking, resilient and sustainably successful organisation. It advises the Board on the appropriateness of the Bank's risk strategy and risk appetite in light of the Bank's purpose, goals, strategy and risk culture expectations.

During 2023 the Committee met nine times, four scheduled meetings plus a further five ad hoc occasions.

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

- provision of oversight and challenge to the design and content of the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP) and the Bank's Recovery Plan (RP) to meet the requirements of the Board and the regulator. In particular, specific focus on compliance with regulatory requirements, risks inherent in the strategy, the overall capital and liquidity needs assessment and the adequacy of stress and scenario testing;
- review, challenge and enhancement of the Risk Framework, Risk Appetite and Policy Principles before recommending each of these to the Board for approval;
- scrutiny and challenge of regular reports from the second-line Risk and Compliance team covering the Bank's principal risks and the key controls and actions in place to mitigate their impact;
- review, challenge and significant strengthening of the Financial Crime Framework in association with a thorough and detailed analysis of the financial crime risks within the Bank's operations;
- review, challenge and monitoring of the Bank's compliance with the Financial Conduct Authority's Consumer Duty rules which came into force on 31 July 2023;
- consideration of the current risks facing the Bank as well as increased focus on emerging and horizon risks including climate change; and
- review of the Committee terms of reference including an assessment of how they were fulfilled.

Key priorities for the Committee for the year ahead include providing oversight and challenge to a wide range of activities:

- the continued evolution of the Bank's ICAAP, ILAAP, RP;
- compliance with Consumer Duty rules;
- continued development of risk appetite;
- embedding an enhanced Policy Management Framework and Risk Management Framework; and
- increased focus on sustainability together with the ongoing review of risks associated with new sustainability related products and services.

I would like to thank my colleagues on the Committee and the Bank's management for their hard work, diligence and support throughout the year.

David Huntley
Chair of the Risk Committee
28 March 2024

People & Remuneration Committee

Caroline Taylor	Non-Executive Director Chair of the Committee
Simon Miller	Non-Executive Chairman
Angus Macpherson	Non-Executive Director

Caroline Taylor
Chair of the People & Remuneration Committee

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

During 2023 the Committee met four times. The Chief Executive Officer and the Chief People Officer are standing attendees at Committee meetings. They exclude themselves from discussions relating to their respective positions.

During 2023, the main areas of focus for the Committee were:

- Review of the 2023 salary and 2022 variable pay proposals, for recommendation to the Board.
- Working with our Senior Independent Consultant (Mark Quinn of QQPM – appointed in 2021) to conduct a holistic review of existing remuneration arrangements.
- Approval of the implementation of the Annual Variable Pay Plan for the Executive Management Committee based on financial and non-financial measures.
- Approval of the Long-Term Incentive Plan Awards for the Executive Management Committee, a three-year plan linked to cumulative adjusted profitability, subject to hurdle assessments for regulatory breaches and the journey to net-zero.
- Review of Reward Benefits roadmap.
- Arrangement of an income protection scheme.
- Approval of the Malus and Clawback Policy.
- Approval of remuneration for the Code Staff and Material Risk Takers.
- Approval of staff tax advantaged share option awards in June 2023.
- Approval of a one-off award in December 2023 for all colleagues at a fixed rate of £400.
- Annual review and update of the Committee's Terms of Reference.
- Annual review of the Remuneration Policy.
- Reviewed and considered the impact of changes in regulatory remuneration frameworks.

In the coming year the Committee will continue to focus on linking remuneration to individual and corporate performance based on financial and non-financial measures. The Committee's responsibilities have been broadened to incorporate oversight of people strategy, which is central to the Bank's success. I look forward to working with management and Committee members to develop the Committee's role in this regard.

I would like to thank members of the Committee and our advisors for their support and advice this year.

Caroline Taylor
Chair of the People & Remuneration Committee
28 March 2024

Committee reports (continued)

Nomination Committee

Simon Miller
Chair of the Nomination Committee

Simon Miller	Non-Executive Chairman Chair of the Committee
Finlay Williamson	Non-Executive Director
Caroline Taylor	Non-Executive Director

The Committee's principal tasks are to recommend Director appointments, to review the effectiveness and composition of the Board and to consider Board succession plans.

The Committee held two formal meetings during the year and met informally on other occasions.

Two additional Directors were appointed to the Board during the year. Kaushalya Somasundaram joined as a Non-Executive Director in April, adding to the Board's digital and technology expertise. The Chief Commercial Officer, Andrew Bell, joined as an Executive Director in July, reflecting his contribution to the Bank.

After 11 years as Chief Executive Officer, Graeme Hartop has announced that he will retire in the autumn of 2024. Graeme has worked tirelessly to deliver for all stakeholders, building the team, directing the strategy and fostering the culture of excellent client service, all of which combined have delivered the enviable reputation the Bank now enjoys. A key focus for the Committee is now the search for a new Chief Executive Officer and progress has been made in this regard.

Succession plans for all Directors and members of the Executive Management Committee were considered. In future years the re-constituted People & Remuneration Committee will consider management succession as well as increasing Board-level focus on people strategy generally. Building our DE&I across the Bank will continue to be a key feature.

Revised terms of reference were approved in December. An external Board Effectiveness Review commenced in December and will conclude in the first quarter of 2024.

Simon Miller
Chair of the Nomination Committee
28 March 2024

Directors' report

The Directors present their report and financial statements for the year ended 31 December 2023. 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 standing committees to support proper discharge of its responsibilities: the Audit Committee, the Risk Committee, the People & Remuneration Committee and the Nomination Committee. Further details of the governance structure are set out on in the Governance section on page 23.

Directors

Details of the Directors who held office during the year are shown in the Company Information section at the end of this document and in the Governance section on pages 20 and 21.

Risk management

Strong risk management is fundamental to achieving the Bank's strategic objectives and to delivering long-term shareholder value. The Board is responsible for ensuring that the Bank's Risk Management and Governance Framework identifies and manages the Bank's principal risks in line with its risk appetite and regulatory expectations.

The Board sets its risk appetite recognising the Bank's capacity for risk and its low-risk private banking business model. Risk appetite is reviewed and updated at least annually, and in response to material business, market or regulatory changes.

The Bank is UK-focused, does not undertake proprietary trading, manages capital and liquidity in a controlled manner and seeks to deliver good client outcomes.

The Board considers the Risk Management and Governance Frameworks to be effective and commensurate with the size, scale, and complexity of the business. The Board continues to identify and support opportunities to strengthen its Risk Management and Governance Frameworks.

Governance

The BRC meets at least six times per annum and advises the Board on the appropriateness of the Banks's risk strategy and risk appetite in alignment to its purpose, goals, strategy, and desired risk culture. The BRC is chaired by an independent Non-Executive Director, and provides the Board with support and advice on risk governance.

The Board delegates the day-to-day management of risk to Executive Management. Accountable Executives are supported, where required, by a governance committee structure, which is designed to facilitate effective risk-based decision-making and to ensure effective management of the Bank's principal risks.

Executive owner	Principal risk	Executive governance committee	Escalation pathway
Chief Operating Officer (COO)	Data risk	Operational Risk Committee	Board Risk Committee
	Operational risk		
	Change risk	Change Portfolio Steering Committee	
Chief Executive Officer (CEO)	Strategic and business risk	Executive Management Committee	
Chief Financial Officer (CFO)	Capital risk	Assets & Liabilities Committee	
	Funding and liquidity risk		
	Market risk		
Chief Commercial Officer (CCO)	Conduct risk	Client Committee	
Chief Risk Officer (CRO)	Credit risk	Credit Committee	
	Financial crime risk	Executive Risk Committee	
	Regulatory risk		
Chief People Officer	People risk		

Directors' report (continued)

Risk Management is maintained through a 'Three Lines of Defence' (3LoD) model which defines clear responsibilities and accountabilities and ensures that effective independent oversight and assurance activities take place covering key decisions.

- The First Line of Defence (1LoD) is the business areas that have primary responsibility for identifying, assessing, accepting, mitigating, monitoring and reporting on risks within their areas of accountability. They must establish effective governance and controls that evidence compliance with Risk Management Framework requirements and operate within risk appetite.
- The Second Line of Defence (2LoD) is the Risk and Compliance team, headed by the CRO. The 2LoD is responsible for ownership and management of the Risk Management Framework, Policy Management Framework, reporting on the risk profile of the Bank and for providing oversight and constructive challenge as to the effectiveness or risk decisions taken by Executive Management (1LoD) and their teams.

  The 2LoD supports the Board to promote the implementation of a risk strategy consistent with the Bank's risk appetite and Risk Management Framework. This includes provision of guidance and advice to the Board and Executive Management on horizon scanning, strategic risk and the development of risk appetite.

  The 2LoD provides risk management training and education across the Bank to support the efficient, effective and consistent application of the Risk Management Framework.
- The Third Line of Defence (3LoD) is Internal Audit, which is currently outsourced in full to Grant Thornton UK LLP. The 3LoD provides independent assurance to the Board via the BAC and is independent of Executive Management (1LoD) and the 2LoD. Independent assurance is delivered via completion of risk-based audits which consider the design and operating effectiveness of internal controls across the control framework. The final reports for these audits are communicated to Executive Management and the BAC. An annual risk-based 3LoD audit plan is constructed and considers the material areas of risk that the Bank is exposed to. An Internal Audit Charter, which contains the principles of 3LoD activity, and an annual Internal Audit Plan are agreed annually by the BAC. The BAC monitors completion of the Audit Plan and receives audit reports over the course of the year as they are completed.

To allow Executive Management and the Board to execute their responsibilities, regular risk reporting is provided to the Governance Committees detailed above.

Risk management framework

The Bank's Risk Management Framework outlines its approach to the management of risk. It enables proactive identification, management, and monitoring of the Bank's risks. It provides a mechanism for developing and embedding risk policies, risk appetite, risk management strategies, and supports commercial risk-taking by ensuring risk is understood and appropriate risk mitigation is established and maintained.

Risk culture

A positive risk culture is one in which everyone understands the organisation's approach to risk, takes personal responsibility to manage risk in everything they do, and encourages others to follow their example. Maintaining a positive risk culture enables informed risk-based decision-making and supporting the effective operation of the Risk Management Framework.

The Board, the BRC and Executive Management set the 'tone at the top' and play a key role in shaping and embedding a positive risk culture. The Bank builds a positive risk culture by designing and embedding risk management through communication to, and training of, all Bank colleagues.

The Bank seeks to instill a positive risk culture which:

- Supports effective management of risk and embraces open and constructive challenge.
- Seeks to understand root cause when things go wrong and takes action to learn and reduce the likelihood of recurrence.
- Is forward-looking, considering the potential impact of emerging and horizon risks.
- Ensures clear accountability for the ownership of Risks and Controls.
- Is reflected by 1LoD and 2LoD maintaining operational independence but working together to manage the Bank's risks within agreed risk appetite.
- Encourages all colleagues to escalate matters without fear of any adverse consequences.
- Ensures colleagues are aware of, and operate within, agreed risk appetite and delegated authorities.
- Champions good client outcomes and focuses on developing deep, sustainable long-term client relationships.
- Promotes a robust governance culture, ensuring appropriate segregation of duties and avoiding conflicts of interest.
- Adjusts colleagues' reward to reflect performance to the expected standards of risk management, behaviour and culture.
- Leads to a learning organisation where all colleagues are encouraged and supported in their personal development, including risk awareness training at induction and regularly thereafter.

To support delivery of Business and Risk Strategy, Executive Management and their teams are expected to understand and manage the risks which could threaten the achievement of business objectives. The business follows a continuous Risk Lifecycle approach, from identification to reporting, which drives consistency and is intended to manage and mitigate the risks impacting the Bank and to support Executive Management in making informed risk decisions. Details of risks and key controls are maintained on the Bank's Risk Management Tool.

Capital structure

Details of the Bank's share capital, together with movements in the Bank's issued share capital are shown in notes 24 and 31.

During 2023 the Bank raised additional capital of £2.1m.

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

Shareholder	Number of shares at 31 December 2023	% of voting rights
Drake Enterprises AG	**18,870,357**	19.96%
Euripides Investments Limited	**13,025,984**	13.78%
Miamoo Investments Pty Limited	**12,984,442**	13.74%
Hampden Holdings Limited	**12,604,427**	13.34%
XL Bermuda Limited	**11,557,435**	12.23%

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:

- business projections;
- the level of capital requirements expected to be set by the Prudential Regulation Authority (PRA);
- 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.

The Bank's business projections provide the basis for the Bank's financial forecasts which include a detailed annual budget for year one (2024) and forecasts for years two to five (2025-2028). These form an integral part of the assessment of the capital and funding required.

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 sufficiency of capital, client deposit and lending growth, judgements 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. 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 generate sufficient 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 19 and 21 to the financial statements.

Research and development

As part of the Bank's commitment to operating with secure, efficient IT systems which meet the demands of our business and clients, during 2023 the management team commenced a major upgrade of the Bank's digital platform. This upgrade is due to complete in 2024 and will deliver enhanced functionality for clients and improved processes and will enable the Bank to further develop its services.

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 2023 and the date of this report are disclosed in note 35.

On behalf of the Board

Graeme Hartop
Chief Executive Officer
28 March 2024

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 2023 and of its profit 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 35.

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 matter that we identified in the current year was: • 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 £835k which was determined on the basis of 1% of the total equity balance as at 31 December 2023.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	In the current year we no longer consider the Directors' use of the going concern basis of accounting as a key audit matter. This is due to the Company continuing into its second year of profitability, and a successful funding round in the financial year including raising additional capital from minority shareholders.

Independent auditor's report to the members of Hampden & Co plc
(continued)

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 included:

- Obtaining an understanding of relevant controls around management's going concern assessment;
- Evaluating the reliability of management's financial forecasts with reference to historic performance, the specific growth strategies that management has put in place, the performance of the Company post year-end and forecasts regarding the future macroeconomic environment and how this may affect the Company's performance;
- With involvement of prudential regulatory specialists, assessing and challenging the analysis prepared by management to support the going concern assumption, including the Company's Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP); and
- Assessing the appropriateness of the going concern disclosures.

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 for 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 measurement of expected credit losses on loans and advances to clients

<table>
<tr><td>Key audit matter description</td><td>
The Company has recorded an impairment provision of £305k at 31 December 2023 (31 December 2022: £194k) on loans and advances to clients of £487,929k (31 December 2022: £447,869k).
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 (LGD), 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 LGD assumption for loans with a loan to value of over 65% and secured by commercial property or 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 13. Management's associated accounting policies are detailed on pages 45 to 51.
</td></tr>
</table>

How the scope of our audit responded to the key audit matter	We performed the following procedures to evaluate significant areas of management judgement identified in the measurement of expected credit losses on loans and advances to clients: **Risk assessment** We considered as part of our risk assessment and our fraud risk assessment the nature of the Company's loan portfolio and the key inputs used in management's modelling of expected credit losses. **Controls** We obtained an understanding of the overall expected credit losses process. We obtained an understanding of the relevant controls over the LGD 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 collateral valuation reports which the Company had commissioned from an external expert, for exposures with a loan to value of over 65% and secured by commercial property or undeveloped land. With the involvement of our real estate specialists, we challenged 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. We have also evaluated the competence, capabilities and objectivity of the external expert. **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 specialists. This included comparison of the appropriateness of selected macroeconomic variables and weightings to those used in the market for the macroeconomic forecasts, the probability weightings and the adjustments to the key model inputs under each scenario. We also 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 assess 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 on loans and advances to clients were reasonably stated.

6. Our application of materiality

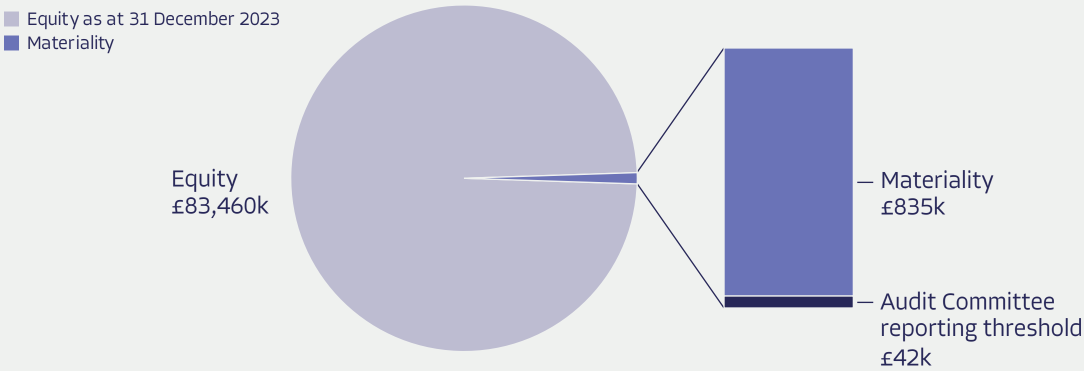
6.1. Materiality

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	£835k (2022: £729k).
Basis for determining materiality	Materiality has been determined as 1% on the basis of the total equity balance as at 31 December 2023 (2022: 1% of the total equity as at 31 December 2022).
Rationale for the benchmark applied	In our professional judgement, the equity balance was determined as the appropriate measure as income statement results could be volatile given the early stages of the Company's operations, and equity is considered to be the key benchmark assessed by stakeholders at this stage of the development of the Company.

Independent auditor's report to the members of Hampden & Co plc
(continued)



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 2023 audit (2022: 70%).

In determining performance materiality, we considered our understanding of the Company and 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 £42K (2022: £36K), 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 tested the general IT controls of the system and relied on those controls. Our risk assessment included the System and Organisation Controls 1 ('SOC1') report prepared by the independent service auditor of the service organisation, as well as testing 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 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.

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 13, 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. We also note that for new lending, an assessment of climate change risk now forms part of the underwriting 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 Statement of Directors' responsibilities, 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.

Independent auditor's report to the members of Hampden & Co plc
(continued)

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, the Directors and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Company's sector;
- 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 regulatory, IT, tax, share based payments, property and economic modelling specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

We also obtained an understanding of the legal and regulatory framework that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and 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 Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA') which are fundamental to the Company's ability to continue as a going concern.

11.2. Audit response to risks identified
As a result of performing the above, we identified the measurement of expected credit losses on loans and advances to clients as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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 HMRC, 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 34 to the financial statements for the financial year ended 31 December 2023 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.

Independent auditor's report to the members of Hampden & Co plc
(continued)

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 nine years, covering the years ended 31 December 2015 to 31 December 2023.

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

28 March 2024

Statement of comprehensive income

	Note	**Year ended 31 December 2023 £'000**	Year ended 31 December 2022 £'000
Interest receivable and similar income		**45,265**	22,882
Interest payable and similar charges		**(16,096)**	(2,821)
Net interest income	4	**29,169**	20,061
Non-interest income	5	**1,043**	906
Income from currency operations		**1,278**	1,069
Net (losses)/gains from derivatives and hedge accounting	6	**(303)**	820
Total income		**31,187**	22,856
Administrative expenses		**(20,903)**	(19,837)
Depreciation and amortisation		**(1,038)**	(945)
Operating expenses	7	**(21,941)**	(20,782)
Operating profit before impairment losses		**9,246**	2,074
Impairment charge on loans and advances to clients	13	**(103)**	(29)
Profit before tax	7	**9,143**	2,045
Tax (expense)/income	9	**(1,036)**	4,819
Profit for the year from continuing operations (attributable to equity holders) and total comprehensive profit		**8,107**	6,864

The notes on pages 45 to 76 form an integral part of these financial statements.

Statement of financial position

	Note	2023 £'000	2022 £'000
Assets			
Cash and balances at central banks	19	**104,956**	172,477
Loans and advances to banks	19	**274,523**	241,254
Debt securities	19	**67,066**	–
Loans and advances to clients	13	**487,624**	447,675
Fair value adjustment for hedged risk on loans and advances to clients		**759**	(256)
Derivative financial instruments	22	**1,083**	1,867
Deferred tax asset	17	**4,315**	4,819
Prepayments and accrued income		**623**	1,118
Other assets		**513**	2,372
Property, plant and equipment	14	**176**	143
Right-of-use assets	15	**589**	714
Intangible assets	16	**3,936**	2,302
Total assets		**946,163**	874,485
Liabilities			
Deposits from clients	19	**857,506**	796,049
Derivative financial instruments	22	**1,194**	838
Current tax liabilities		**532**	–
Accruals and deferred income	18	**3,447**	3,440
Lease liabilities	15	**574**	756
Other liabilities		**21**	174
Provisions	29	**465**	376
Total liabilities		**863,739**	801,633
Equity			
Share capital	24	**4,726**	4,623
Share premium account	24	**25,865**	24,001
Retained earnings	25	**51,833**	44,228
Total equity		**82,424**	72,852
Total liabilities and equity		**946,163**	874,485

The financial statements on pages 41 to 76 were approved by the Board of Directors and authorised for issue on 28 March 2024 and were signed on its behalf by:

Graeme Hartop
Chief Executive Officer

Jonathan Peake
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 2022		4,223	16,555	36,524	57,302
Profit for the year and total comprehensive profit		–	–	6,864	6,864
Issue of share capital	24	400	7,600	–	8,000
Direct share issue costs	24	–	(154)	–	(154)
Equity settled share-based payments	12	–	–	840	840
At 31 December 2022		4,623	24,001	44,228	72,852
Profit for the year and total comprehensive profit		**–**	**–**	**8,107**	**8,107**
Issue of share capital	24	**103**	**1,956**	**–**	**2,059**
Direct share issue costs	24	**–**	**(92)**	**–**	**(92)**
Equity settled share-based payments	12	**–**	**–**	**186**	**186**
Cancellation of share options	12	**–**	**–**	**(688)**	**(688)**
At 31 December 2023		**4,726**	**25,865**	**51,833**	**82,424**

Statement of cash flows

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Cash flows from operating activities		
Profit before tax	**9,143**	2,045
Reconciliation from profit before tax to net cash flows from operating activities:		
Net losses/(gains) from derivatives and hedge accounting	**303**	(820)
Depreciation and amortisation	**1,038**	945
Equity settled share-based payments	**186**	840
Cancellation of share options	**(688)**	–
Impairment charge for the year	**103**	29
Cash generated from operations	**10,085**	3,039
Changes in operating assets and liabilities:		
Decrease/(increase) in prepayments and accrued income	**421**	(205)
Increase in accruals and deferred income	**6**	1,560
Increase in loans and advances to clients and banks	**(93,474)**	(43,506)
Increase in deposits by clients and banks	**67,050**	90,941
Decrease/(increase) in other assets	**1,859**	(2,160)
(Decrease)/increase in other liabilities and provisions	**(56)**	405
Elimination of foreign exchange differences	**–**	8
Net cash (outflow)/inflow from operating activities	**(14,109)**	50,082
Cash flows from investing activities		
Purchase of debt securities	**(67,066)**	–
Purchase of property, plant and equipment	**(77)**	(86)
Purchases/development of intangible assets	**(2,184)**	(891)
Net cash outflow from investing activities	**(69,327)**	(977)
Cash flows from financing activities		
Repayment of lease liabilities	**(427)**	(378)
Proceeds from issue of shares	**2,059**	8,000
Direct costs of share issuance	**(92)**	(154)
Net cash inflow from financing activities	**1,540**	7,468
Net (decrease)/increase in cash and cash equivalents	**(81,896)**	56,573
Cash and cash equivalents at beginning of year	**294,851**	228,768
Effects of foreign exchange rate changes on cash and cash equivalents	**(5,592)**	9,510
Cash and cash equivalents at end of year	**207,363**	294,851
Analysis of cash and cash equivalents at end of year		
Cash and balances at central banks	**104,956**	172,477
Loans and advances to banks repayable on demand	**102,407**	122,374
	207,363	294,851

Notes to the financial statements

For the year ended 31 December 2023

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 International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board and adopted by the United Kingdom, including interpretations issued by the IFRS Interpretations Committee, and in conformity with the requirements of the Companies Act 2006. The impact of IFRSs and interpretations issued but not yet effective is summarised in note 33. The financial statements are presented in sterling.

1.2 Going concern

The Directors have assessed the outlook of the Bank over a period longer than 12 months and therefore consider the Bank to be sufficiently capital generative to support planned business growth, whilst also meeting 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, except for the valuation of derivative financial assets and liabilities held at fair value through profit or loss. The principal accounting policies adopted are set out below.

2.1 Property, plant and equipment

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

Leasehold improvements	10 years
Computer equipment	5 years

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

2.2 Intangible assets

Intangible assets, which represent developed software 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.

Notes to the financial statements (continued)

For the year ended 31 December 2023

2. Summary of significant accounting policies (continued)

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.

2.4 Cash and cash equivalents

Cash is cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Investments normally only qualify as cash equivalents if they have a short maturity of three months or less from the date of acquisition.

2.5 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.

2.6 Leases

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

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

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

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

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

2.7 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 assets are recognised only to the extent that it is probable that losses carried forward will be recoverable against future taxable profits. 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.

Deferred tax assets are measured on a non-discounted basis at the tax rates that are expected to apply when the related asset is realised.

2.8 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.

2.9 Financial instruments

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

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

Financial assets

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

From a classification and measurement perspective IFRS 9 requires all financial assets except equity instruments and derivatives to be assessed based on the Bank's business model for managing assets and the instruments' contractual cash flow characteristics. Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at fair value through profit and loss, 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.

For the purposes of the SPPI assessment, 'principal' is defined as the fair value of the financial asset at initial recognition, and 'interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basis lending risks and costs (e.g. liquidity risk and administrative costs) as well as profit margin. In assessing whether the contractual cash flows meet the SPPI condition, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset has a contractual term that could change the timing or amount of contractual cash flows such that it would not meet the condition. In making this assessment the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claims to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money (e.g. periodic reset of interest rate).

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).

Notes to the financial statements (continued)

For the year ended 31 December 2023

2. Summary of significant accounting policies (continued)

2.9 Financial instruments (continued)

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.

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.

Assets written-off during the year ended 31 December 2023 were less than £1k (2022: £nil).

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 to represent a range of possible outcomes. These economic scenarios are described in note 13, which also sets out their impact on the measurement of ECLs.

Notes to the financial statements (continued)

For the year ended 31 December 2023

2. Summary of significant accounting policies (continued)

2.9 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. A financial asset that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms.

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.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented within the statement of financial position if, and only if, there is a legally enforceable right to offset the amounts and there is an intention either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivative financial instruments and hedge accounting

The Bank applies the hedge accounting standards in IAS 39, as permitted by IFRS 9.

The Bank uses derivative financial instruments for economic hedging purposes, 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.

Where the documentation, eligibility and testing criteria for hedge accounting as set out in IAS 39 are met, the Bank applies hedge accounting on a portfolio basis and designates the derivatives into hedge accounting relationships, either fair value hedges or cash flow hedges.

Fair value hedges are used to hedge changes in the fair value of financial assets and liabilities, such as fixed rate loans and deposits. Changes in the fair value of derivatives that are designated in fair value hedge relationships are recorded in the Income Statement under net gains/(losses) from derivatives and hedge accounting together with the change in fair value of the hedged asset or liability that is attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the relationship is de-designated and the adjustment to the carrying value of the hedged item is amortised in the Income Statement over the period to maturity.

The Bank had no cash flow hedge relationships in the current or prior year.

If derivatives are not designated in hedge accounting relationships then changes in fair value are recognised immediately in the Income Statement.

2.10 Non-interest income

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

2.11 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.

2.12 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.

2.13 Share-based payments

Employees have the opportunity to 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 12. The fair value includes the effect of non-vesting conditions and any market-based performance conditions.

2.14 Provisions

Provisions are liabilities that are uncertain in timing or amount. A provision is recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. If appropriate, the Bank makes provisions with respect to potential client redress and legal claims and at 31 December 2023 the amount provided was £250k (2022: £250k). The Bank informs the Regulator of any such matters within its regular engagement.

2.15 Contingent liabilities

Contingent liabilities can occur during the ordinary course of business where the Bank may be subject to threatened or actual legal proceedings, which may result in a cash outflow. One such claim is outstanding at the year end. Based on analysis of the claim, no material adverse impact on the financial position of the Bank is expected to arise. The Bank has appropriate insurance arrangements in place to cover any such matters and therefore the Directors assess the net financial impact of all such liabilities as £nil (2022: £nil).

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.

Judgements, 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. Key sources of estimation uncertainty which the Directors consider to be significant are those relating to deferred tax and loan impairment provisions, as follows.

Notes to the financial statements (continued)

For the year ended 31 December 2023

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

Deferred tax

The Bank has recognised a deferred tax asset in respect of future taxable profits. The recognition of deferred tax has been limited to £4.3m in respect of historical tax losses that the Bank expects will be used to reduce future tax charges based on the first two years from the latest financial forecasts approved by the Board. The forecast is inherently sensitive to the assumptions used, particularly those relating to the macroeconomic environment, and is dependent on successful execution of the Bank's strategy. As such, the actual future utilisation of the deferred tax asset may be significantly different.

Using a two-year forecast period to set the deferred tax asset is a significant judgement. The reliability of forecasts becomes inherently more uncertain over a longer period and for this reason the deferred tax asset calculation has been restricted to two years of forecast future profitability. This judgement may be revisited, and the forecast period extended in the future, as the Bank develops a track record of profitability.

If the estimation period was extended to three years, the deferred tax asset would increase to £7.2m, or if shortened to one year it would reduce to £2.0m.

Impairment: 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 13.4 were approved by Credit Committee but it is recognised that 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 13.5.

4. Net interest income

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Interest receivable on instruments held at amortised cost:		
Interest income and receivables from banks and central banks	**17,259**	4,831
Interest income on debt securities	**578**	–
Interest income on loans and receivables to clients	**26,715**	18,051
	44,552	22,882
Interest receivable on instruments held at fair value through profit or loss	**713**	–
Interest receivable	**45,265**	22,882
Interest payable on instruments held at amortised cost:		
Interest expense on deposits from clients	**(16,038)**	(2,534)
Interest expense on lease liabilities	**(58)**	(77)
	(16,096)	(2,611)
Interest payable on instruments held at fair value through profit or loss	**–**	(210)
Interest payable	**(16,096)**	(2,821)
Net interest income	**29,169**	20,061

5. Net non-interest income

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Banking income	**1,043**	906
Net non-interest income	**1,043**	906

6. Net (losses)/gains from derivatives and hedge accounting

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Derivatives designated as fair value hedges		
(Losses)/gains on derivatives designated as fair value hedges	**(1,159)**	111
Movement in fair value of hedged items attributable to hedged risk	**1,015**	(256)
	(144)	(145)
(Losses)/gains on other derivatives	**(159)**	965
Net (losses)/gains from derivatives and hedge accounting	**(303)**	820

Gains and losses on other derivatives include derivatives used for economic hedges but which are not currently in a hedge accounting relationship.

7. Profit before tax

Profit before tax is stated after charging:

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Staff costs & Directors' remuneration	**12,676**	11,199
Depreciation of property, plant and equipment (note 14)	**44**	28
Depreciation of right-of-use assets (note 15)	**443**	425
Amortisation of intangible assets (note 16)	**551**	492
Other property-related expenses	**742**	478
Other administrative expenses	**7,485**	8,160
Operating expenses	**21,941**	20,782

Notes to the financial statements (continued)

For the year ended 31 December 2023

8. Auditor's remuneration

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

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Fees payable to the Bank's auditor and its associates for the audit of the Bank's annual financial statements*	**268**	237
Total audit fees	**268**	237
Total non-audit fees	**–**	–

* The fees for 2023 include £12k in respect of the audit of the 2022 financial statements that was billed in 2023.

9. Taxation

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Corporation tax		
Corporation tax charge	**(532)**	–
Deferred tax		
Current year (charge)/credit	**(602)**	3,766
Effect of change in tax rate	**98**	1,053
Total tax (charge)/credit for the year	**(1,036)**	4,819

The differences between the total tax (charge)/credit shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Profit before tax	**9,143**	2,045
Tax on profit before tax at UK corporation tax rate of 23.5 per cent (2022: 19 per cent)	**2,149**	389
Effects of:		
– Expenses not deductible for tax purposes	**71**	17
– Recognition of a deferred tax asset on losses generated in prior periods	**(891)**	(3,766)
– Recognition of a deferred tax asset on other temporary differences	**(282)**	–
– Deferred tax credit attributable to changes in tax rates	**(98)**	(1,053)
– Utilisation of brought forward losses against current period taxable profits	**–**	(594)
– Increase in unrecognised deferred tax assets	**87**	188
Total tax charge/(credit) for the year	**1,036**	(4,819)

10. Employees

The monthly average Full Time Equivalent number of employees (including Directors) was 135 (2022: 113). Aggregate remuneration for the year comprised:

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Wages and salaries	**10,001**	8,476
Social security costs	**1,536**	1,217
Pension costs	**953**	666
Share-based payments	**186**	840
	12,676	11,199

11. 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 2023 £'000	Year ended 31 December 2022 £'000
Short term employee benefits	**1,495**	1,050
Share-based payment benefits	**186**	–
Post-employment benefits	**26**	25
	1,707	1,075

The total amount of Directors' remuneration in accordance with Schedule 5 to the Accounting Regulations was £1,681k (2022: £1,050k) relating to salary and variable pay and £26k of contributions to a money purchase pension scheme (2022: £25k).

One Director has retirement benefits accruing under a defined contribution scheme (2022: one).

No Directors exercised share options during the year.

Remuneration of the highest paid Director in respect of qualifying services was £662k (2022: £396k). This includes a one-off cash consideration paid in exchange for agreeing to cancel share options issued under the Share Option Plan (see note 12), and higher variable remuneration reflecting the improved performance of the Bank. The Bank does not have a defined benefit pension scheme so there are no defined benefit pension arrangements for the highest paid Director.

12. 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 Part 2 of the scheme during 2023 (2022: Part 2).

Part 1 – Share Option Plan

The Share Option Plan (SOP) is for the executive management team and was launched during 2017 to replace the previous share-based management incentive scheme. 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. It is expected that, at the end of the five-year vesting period, all of the share options will vest. In the event that the Bank declares a dividend, option-holders are entitled to receive a cash payment equivalent to the dividend on a one-for-one basis as if each share under option was an ordinary share held by the option-holder.

During 2023 6,250,000 options which had vested but not yet been exercised were cancelled. Six option-holders received a total cash consideration of £687,500 in return for agreeing to forfeit their options and the associated rights and obligations. The cash consideration reflects the fair value of the options at the cancellation date. As the options are equity-settled, the total payment made to the option-holders has been accounted for as a deduction from equity.

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12. 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. It is expected that, at the end of the five-year vesting period, 74 per cent of the share options will vest.

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

	2023		2022	
	SOP	CSOP	SOP	CSOP
At 1 January	**13,429,500**	**1,970,383**	13,429,500	1,546,676
Granted during the year	**–**	**759,657**	–	632,707
Exercised during the year	**–**	**–**	–	–
Forfeited during the year	**(6,250,000)**	**(89,000)**	–	(120,000)
Expired during the year	**–**	**(70,900)**	–	(89,000)
At 31 December	**7,179,500**	**2,570,140**	13,429,500	1,970,383
Exercisable at the end of the year	**6,250,000**	**480,712**	12,500,000	–
Weighted average remaining contractual life	**14.2 years**	**7.6 years**	15 years	7.9 years
Weighted average exercise price (pence)	**126.1**	**105.6**	192.1	107.9
Fair value of options awarded (pence)	**–**	**33.9**	–	29.2

The fair value of options awarded was estimated on the grant date using a Black Scholes option-pricing model based on the following inputs:

	2023		2022	
	SOP	CSOP	SOP	CSOP
Weighted average share price (pence)	**–**	**100.0**	–	100.0
Weighted average exercise price (pence)	**–**	**100.0**	–	100.0
Expected volatility	**–**	**31%**	–	28%
Expected life	**–**	**5 years**	–	5 years
Risk-free rate	**–**	**3.57%**	–	2.23%

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.

During 2023 the Bank recognised a total expense of £186k related to equity settled share-based payments transactions (2022: £840k).

13. 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.

13.1 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 2023	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross loans and advances to clients	471,836	13,154	2,939	487,929
Impairment allowances	(67)	(218)	(20)	(305)
Net loans and advances to clients	471,769	12,936	2,919	487,624
Coverage ratio	0.014%	1.657%	0.680%	0.063%

As at 31 December 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross loans and advances to clients	432,518	15,223	128	447,869
Impairment allowances	(111)	(67)	(16)	(194)
Net loans and advances to clients	432,407	15,156	112	447,675
Coverage ratio	0.026%	0.440%	12.500%	0.043%

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.

As at 31 December 2023	< 30 days past due £'000	>30 <= 90 days past due £'000	Total £'000
Gross loans and advances to clients	13,154	–	13,154
Impairment allowances	(218)	–	(218)
Net loans and advances to clients	12,936	–	12,936
Coverage ratio	1.657%	–	1.657%

As at 31 December 2022	< 30 days past due £'000	>30 <= 90 days past due £'000	Total £'000
Gross loans and advances to clients	15,223	–	15,223
Impairment allowances	(67)	–	(67)
Net loans and advances to clients	15,156	–	15,156
Coverage ratio	0.440%	–	0.440%

Notes to the financial statements (continued)

For the year ended 31 December 2023

13. Impairment of loans and advances to clients (continued)

13.1 Impairments by stage (continued)

Analysis of stage 3 loans

The table below analyses the accounts in stage 3 between those greater than 90 days past due, where full recovery is possible but which are considered in default for regulatory purposes, and those in the process of realisation.

As at 31 December 2023	> 90 days past due £'000	Realisations £'000	Total £'000
Gross loans and advances to clients	2,939	–	2,939
Impairment allowances	(20)	–	(20)
Net loans and advances to clients	**2,919**	–	**2,919**
Coverage ratio	**0.680%**	–	**0.680%**

As at 31 December 2022	> 90 days past due £'000	Realisations £'000	Total £'000
Gross loans and advances to clients	128	–	128
Impairment allowances	(16)	–	(16)
Net loans and advances to clients	112	–	112
Coverage ratio	12.500%	–	12.500%

13.2 Movements in impairment allowances

Year ended 31 December 2023	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loss allowance as at 1 January 2023	**111**	**67**	**16**	**194**
Changes in the loss allowance				
– (Decrease)/increase in credit risk due to transfers between stages	(23)	22	1	–
– (Decrease)/increase due to change in risk parameters	(8)	129	3	124
New financial assets originated or purchased	3	3	–	6
Financial assets that have been derecognised due to repayment	(16)	(3)	–	(19)
Loss allowance as at 31 December 2023	**67**	**218**	**20**	**305**

Year ended 31 December 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loss allowance as at 1 January 2022	106	56	6	168
Changes in the loss allowance				
– Increase in credit risk due to transfers between stages	–	–	10	10
– Increase due to change in risk parameters	23	20	–	43
New financial assets originated or purchased	9	10	–	19
Financial assets that have been derecognised due to repayment	(27)	(19)	–	(46)
Loss allowance as at 31 December 2022	111	67	16	194

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 2023	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amount as at 1 January 2023	**432,518**	**15,223**	**128**	**447,869**
Changes in the gross carrying amount				
– Transfer to stage 1	**1,307**	**(1,307)**	**–**	**–**
– Transfer to stage 2	**(10,111)**	**10,111**	**–**	**–**
– Transfer to stage 3	**(376)**	**(2,386)**	**2,762**	**–**
New financial assets originated or purchased	**169,480**	**889**	**–**	**170,369**
Financial assets that have been derecognised due to repayment	**(105,902)**	**(8,455)**	**–**	**(114,357)**
Other changes	**(15,080)**	**(921)**	**49**	**(15,952)**
Gross carrying amount as at 31 December 2023	**471,836**	**13,154**	**2,939**	**487,929**

Year ended 31 December 2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amount as at 1 January 2022	402,514	19,690	124	422,328
Changes in the gross carrying amount				
– Transfer to stage 1	1,656	(1,656)	–	–
– Transfer to stage 2	(5,753)	5,753	–	–
– Transfer to stage 3	–	–	–	–
New financial assets originated or purchased	185,018	3,714	–	188,732
Financial assets that have been derecognised due to repayment	(138,913)	(11,863)	–	(150,776)
Other changes	(12,004)	(415)	4	(12,415)
Gross carrying amount as at 31 December 2022	432,518	15,223	128	447,869

13.3 Impairments charged to income

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

	Year ended 31 December 2023 £'000	Year ended 31 December 2022 £'000
Impairment charge on loans and advances to clients	**111**	26
Impairment (credit)/charge on loan commitments	**(8)**	3
Total impairment charge	**103**	29

13.4 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.

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 2023 these sources included forecasts produced by the Office of Budget Responsibility (OBR) 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 rates up case, a rates down case and a very severe downside case. Each scenario represents a different pace and extent of recovery or otherwise from the current inflationary and geopolitical stresses and therefore a different economic impact.

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13. Impairment of loans and advances to clients (continued)

13.4 Forward-looking macroeconomic scenarios (continued)

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

Base case	The most likely scenario, based on the Economic and Fiscal Outlook published by the OBR on 22 November 2023. Squeezed real wages, higher interest rates and unwinding government support all weigh on economic activity, opening up a moderate degree of spare capacity over the next three years before growth picks up.
Upside	A more positive scenario where economic recovery is quicker than anticipated and the geopolitical issues do not impact at the level predicted in the base case.
Rates up	Derived from the 'rates up' stress published by the PRA on 14 October 2022, with the bank rate path adjusted to reflect the current outlook.
Rates down	Derived from the 'rates down' stress published by the PRA on 14 October 2022, with the bank rate path adjusted to reflect the current outlook.
Very severe downside	A severe path with delayed economic recovery, low public confidence and higher unemployment. Inflation reduces more slowly than anticipated and higher interest rates impact the repayment of debt.

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

2023	**Weighting**	**Annual growth in GDP**	**Bank of England bank rate**	**Annual house price inflation**	**Unemployment**
Base case	**60%**	**1.4%**	**4.53%**	**-0.3%**	**4.5%**
Upside	**15%**	**1.7%**	**3.83%**	**0.8%**	**3.8%**
Rates up	**5%**	**-0.9%**	**6.63%**	**-10.3%**	**8.3%**
Rates down	**10%**	**-0.9%**	**1.15%**	**-10.3%**	**8.3%**
Very severe downside	**10%**	**-3.5%**	**7.67%**	**-10.0%**	**9.1%**

2022	Weighting	Annual growth in GDP	Bank of England bank rate	Annual house price inflation	Unemployment
Base case	60%	0.8%	4.18%	-4.0%	4.6%
Upside	10%	1.1%	2.83%	-2.9%	4.2%
PRA stress (rates up)	15%	-0.7%	5.52%	-11.6%	7.9%
PRA stress (rates down)	5%	-0.7%	0.10%	-11.6%	7.9%
Very severe downside	10%	-2.5%	6.50%	-15.3%	6.3%

The asymmetry in the scenarios is demonstrated by comparing the probability-weighted impairment allowance at 31 December 2023 with the impairment allowance from the base case scenario.

	2023 £'000	2022 £'000
Probability-weighted impairment allowance	**308**	205
Base case scenario impairment allowance (100% weighted)	**243**	139
Effect of multiple economic scenarios	**65**	66

13.5 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 £308k (2022: £205k):

2023	Impairment allowance £'000	Difference £'000
Base case	**243**	**(65)**
Upside	**14**	**(294)**
Rates up	**482**	**174**
Rates down	**362**	**54**
Very severe downside	**996**	**688**

2022	Impairment allowance £'000	Difference £'000
Base case	139	(66)
Upside	14	(191)
PRA stress (rates up)	306	101
PRA stress (rates down)	238	33
Very severe downside	625	420

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 a factor of 1.5, which is a reasonably possible movement based on historic data, then the impairment allowance under the base case scenario would increase by £23k (2022: £9k).

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. 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 £94k (2022: £27k).

14. Property, plant and equipment

	Leasehold improvements £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2023	**241**	**289**	**530**
Additions	**64**	**13**	**77**
At 31 December 2023	**305**	**302**	**607**
Depreciation			
At 1 January 2023	**181**	**206**	**387**
Charge for the year	**23**	**21**	**44**
At 31 December 2023	**204**	**227**	**431**
Net book value			
At 31 December 2023	**101**	**75**	**176**

Notes to the financial statements (continued)

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14. Property, plant and equipment (continued)

	Leasehold improvements £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2022	241	203	444
Additions	–	86	86
At 31 December 2022	241	289	530
Depreciation			
At 1 January 2022	157	202	359
Charge for the year	24	4	28
At 31 December 2022	181	206	387
Net book value			
At 31 December 2022	60	83	143

15. Leases

Right-of-use assets

	2023 £'000	2022 £'000
Cost		
At 1 January	**2,450**	2,450
Additions	**318**	–
At 31 December	**2,768**	2,450
Depreciation		
At 1 January	**1,736**	1,311
Charge for the year	**443**	425
At 31 December	**2,179**	1,736
Carrying amount		
At 31 December	**589**	714

The Bank leases three offices, two in Edinburgh and one in London. The average original lease term is 4 years 4 months, and the average remaining lease term at 31 December 2023 was 1 year 4 months (2022: 1 year 4 months).

At 31 December 2023 the Bank had committed to the lease of a new office in Edinburgh which is due to commence in 2024. The leases of the two existing offices in Edinburgh were extended during the year to provide office space until the new building is ready for occupation.

The total future cashflows for leases to which the Bank is committed but which had not yet commenced are as follows:

	2023 £'000	2022 £'000
Property	**4,712**	–

Amounts recognised in the statement of comprehensive income

	2023 £'000	2022 £'000
Depreciation expense on right-of-use assets	**443**	425
Interest expense on lease liabilities	**58**	77
Expense relating to leases of low-value assets	**–**	49

Total cash outflow for leases during the year ended 31 December 2023 was £484k (2022: £504k).

Lease liabilities

	2023			2022		
	Current £'000	Non-current £'000	Total £'000	Current £'000	Non-current £'000	Total £'000
Lease liabilities – property	**412**	**162**	**574**	365	391	756

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

The weighted average incremental borrowing rate at 31 December 2023 was 7.20% (2022: 6.82%).

A maturity analysis of lease liabilities is included within note 21.

16. Intangible assets

	Developed software £'000	Software licences £'000	Total £'000
Cost			
At 1 January 2023	**5,452**	**1,510**	**6,962**
Additions	**1,649**	**536**	**2,185**
At 31 December 2023	**7,101**	**2,046**	**9,147**
Amortisation			
At 1 January 2023	**3,772**	**888**	**4,660**
Charge for the year	**457**	**94**	**551**
At 31 December 2023	**4,229**	**982**	**5,211**
Net book value			
At 31 December 2023	**2,872**	**1,064**	**3,936**

The total carrying value of intangible assets whereby amortisation had not yet commenced was £1,956k at 31 December 2023 (2022: £nil).

Notes to the financial statements (continued)

For the year ended 31 December 2023

16. Intangible assets (continued)

	Developed software £'000	Software licences £'000	Total £'000
Cost			
At 1 January 2022	4,696	1,510	6,206
Additions	756	–	756
At 31 December 2022	5,452	1,510	6,962
Amortisation			
At 1 January 2022	3,347	821	4,168
Charge for the year	425	67	492
At 31 December 2022	3,772	888	4,660
Net book value			
At 31 December 2022	1,680	622	2,302

17. Deferred tax

2023	**Tax losses carried forward £'000**	**Fixed assets £'000**	**Employee benefits £'000**	**IFRS 9 and IFRS 16 transitional adjustments £'000**	**Total deferred tax asset £'000**
At 1 January	**4,799**	**–**	**14**	**6**	**4,819**
(Charged)/credited to the Income Statement	**(732)**	**131**	**100**	**(3)**	**(504)**
At 31 December	**4,067**	**131**	**114**	**3**	**4,315**

2022	Tax losses carried forward £'000	Fixed assets £'000	Employee benefits £'000	IFRS 9 and IFRS 16 transitional adjustments £'000	Total deferred tax asset £'000
At 1 January	–	–	–	–	–
Credited to the Income Statement	4,799	–	14	6	4,819
At 31 December	4,799	–	14	6	4,819

The Bank has recognised a deferred tax asset of £4,315k (2022: £4,819k), most significantly in respect of tax losses carried forward that it expects to utilise in 2024 and 2025. Of the total deferred tax asset of £4,315k, £2,293k is expected to be recovered after more than 12 months.

The Bank has used a two-year forecast period to set the deferred tax asset and, as such, no deferred tax asset has been recognised on tax losses carried forward of £10,995k (2022: £15,412k), fixed asset temporary differences of £1,021k (2022: £1,882k), transitional adjustments arising under IFRS 9 and IFRS 16 that are spread for tax purposes of £3k (2022: £4k) and pension contributions unpaid at the balance sheet date and other employee benefits of £183k (2022: nil).

18. Accruals and deferred income

	2023 £'000	2022 £'000
Deferred fee income	**154**	141
Expense accruals	**3,293**	3,299
	3,447	3,440

19. Financial instruments

Categories of financial instruments

	2023			2022		
	Amortised cost £'000	**Fair value through profit or loss £'000**	**Total £'000**	Amortised cost £'000	Fair value through profit or loss £'000	Total £'000
Financial assets						
Cash and balances at central banks	**104,956**	**–**	**104,956**	172,477	–	172,477
Loans and advances to banks	**274,523**	**–**	**274,523**	241,254	–	241,254
Debt securities	**67,066**	**–**	**67,066**	–	–	–
Loans and advances to clients	**487,624**	**–**	**487,624**	447,675	–	447,675
Derivative financial instruments	**–**	**1,083**	**1,083**	–	1,867	1,867
Total financial assets	**934,169**	**1,083**	**935,252**	861,406	1,867	863,273
Financial liabilities						
Deposits from clients	**857,506**	**–**	**857,506**	796,049	–	796,049
Derivative financial instruments	**–**	**1,194**	**1,194**	–	838	838
Lease liabilities	**574**	**–**	**574**	756	–	756
Total financial liabilities	**858,080**	**1,194**	**859,274**	796,805	838	797,643

All debt securities held are UK Government debt securities and, as set out in note 21, all debt securities have a residual maturity of less than one year. At 31 December 2023 none were pledged as collateral under sale and repurchase agreements.

20. 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).

Fair value measurements recognised in the statement of financial position

Debt securities are held at amortised cost and valued using quoted market prices (classified as Level 1). Their fair value is not materially different from their carrying value.

For other 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.

Derivative financial instruments are interest rate swaps and are measured at fair value via a discounted cash flow model which uses interest yield curves derived from publicly quoted rates (classified as Level 2).

There were no transfers between levels during the current or prior year.

21. 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.

Notes to the financial statements (continued)

For the year ended 31 December 2023

21. Financial risk management (continued)

Financial risk management objectives (continued)

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 the Assets and Liabilities Committee (ALCo) and appropriate metrics are reported monthly to the Board and the Executive Risk Committee. 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 2023 and none existed at the year end (2022: 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. Hedging activities are evaluated regularly to align with the defined risk appetite; ensuring the most cost-effective hedging strategies are applied. Details of interest rate swaps held at 31 December 2023 are included in note 22.

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.

At 31 December 2023	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	104,956	–	–	–	–	–	104,956
Loans and advances to banks	181,858	12,711	79,954	–	–	–	274,523
Debt securities	13,943	21,781	31,342	–	–	–	67,066
Loans and advances to clients	219,615	2,015	27,446	237,369	1,034	145	487,624
Non-interest bearing assets	–	–	–	–	–	11,994	11,994
Total assets	520,372	36,507	138,742	237,369	1,034	12,139	946,163
Liabilities							
Deposits from clients	591,218	98,646	160,999	6,643	–	–	857,506
Non-interest bearing liabilities	–	–	–	–	–	6,233	6,233
Total liabilities	591,218	98,646	160,999	6,643	–	6,233	863,739
Effect of derivatives	46,500	–	7,500	(54,000)	–	–	–
Interest rate sensitivity gap	(24,346)	(62,139)	(14,757)	176,726	1,034	5,906	
Cumulative gap	(24,346)	(86,485)	(101,242)	75,484	76,518	82,424	

At 31 December 2022	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	172,477	–	–	–	–	–	172,477
Loans and advances to banks	152,326	36,257	52,671	–	–	–	241,254
Loans and advances to clients	252,114	1,730	10,792	182,954	–	85	447,675
Non-interest bearing assets	–	–	–	–	–	13,079	13,079
Total assets	576,917	37,987	63,463	182,954	–	13,164	874,485
Liabilities							
Deposits from clients	703,559	41,902	43,562	7,026	–	–	796,049
Non-interest bearing liabilities	–	–	–	–	–	5,584	5,584
Total liabilities	703,559	41,902	43,562	7,026	–	5,584	801,633
Effect of derivatives	70,000	–	–	(70,000)	–	–	–
Interest rate sensitivity gap	(56,642)	(3,915)	19,901	105,928	–	7,580	
Cumulative gap	(56,642)	(60,557)	(40,656)	65,272	65,272	72,852	

The Bank monitors its exposure to interest rate risk using both value and income sensitivity metrics, and reports this to ALCo. The position at the year end was such that an upward shift in rates of 200bps would result in an adverse impact on the economic value of £926k (2022: positive impact of £96k), whilst a downward shift of 200bps would result in a positive impact of £1,005k (2022: adverse impact of £112k). The income sensitivity metrics show that an upward shift in rates of 100bps would improve the Bank's net interest income by £198k (2022: £463k) whilst a downward shift of 100bps would have an adverse impact of £198k (2022: £463k).

Liquidity risk

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 for non-derivative financial instruments, 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.

Notes to the financial statements (continued)

For the year ended 31 December 2023

21. Financial risk management (continued)

Liquidity risk (continued)

At 31 December 2023	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	**104,956**	**–**	**–**	**–**	**–**	**104,956**
Loans and advances to banks	**182,038**	**12,804**	**82,516**	**–**	**–**	**277,358**
Debt securities	**14,000**	**22,000**	**32,000**	**–**	**–**	**68,000**
Loans and advances to clients	**26,724**	**9,237**	**41,048**	**327,763**	**284,144**	**688,916**
Total financial assets	**327,718**	**44,041**	**155,564**	**327,763**	**284,144**	**1,139,230**
Financial liabilities						
Deposits from clients	**591,563**	**99,337**	**164,803**	**6,809**	**–**	**862,512**
Lease liabilities	**25**	**117**	**305**	**171**	**–**	**618**
Total financial liabilities	**591,588**	**99,454**	**165,108**	**6,980**	**–**	**863,130**
Maturity gap	**(263,870)**	**(55,413)**	**(9,544)**	**320,783**	**284,144**	
Cumulative gap	**(263,870)**	**(319,283)**	**(328,827)**	**(8,044)**	**276,100**	

At 31 December 2022	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	172,477	–	–	–	–	172,477
Loans and advances to banks	153,628	36,309	52,831	–	–	242,768
Loans and advances to clients	40,318	15,005	30,526	263,998	227,078	576,925
Total financial assets	366,423	51,314	83,357	263,998	227,078	992,170
Financial liabilities						
Deposits from clients	703,727	41,981	44,066	7,114	–	796,888
Lease liabilities	–	104	313	426	–	843
Total financial liabilities	703,727	42,085	44,379	7,540	–	797,731
Maturity gap	(337,304)	9,229	38,978	256,458	227,078	
Cumulative gap	(337,304)	(328,075)	(289,097)	(32,639)	194,439	

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 2.9.

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

	2023 £'000	2022 £'000
Exposure	**549,189**	526,901
Collateral	**1,353,959**	1,328,842
Cover	**247%**	252%

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

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

No balances were in category ICG 5 in 2023 or 2022.

Debt securities are all issued by the UK Government and are considered to have low credit risk, as they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. At 31 December 2023 the ECL recognised against debt securities was £nil. Management consider 'low credit risk' for debt securities to be an investment grade credit rating.

The table below provides a summary of the Bank's asset quality analysed by ICG. At 31 December 2023 the ECL was £305k against loans and advances (2022: £194k) and £3k against commitments (2022: £11k).

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

Notes to the financial statements (continued)

For the year ended 31 December 2023

21. Financial risk management (continued)

Credit risk (continued)

At 31 December 2023	**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	**104,956**	**–**	**–**	**–**	**–**	**–**	**–**	**104,956**
Loans and advances to banks:								
– Stage 1	**274,523**	**–**	**–**	**–**	**–**	**–**	**–**	**274,523**
Debt securities:								
– Stage 1	**67,066**	**–**	**–**	**–**	**–**	**–**	**–**	**67,066**
Loans and advances to clients:								
– Stage 1	**394,622**	**21,339**	**52,646**	**3,229**	**–**	**–**	**(67)**	**471,769**
– Stage 2	**6,344**	**5,238**	**1,565**	**7**	**–**	**–**	**(218)**	**12,936**
– Stage 3	**2,810**	**–**	**129**	**–**	**–**	**–**	**(20)**	**2,919**
Derivatives:								
– Stage 1	**1,083**	**–**	**–**	**–**	**–**	**–**	**–**	**1,083**
	851,404	**26,577**	**54,340**	**3,236**			**(305)**	**935,252**
Commitments:								
– Stage 1	**49,846**	**15**	**1,219**	**10,468**	**–**	**–**	**(3)**	**61,545**
– Stage 2	**8**	**–**	**–**	**12**	**–**	**–**	**–**	**20**
– Stage 3	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	49,854	**15**	**1,219**	**10,480**	**–**	**–**	**(3)**	**61,565**

At 31 December 2022	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	172,477	–	–	–	–	–	–	172,477
Loans and advances to banks:								
– Stage 1	241,254	–	–	–	–	–	–	241,254
Loans and advances to clients:								
– Stage 1	370,480	13,785	45,882	2,371	–	–	(111)	432,407
– Stage 2	13,105	–	2,113	5	–	–	(67)	15,156
– Stage 3	–	–	128	–	–	–	(16)	112
Derivatives:								
– Stage 3	1,867	–	–	–	–	–	–	1,867
	799,183	13,785	48,123	2,376	–	–	(194)	863,273
Commitments:								
– Stage 1	66,772	25	3,291	7,868	–	–	(2)	77,954
– Stage 2	1,080	–	–	201	–	–	(9)	1,272
– Stage 3	–	–	–	–	–	–	–	–
	71,704	1,223	6,106	7,234	–	–	(8)	86,259

Collateral

The Bank has £270k (2022: £278k) of financial assets which it has pledged as collateral.

22. Derivative financial instruments and hedge accounting

Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract, such as interest rates. The Bank enters into interest rate swap contracts to hedge interest rate risk on fixed rate loans and deposits. The Bank also uses cross currency swaps to hedge foreign exchange risk but none were held at the year end (2022: £nil).

All derivatives entered into by the Bank are for hedging purposes but not all are designated as such for accounting purposes. The table below shows the value of derivatives by type:

	2023			2022		
	Contract or underlying principal amount £'000	**Positive fair value £'000**	**Negative fair value £'000**	Contract or underlying principal amount £'000	Positive fair value £'000	Negative fair value £'000
Interest rate swaps						
Designated in fair value accounting hedges	**56,500**	**901**	**1,161**	56,500	1,565	838
Not designated in accounting hedges	**47,000**	**182**	**33**	13,500	302	–
Total derivatives held for hedging	**103,500**	**1,083**	**1,194**	70,000	1,867	838

The following table analyses derivatives by contractual and residual maturity:

	2023		2022	
	Notional principal amount £'000	**Replacement cost £'000**	Notional principal amount £'000	Replacement cost £'000
Under 1 year	**49,500**	**227**	–	–
1 to 5 years	**54,000**	**856**	70,000	1,867
Total derivatives	**103,500**	**1,083**	70,000	1,867

Hedge accounting

The Bank is exposed to interest rate risk through fixed rate loans and mitigates this risk via pay-fixed interest rate swaps.

The interest risk that arises from fixed rate loans is managed by entering into interest rate swaps on a periodic basis. The exposure from fixed rate loans fluctuates due to new loans, loan maturities and repayments and the Bank uses a dynamic hedging strategy to manage the exposure.

The Bank uses macro fair value hedges to recognise the change in fair value of the hedged items (fixed rate loans) due to changes in interest rates. This helps to offset the impact on the Income Statement that would arise if only the changes in fair value of the interest rate swaps was recognised.

The notional value of interest rate swaps designated into fair value hedge accounting relationships is as follows, analysed by maturity date:

	2023			2022		
	Under 1 year £'000	**1 to 5 years £'000**	**Total £'000**	Under 1 year £'000	1 to 5 years £'000	Total £'000
Macro hedge of loans and advances to clients						
Swap notional	**2,500**	**54,000**	**56,500**	–	56,500	56,500
Average fixed interest rate	**2.86%**	**3.80%**	**3.75%**	–	3.75%	3.75%

Notes to the financial statements (continued)

For the year ended 31 December 2023

22. Derivative financial instruments and hedge accounting (continued)

Hedge accounting (continued)

The tables below analyse the impacts of hedge accounting on the statement of financial position and the income statement:

2023	**Notional amount £'000**	**Carrying amount: Assets £'000**	**Carrying amount: Liabilities £'000**	**Line item in statement of financial position that includes the hedging instrument**	**Changes in fair value of hedging instrument used for recognising ineffectiveness in the year £'000**	**Total ineffectiveness recognised in income statement £'000**	**Line item in income statement that includes hedge ineffectiveness**
Interest rate swaps							
Hedge of loans and advances to clients	**56,500**	**901**	**(1,161)**	**Derivative financial instruments**	**(382)**	**998**	**(Losses)/gains on derivatives and hedge accounting**

2022	Notional amount £'000	Carrying amount: Assets £'000	Carrying amount: Liabilities £'000	Line item in statement of financial position that includes the hedging instrument	Changes in fair value of hedging instrument used for recognising ineffectiveness in the year £'000	Total ineffectiveness recognised in income statement £'000	Line item in income statement that includes hedge ineffectiveness
Interest rate swaps							
Hedge of loans and advances to clients	56,500	1,565	(838)	Derivative financial instruments	111	(38)	(Losses)/gains on derivatives and hedge accounting

2023	**Carrying amount £'000**	**Accumulated amount of fair value adjustments on the hedged item: Assets £'000**	**Accumulated amount of fair value adjustments on the hedged item: Liabilities £'000**	**Line item in statement of financial position that includes the hedged item**	**Changes in fair value used to calculate ineffectiveness £'000**	**Accumulated amount of fair value adjustments remaining in statement of financial position due to items that have ceased to be adjusted for hedging gains or losses £'000**
Hedged items						
Loans and advances to clients	**56,089**	**1,232**	–	**Fair value adjustment for hedged risk on loans and advances to clients**	**1,380**	**(473)**

2022	Carrying amount £'000	Accumulated amount of fair value adjustments on the hedged item: Assets £'000	Accumulated amount of fair value adjustments on the hedged item: Liabilities £'000	Line item in statement of financial position that includes the hedged item	Changes in fair value used to calculate ineffectiveness £'000	Accumulated amount of fair value adjustments remaining in statement of financial position due to items that have ceased to be adjusted for hedging gains or losses £'000
Hedged items						
Loans and advances to clients	54,690	–	(149)	Fair value adjustment for hedged risk on loans and advances to clients	(149)	(107)

23. Reconciliation of liabilities arising from financing activities

	At 1 January 2023 £'000	**Financing cash flows £'000**	**Non-cash movements £'000**	**At 31 December 2023 £'000**
Lease liabilities	**756**	**(427)**	**245**	**574**
Financing liabilities	**756**	**(427)**	**245**	**574**

	At 1 January 2022 £'000	Financing cash flows £'000	Non-cash movements £'000	At 31 December 2022 £'000
Lease liabilities	1,134	(378)	–	756
Financing liabilities	1,134	(378)	–	756

24. Share capital

Ordinary shares

	2023		2022	
	Number	**£'000**	Number	£'000
Allotted, called up and fully paid				
At 1 January (£0.05 per share)	**92,459,698**	**4,623**	84,459,698	4,223
Issued ordinary shares	**2,058,166**	**103**	8,000,000	400
At 31 December (£0.05 per share)	**94,517,864**	**4,726**	92,459,698	4,623

During the year 2,058,166 (2022: 8,000,000) ordinary shares were issued at a gross premium of £1,956k (2022: £7,600k). Direct issue costs of £92k (2022: £154k) associated with fundraising have been recorded in the share premium account.

At 31 December 2023 121,683,854 (2022: 121,683,854) ordinary shares were authorised with a par value of £0.05 (2022: £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.

Notes to the financial statements (continued)
For the year ended 31 December 2023

24. Share capital (continued)

Share premium account

	2023 £'000	2022 £'000
At 1 January	**24,001**	16,555
Premium arising on issue of equity shares	**1,956**	7,600
Direct share issue costs	**(92)**	(154)
At 31 December	**25,865**	24,001

25. Retained earnings

	2023 £'000	2022 £'000
At 1 January	**44,228**	36,524
Profit for the year attributable to equity holders	**8,107**	6,864
Equity settled share-based payments	**186**	840
Cancellation of share options	**(688)**	–
At 31 December	**51,833**	44,228

26. Control

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

27. 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 11.

Key management personnel and their close family members' aggregate deposits were £642,935 (2022: £377,802) and aggregate lending was £165,605 (2022: £nil) at year end. Committed loans at 31 December 2023 were £nil (2022: £nil).

Noble & Company (UK) Limited is a related party by virtue of the significant influence of a member of the Bank's key management personnel. During 2023 Noble & Company (UK) Limited charged fees of £nil (2022: £105,000) for corporate advisory services and at 31 December 2023 the amount owed by the Bank to Noble & Company (UK) Limited was £nil (2022: £nil). Noble & Company (UK) Limited's aggregate deposits were £61,371 (2022: £111,373) at year end.

No impairment losses have been recognised in respect of amounts owed by related parties (2022: £nil). These transactions were made on terms equivalent to those that prevail in arm's length transactions.

28. 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. The latest contractual maturity of commitments to lend is 90 days.

	2023 £'000	2022 £'000
Commitments to lend	**61,565**	79,226
Commitments for intangible asset development	**1,371**	–
	62,936	79,226

The latest contractual maturity of commitments to lend is 90 days.

29. Provisions

	2023			2022		
	Dilapidation provision £'000	**Loss provision £'000**	**Other provision £'000**	Dilapidation provision £'000	Loss provision £'000	Other provision £'000
At 1 January	**115**	**11**	**250**	115	8	–
Provided/(released) during the year	**97**	**(8)**	**–**	–	3	250
Utilised during the year	**–**	**–**	**–**	–	–	–
At 31 December	**212**	**3**	**250**	115	11	250

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.

The other provision is in respect of client redress and a potential legal claim on an individual client account.

30. Contingent liabilities

Contingent liabilities can occur during the ordinary course of business where the Bank may be subject to threatened or actual legal proceedings, which may result in a cash outflow. One such claim is outstanding at the year end. Based on analysis of the claim, no material adverse impact on the financial position of the Bank is expected to arise. The Bank has appropriate insurance arrangements in place to cover any such matters and therefore the Directors assess the net financial impact of all such liabilities as £nil (2022: £nil).

31. 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.

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).

32. 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.

Notes to the financial statements (continued)
For the year ended 31 December 2023

33. New accounting standards and interpretations not adopted

The International Accounting Standards Board has issued a number of minor amendments to IFRSs effective from 1 January 2024 and subsequent years. These amendments are not expected to have a significant impact on the Bank.

34. 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 41.

c) Average number of employees

The average number of employees on a full-time equivalent basis is disclosed in note 10.

d) Profit or loss before tax

Profit or loss before tax is set out in the statement of comprehensive income on page 41.

e) Corporation tax paid

Corporation tax paid is £nil. Further information is provided in note 9.

f) Public subsidies received

The Bank does not receive public subsidies.

35. Post balance sheet events

The Directors recommend the payment of a dividend of 1.6p (2022: nil) per share. This dividend, if approved by members at the 2024 Annual General Meeting, will be paid in June 2024 to shareholders on the register at close of business on 15 April 2024.

Company information

Directors
S E C Miller*
G T Hartop (Chief Executive Officer)
J C N Peake (Chief Financial Officer)
A G Bell (Chief Commercial Officer) (appointed 31 July 2023)
D C Huntley*
C H Taylor*
F F Williamson*
R A Macpherson*
K J Somasundaram* (appointed 25 April 2023)

* Non-Executive Director

Secretary
G M Syme

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SC386922

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