Company Registration No. SC386922 (Scotland)

HAMPDEN & CO PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Hampden & Co plc

Company Information

Directors	**R M Entwistle OBE (Chairman)**
	G T Hartop (Chief Executive Officer)
	A K Mulligan
	J Vaughan
	R A Hammond-Chambers*
	A R F Hughes*
	P A Jardine* (appointed 19 September 2017)
	V W C Kubitscheck*
	B Meuli* (retired 31 July 2017)
	D J N Nabarro* (retired 21 November 2017)
	C G Camroux-Oliver*
	P A Sparkes*

***Non-Executive Director**

Secretary	**R F H Lyon**
Company number	**SC386922**
Registered office	**9 Charlotte Square**
	Edinburgh
	EH2 4DR
Auditor	**Deloitte LLP**
	Statutory Auditor
	Edinburgh
	United Kingdom

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Chairman's Statement

I am pleased to report that your Bank, Hampden & Co., continued to grow in 2017. During the year the number of clients banking with us exceeded 2,000, the value of the deposits held with us increased by over £50m to £195m, and our lending to clients nearly doubled to £94m.

While the low interest rate environment continued throughout 2017, the first interest rate rise in more than a decade has reversed the trend of recent years, and if this continues this will be beneficial both to our depositors and to the Bank.

We continue to expand our range of services and have recently launched a portfolio lending service as well as a capability to lend to SIPPs, personal pension plans. 2018 will see further development of additional services and expansion of our banking teams in London and Edinburgh. We recognise that it is essential to encourage all generations to bank with us and we continue to develop our digital capability. During 2018 we expect to deliver mobile banking for those who bank on the move – however, we expect that all of our clients will still wish to communicate with our bankers on a regular basis.

A key aspect of the year has been the positive feedback from our clients around the quality of a very personal banking service, both to them, and where appropriate, to the family. Hampden & Co. was established for this reason and there is no doubt that this relationship is enjoyed, both by our clients, and by our bankers. The decision to focus on the provision of private banking facilities to the exclusion of other financial services, notably wealth management, has proved beneficial in that we have been able to focus on the delivery of a truly first class banking service and lawyers, accountants and wealth managers are comfortable to recommend their clients to us. The list of professional firms happy to introduce their clients to us continues to grow.

You will know from my January letter that a major milestone in 2017 was the successful planned fund raising at the end of the year. While we had intended to raise £12.5m, this was increased due to demand to £15.1m, at 7.5p per share. This new capital will help support the next phase of growth for the Bank. Further capital raises are planned during the period 2019 to 2020 predicated upon the Bank's growth rate.

In 2017 Benjamin Mueli and David Nabarro both retired from the Board. I, and everyone at Hampden & Co., would like to thank them for their substantial contributions in helping to build and launch the bank. We wish them both a well-deserved and happy retirement. While Benji and David have left, we are delighted to welcome Paul Jardine, from XL Catlin, who joined us as a non-executive director in 2017. Paul is an Executive Vice President of XL Catlin, as well as their Chief Experience Officer, and has already made valuable contributions to the Hampden & Co. Board.

As I highlighted in my message last year, and following the rationalisation of our different share classes, we have created a share option scheme for our staff, to enable everyone at Hampden & Co. to take an ownership stake in our business. This was approved at last year's Annual General Meeting, and the accounting implications for the options granted to Executive Management are included in the financial statements for the first time this year. These options have a five year vesting period and include non-market performance conditions. Further information is shown in Note 11 of the Financial Statements.

So, I would like to end my statement by thanking all our clients for the support they have shown; our staff and our non-executive directors for continuing to strengthen the development of our business; and finally to you, our shareholders. I hope you are encouraged by the progress we have made so far, proud of the bank that you have helped create, and share my confidence in the prospect of sustained growth. I look forward to updating you next year, when I am sure I will be able to report further growth as we continue to provide a service prized by a growing number of clients.

R. M. Entwistle OBE

Chairman

27 March 2018

Strategic Report

Principal Activities and Business Review

The Directors present their Strategic Report for the year ended 31 December 2017.

Hampden & Co plc ("the Bank") is a company that was incorporated with the strategic goal of launching and operating a new private bank in the United Kingdom. The Bank commenced operations on the 4 June 2015 and the year ended 31 December 2017 represents the second full year of trading. The delivery of the Bank's strategy is through the adoption of a traditional, conservative private banking business model based on a high quality service. The Bank provides a discreet, personal service delivered with care and courtesy by dedicated and experienced private bankers. When combined with a thorough knowledge of the client and related family members, tailored services and continuity of personnel, the Directors believe this is highly appealing to its high net worth target market. The Directors aim to continue to grow the Bank's deposit base and lending book in a prudent manner with a focus on client interest and fair client outcomes aligned with high quality service. Additional services introduced in 2017 include portfolio and SIPP lending allowing an enhanced client service and opportunity to deepen our relationships with wealth management professionals. In order to support future growth plans the Bank continues to invest in operational capability including additional Private Bankers and the introduction of mobile banking technology.

The Bank's capital and liquidity levels exceed regulatory requirements. The regulatory capital base constitutes Total Equity of £43.7m (2016: £34.9m) less Intangible Assets of £3.2m (2016: £2.9m) equating to £40.5m (2016: £32.0m), an increase of £8.5m in the year. The increase in Total Equity is a result of a new fundraising round that commenced in October 2017 and raised £15.1m of new investment, offset by the £6.4m loss for the current year and £0.2m of share issue costs. The business has a Tier 1 ratio of 64% (2016: 86%). The movement in the Tier 1 capital ratio is principally due to the increase in lending. Surplus liquidity is placed with highly rated counterparties. The Bank does not borrow from other financial institutions to fund its activities.

Financial Performance

In the year ended 31 December 2017 the Bank made a loss before tax of £6.4m (2016: loss before tax of £6.3m). Operating expenses grew to £10.2m (2016: £7.9m), predominantly driven by continued investment in systems, people and operations. Total income grew to £3.9m (2016: £1.6m), driven by continued growth in lending. There are no impairment losses in the current year (2016: £nil) which demonstrates the quality of the lending book. There is no corporation tax charge in the current year (2016: £nil).

The Board is pleased to report that deposits increased during the year. At the close of the year total deposits from banks and clients were £194.6m (2016: £144.1m), an increase of £50.5m. Client lending totalled £94.2m, a £46.1m increase from prior year (2016: £48.1m). Intangible assets increased in the year by £0.3m due to the capitalisation of £0.9m costs, primarily relating to the development of mobile banking, offset by an amortisation charge for the year of £0.6m.

Risk Management and Governance

Strong risk management that is strategic in its outlook and underpinned by an overall low appetite for risk is fundamental to building the Bank in line with the traditional nature of private banking on a long term, sustainable basis. This means, amongst other things, that the Bank will remain predominantly UK focused, does not undertake any proprietary trading and manages capital and liquidity in a controlled manner. The Bank uses prudent lending policies, all lending is undertaken within the defined limits and is reviewed by Credit Committee. The Bank's regulatory liquidity, capital and leverage ratios are closely monitored and maintained well within regulatory requirements. The Bank continually reviews and develops its client

Risk Management and Governance *(continued)*

proposition and services while maintaining a prudent approach to managing risks to the long-term success of the Bank.

The Board sets and regularly reviews the Bank's risk appetite in the light of strategic, commercial and economic aims and statutory/regulatory requirements. A robust risk management and governance framework has been developed as an integral part of delivering the Bank's aims and meeting client and shareholder expectations.

Governance Framework

Supporting the Board's oversight of the Bank's risk management is the Board Risk Committee ("BRC"), comprising Non-Executive Directors, which reviews and challenges the effectiveness of the overall risk management framework. In addition, at the operational level, there are three further committees - Risk Management Committee ("RMC"), Credit Committee ("CC") and Assets and Liabilities Committee ("ALCO") - which meet at least once each month, comprising executives and other senior managers. Collectively, these committees are referred to as "Risk Committees".

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

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

The Bank currently outsources the Internal Audit function to Grant Thornton UK LLP. While governance responsibility lies with the Board, responsibility for approving the Internal Audit annual budget has been delegated to the Audit Committee.

Information on risk management performance is aggregated across the lines of defence and reported to each regular meeting of the Board and Risk Committees. The Board considers the risk management framework and principal risks as outlined below to be appropriate to the nature of its activities and proportionate to its scale and stage of development. Internal Audit and other third party experts periodically perform independent reviews of the Bank's risk management and system of internal control. In 2017, no significant weaknesses in the system of internal control have been identified.

Risk Management Framework

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

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

Risk Management and Governance *(continued)*

Risk Management Framework *(continued)*

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

The Board is conscious of the need to ensure that the Bank's reputation is effectively managed. As such there is proactive identification and vigilant monitoring of, and response to, any events which could potentially damage the Bank's reputation. Staff are actively encouraged to identify and report failings and to take proactive steps to address weaknesses when they are discovered. A whistleblowing process is in place should staff require to escalate an issue outside of the normal management processes and reporting lines. The performance appraisal process takes achievement of risk management objectives into account for all staff and the remuneration policy promotes teamwork, reinforcing the culture required to deliver the strategy.

Principal Risks

On identification, the impact and probability of potential risks are assessed allowing the Bank to evaluate the level of inherent as well as residual risk, and to consider the necessary mitigating actions for operating within the Board's risk appetite. Scenario analysis and stress testing are additional tools used for gaining more insight and assessing the resilience of internal control strategies, for example, during capital and liquidity adequacy assessments and detailed risk reviews.

The Board has identified the principal risks which could threaten the Bank's business model and successful delivery of the Bank's strategy and business plan. These risks, which are monitored and assessed for their impact on the Bank's reputation, are noted below and further detailed risk management disclosures are set out in Note 18 to the Financial Statements.

Strategic Risk including Capital Risk

Strategic Risk, including Capital Risk, is the risk that the Bank fails to execute its Strategic Plan, or fails to execute elements of its strategic plan effectively, or inability to meet targets due to changes in the economic environment. The Executive team monitors performance trends on a weekly basis with monthly actual and forecast management information discussed at both Executive and Board levels. Forecasts including the quantum and timing of further capital raising are modified to reflect actual and forecast performance.

The Bank's Directors ensure that the Bank has the capital to meet the requirements of the business. Dependency on investor's capital is recognised during the initial years before the Bank starts to generate its own capital. The success of the future capital raising activities is predicated upon the Bank achieving its growth plans and financial objectives. The Bank monitors and assesses capital adequacy regularly to ensure its capital exceeds requirements with regular reporting to ALCO, RMC, BRC and Board. This is in line with the Bank's Capital Management policy for maintaining a strong capital base that is above the capital requirement level set for it by the regulator, the Prudential Regulation Authority ("PRA").

Risk Management and Governance *(continued)*

Strategic Risk including Capital Risk *(continued)*

The Bank's regulatory disclosure requirements under Pillar 3 (defined in note 25) are published annually and are available to review on the Bank's website (www.hampdenandco.com).

Conduct Risk

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

Credit Risk

Credit risk arises from lending to clients, a mix of private individuals, trusts, SME business lending and treasury counterparties. Credit policies, principles and risk appetite metrics are designed to protect the business throughout economic cycles by ensuring the credit portfolio is of high quality, with a low overall percentage of unsecured lending and relatively low monetary limits for individual unsecured lending cases. Client lending is undertaken within prescribed limits and risk appetite measures, which are reviewed regularly by the Credit Committee and approved by the Board. Credit risk includes treasury counterparty risk, being the loss that might arise from counterparties of the Bank to whom it lends its surplus funds. These counterparties are required to meet a minimum credit rating as defined in the Bank's Counterparty policy approved by the Board. The use of treasury counterparties is approved and monitored by the ALCO.

Liquidity Risk

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

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

Market Risk

Market risk is the risk that the value of the Bank's earnings and economic value will decrease due to changes in the value of financial market prices. The Bank is cognisant of the risks associated with the prolonged ultra-low interest rate environment in which it operates. The Bank is exposed to two main types of market risk - interest rate and foreign currency risks - both are managed to reduce the impact of market movements.

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

Risk Management and Governance *(continued)*

Market Risk *(continued)*

The Treasury function manages the risk of failing to control the effects of material movements in foreign exchange markets through adherence to agreed limits and risk appetite metrics, overviewed by members of ALCO, and reported to RMC, BRC and Board. Although a significant proportion of client deposit accounts are denominated in US Dollars, currently, and for the foreseeable future, the balances are naturally hedged on both sides of the balance sheet.

Operational Risk

Operational risk is defined as the risk of loss resulting from failed or inadequate internal processes, systems, people or from external events. The principal sources of operational risk for the Bank stem from client account management, IT Systems, information security, outsourcing, financial reporting and regulatory risk including financial crime. These risk sources include "cyber" risks, principally in relation to information security and financial crime. Availability, resilience and security of IT Systems are core objectives which are fundamental to meeting clients' needs and maintaining their confidence in the Bank's services. As the pace of technological development increases, so does the rate at which new cyberattack threats emerge and so there is considerable focus by the Board and BRC on maintaining an effective cyber control framework.

Key risk appetite metrics are monitored, at a minimum, on a monthly basis and reported to the RMC, BRC and Board. As the Bank grows and enhances its client services and digital capabilities, it will have due regard to the evolving risks and will develop its people, systems and processes accordingly. Other threats and opportunities to the business arise from the economic, political and regulatory arena, not least the vote to leave the European Union, and these are subject to on-going monitoring and review. Material events are escalated in line with policy to the Board and/or the most appropriate risk committee(s).

The Bank's insurance coverage is reviewed annually.

Economic and Political Context

Brexit continues as a major topic of discussion with key decisions still outstanding and an additional £3bn being set aside by the Chancellor, Philip Hammond for spending on Brexit preparations. It is expected that there will be continued uncertainty in the UK and European markets as the Brexit negotiations continue; however, as the Bank has limited exposure to European currencies other than Sterling, and is predominantly UK focused, we do not believe that leaving the European Union will have a material impact on the core activities of the Bank, except, possibly, through the broader implications on the economic and regulatory environment.

Potentially more impactful to the Bank is the prospect of higher inflation – globally and nationally – giving rise to a rather more rapid increase in interest rates than has generally been anticipated. Indeed, the first increase in the Bank Rate for 10 years occurred in November 2017, from 0.25% to 0.50%.

The pace of regulatory change remains high and this is likely to continue as regulators develop a regulatory framework following the departure from the European Union.

Key Performance Indicators ("KPI's")

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

	31 Dec 2017	31 Dec 2016
Total Capital Ratio	64%	86%
Liquidity coverage ratio	533%	740%
Client loan : deposit ratio	49%	34%
Lending growth	96%	307%
Deposit growth	35%	374%

Lending growth (96%) and deposit growth (35%) remained strong in the current year as the Bank continues to build its client base and lending book. As at 31 December 2017 the Bank had a client loan to deposit ratio of 49%, with surplus funds held with the Bank of England, US liquidity funds and with other banks. The Bank remains well capitalised with a Total Capital Ratio of 64%. As shown above, the Total Capital Ratio and liquidity coverage ratio were well in excess of regulatory requirements at 31 December 2017, and throughout the year.

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 going concern basis of preparation to be appropriate.

In making this assessment the Board relied on the Business Plan, Internal Capital Adequacy Assessment Process ("ICAAP"), Internal Liquidity Adequacy Assessment Process ("ILAAP") and evaluation of the Bank's principal risks and uncertainties, including those that would threaten its business model, future performance or solvency including the need for capital raising to support growth.

The Bank prepared a Business Plan as part of the Bank Licence authorisation process. This included the financial articulation of the Bank's strategy. The Bank's financial forecasting modelling stems from the Business Plan including a detailed year one budget and higher-level three year forecast.

The ICAAP and ILAAP are prepared for the Board by Senior Management. The objectives include:

- identify and embed a robust understanding throughout the Board and senior management of the risks faced by the business and the subsequent capital and liquidity requirements;
- provide an internal assessment on the adequacy of current and future capital and liquidity held;
- detail key stress and scenario tests run by management; and
- allow business policies to address risks identified.

The Directors have used a 3 year plan to inform the going concern assessment. Key assumptions within the plan include expectations of client, deposit and lending growth as well as further investment in operational capability. The plan reflects management's financial forecast assumptions including the timing and quantum of required capital raising in order to remain appropriately capitalised as set out in the Strategic Risk including Capital Risk disclosure included in the Principal Risks section of this Strategic Report. Following the successful

Going Concern *(continued)*

capital raise in 2017 the Directors expect to raise the additional capital planned during the period 2019 to 2020 predicated upon the Bank achieving its growth plans and financial objectives. The Directors have a reasonable expectation that the Bank will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

On behalf of the Board

G. T. Hartop

Chief Executive Officer

27 March 2018

Directors' Report

The Directors present their report and Financial Statements for the year ended 31 December 2017. Information regarding future developments and risk management as required by Schedule 7 to 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).

Financial Instruments

Information about the use of financial instruments by the Bank is given in notes 16 & 18 to the Financial Statements.

Capital Structure

Details of the Bank's share capital, together with movements in the Bank's issued share capital are shown in notes 19 & 25. During the year the bank raised £15.1m of new capital. Of the new capital raised, £14.0m was invested by our Cornerstone shareholders, who comprise our four largest shareholders (each owning over 10% of the Bank's equity capital).

A new share option scheme for senior management was launched during the year. Details of the scheme are set out in Note 11.

Directors

The following Directors held office during the year:

R M Entwistle OBE (Chairman)

G T Hartop (Chief Executive Officer)

A K Mulligan

J Vaughan

R A Hammond-Chambers*

A R F Hughes*

P A Jardine* (appointed 19 September 2017)

V W C Kubitscheck*

B Meuli* (retired 31 July 2017)

D J N Nabarro* (retired 21 November 2017)

C G Camroux-Oliver*

P A Sparkes*

*Non-Executive Director

Directors ***(continued)***

Ray Entwistle OBE, Chairman

Ray is a Chartered Banker with over 50 years' experience in the banking industry. In 1977, he established the first branch of Lloyds Bank in Scotland, before joining Adam & Company in 1984, where he became Chief Executive in 1993 and Chairman in 2005. He established the Bank (then known as Scoban) in 2010. Ray also has considerable non-executive director experience with other financial services companies as well as other industries and a number of charities, such as Chairman of Bonhams Scotland and Trustee of the Royal High School Preservation Trust. In 2017 Ray was awarded an OBE for voluntary and charitable services, particularly to the arts.

Graeme Hartop, Chief Executive Officer

Graeme is a qualified Chartered Accountant and Chartered Banker with over 25 years' experience in the banking industry. He was Head of Finance at Adam & Company before joining Scottish Widows Bank in 1993 as Finance & Operations Director - where he became Managing Director in 2003. Graeme joined the Bank in 2013. He was a Council member at the Chartered Banker Institute and Vice-President from 2007 to 2010.

Andrew Mulligan, Finance Director

Andrew is a qualified Chartered Accountant with over 10 years' experience in the banking industry. After qualifying, he started his career in finance with Scottish & Newcastle plc, before joining the Royal Bank of Scotland Group in 2004. He became Finance Director of Adam & Company in 2006 and joined the Bank in 2011.

Jeremy Vaughan, Managing Director Banking

Jeremy has over 35 years' experience in the banking industry, working initially for National Westminster Bank, before joining Hill Samuel Bank in 1989. In 1997, he moved to Adam & Company where he was a Banking Director until 2013 when he joined the Bank. Based in London, he has responsibility for the Edinburgh and London Banking teams.

Alex Hammond-Chambers, Senior Independent Director

Alex worked for 27 years at the investment management firm, Ivory & Sime, ending up as Executive Chairman. He has served as a director of many companies joining the Board in 2010. He is Chairman of the Remuneration Committee. He also served as overseas governor of the National Association of Securities Dealers, which ran the NASDAQ, and as Chairman of the Association of Investment Companies.

Alan Hughes, Deputy Chairman, Non-Executive Director

Alan is a Fellow of the Chartered Institute of Financial Services and spent 35 years with HSBC where he was General Manager and member of the EU executive board. He ran significant subsidiaries of HSBC including serving as Chief Executive of First Direct Bank. He introduced the HSBC name in the UK. Since 2004 he has held a variety of non-executive directorships in financial services and the public sector. He is Pro-Chancellor of Loughborough University. He joined the Hampden Board in 2014 and is Chairman of the Audit Committee.

Directors *(continued)*

Paul Jardine, Non-Executive Director

Paul began his career with Prudential Assurance Company, later becoming a partner at Coopers & Lybrand. He joined Catlin Group in 2001, being appointed Chief Operating Officer in 2004. He is now Chief Executive of Catlin Underwriting Agencies Ltd and Catlin Insurance Company (UK) Ltd, as well as Executive Vice President & Chief Experience Officer of XL Catlin. Paul joined Hampden & Co in 2017.

Vicky Kubitscheck, Non-executive Director

Vicky is a specialist in risk governance with over 30 years' experience in the financial services industry, leading and establishing systems of risk management and governance in organisations including AEGON and AXA at the height of regulatory change. Until recently, she was a member of the Executive at Police Mutual Group as Chief Risk Officer and Compliance Director. She is also a board advisor, an author and President of the Insurance Internal Audit Group. Vicky joined the Board in 2014 and is Chair of the Risk Committee.

Charlie Camroux-Oliver, Non-executive Director

Charlie practised as a solicitor with Barlow Lyde Gilbert and Charles Russell between 1993 and 2003, specialising in company commercial and (re)insurance law. In 2003 he joined the Hampden Group as General Counsel and now deals with transactional matters on behalf of the Hampden Group. Charlie joined the Board in 2016.

Peter Sparkes, Non-executive Director

Peter is an experienced Finance Director who has held senior roles in industry across the world. He is fluent in Mandarin and, together with financial skills acquired over a period of more than 25 years, Peter brings experience in a wide range of other areas, including Information Technology, business planning, project management and strategic acumen. Peter now runs Corvus Management Services Ltd, a Management and Consulting Company based in Hong Kong that provides family management services. Peter joined the Board in 2015.

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 have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 company 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.

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.

On behalf of the Board

R. F. H. Lyon

Company Secretary
27 March 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAMPDEN & CO PLC

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- **give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements of Hampden & Co plc (the 'company') which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows;
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

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 FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were:

	• The completeness of the identification of loans indicating IAS 39 loss factors for the purposes of determining appropriate impairment loss allowances for loans and advances to customers; • The accuracy and validity of the calculations supporting the share based payments expense; and • The appropriateness of preparing the financial statements using the going concern assumption.
Materiality	The materiality that we used in the current year was £306,000 (2016: £250,000) which was determined on the basis of the equity balance as at 31 December 2017.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	**We have nothing to report in respect of these matters**.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

The completeness of the identification of loans indicating IAS 39 loss factors for the purposes of determining appropriate impairment loss allowances for loans and advances to customers	
Key audit matter description	As disclosed in Note 16 (Financial Instruments) to the Financial Statements, in both the current and prior year, no impairment provision has been recognised by management against loans and advances to customers. Impairment loss allowances for loans and advances to customers is considered a key audit matter as it involves significant management judgement to determine whether a loss event, as defined by IAS 39.59, has occurred which would indicate that the asset is impaired. Management

	perform this assessment on an individual asset basis. Given the degree of judgement involved, we also consider that there is a potential for fraud through possible manipulation of this balance. Management's accounting policies are detailed on pages 28 and 29, with detail about the judgements in applying accounting policies on page 31.
How the scope of our audit responded to the key audit matter	Our procedures to assess the completeness of the identification of loans indicating IAS 39 loss factors for the purposes of determining appropriate impairment loss allowances for loans and advances to customers comprised: • An evaluation of the design and implementation of key controls over the completeness of the identification of loss events; • An assessment of the historical performance of a sample of loans, including a review of account history and other financial information on individual customers collected by the company's private bankers to identify any indicators of loss events having occurred. Our work was focussed on loans with a loan to value ratio greater than 80%, any loan with a late or missed payment and any loan that had been renegotiated in the year, given that these loans were more likely to exhibit evidence of an IAS 39.59 loss event having occurred. • For secured loans, we obtained evidence of the company's right to the collateral, as well as inspecting the external valuations obtained for the collateral assessing the impact of house price movements since the date of the valuation, to determine whether any covenant breaches had occurred which would indicate an IAS 39.59 loss event.
Key observations	Based on our audit procedures, we concluded that management's impairment assessment is appropriate, and is supported by a methodology that is consistently applied and compliant with IAS 39.
The accuracy and validity of the calculations supporting the share based payments expense	
Key audit matter description	As disclosed in Note 11 (Share Based Payments) to the Financial Statements, the company implemented an equity-settled share-based payments scheme in the current year, granting share options to members of the Company's executive management team during the year. The Bank recognised a total expense in relation to share-based payments of £227k for the year ended 31 December 2017 (2016: £nil). Given the complexity associated with accounting for share-based payments, we identified a key audit matter with regards to the appropriateness of the models and related inputs used to calculate the fair value of the options at the date of grant. The fair value of options granted in the year was £4,600k which will be recognised over a five year vesting period. Management's accounting policies in relation to share based payments are detailed on page 30.

How the scope of our audit responded to the key audit matter	Our procedures to respond to the key audit matter comprised: • An evaluation of the design and implementation of key controls relating to management’s calculation of the annual share-based payments charge; • Making inquiries of, and reviewing the report produced by, a third party who was engaged by Management to calculate the fair value of the options granted and assessing the appropriateness of the methodology used; and • Independently testing that the inputs used by the third party in calculating the fair value were complete and accurate.
Key observations	Based on our audit procedures, we concluded that the charge recognised in the year in relation to share based payments was appropriate.
The appropriateness of preparing the financial statements using the going concern assumption	
Key audit matter description	The company is required to maintain capital and liquidity which is sufficient to meet the requirements of the regulator and to continue in operational existence for the foreseeable future. The director’s statement on going concern is on pages 8 & 9. Refer also to page 26 (Accounting Policies). As a result of the growth in the company’s balance sheet, alongside the company’s current year losses, there is a risk that the company will not have sufficient capital in the foreseeable future to meet its regulatory capital requirements, including regulatory buffers. We have therefore identified a key audit matter in relation to the appropriateness of the going concern assumption.
How the scope of our audit responded to the key audit matter	Our procedures to assess the ability of the company to continue as a going concern comprised: • An assessment of the design and implementation of key controls over the going concern assessment including the preparation of the company’s financial, capital and liquidity forecasts; • Review of papers prepared by management to support the going concern assumption; • Review of evidence to support the achievability of underlying assumptions forecast by management, including the company’s latest financial, capital and funding plans and stress tests performed for management and regulatory purposes; • Inspection of evidence to confirm receipt of additional capital investment made by shareholders during the year; • Review of the company’s Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process; and • Review of management’s statements on going concern disclosed in the financial statements, taking into consideration the company’s liquidity, solvency and regulatory capital positions and forecasts.

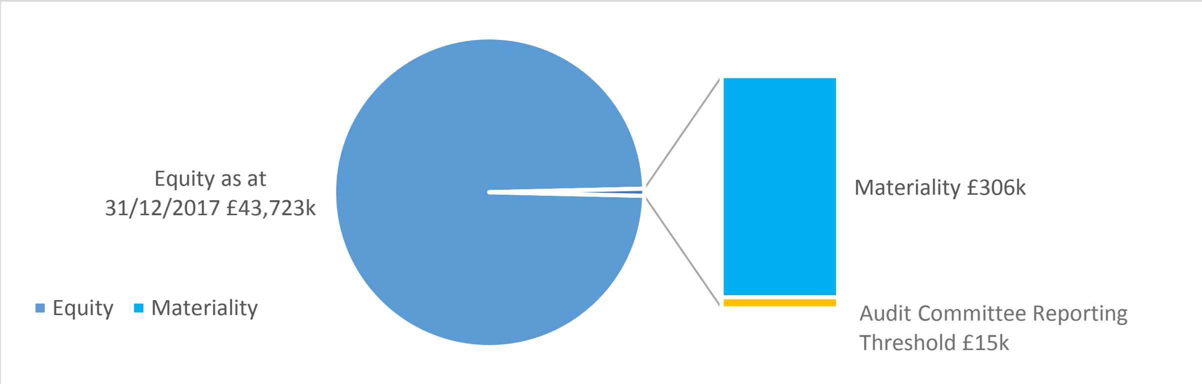
Key observations	Based on our audit procedures, we have concluded that the directors' use of the going concern basis of accounting in preparation of the financial statements is appropriate.

Our application of 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	£306k (2016: £250k)
Basis for determining materiality	Materiality has been determined as 0.8% of equity as at 31 December 2017 (2016: 0.7% of equity as at 31 December 2016).
Rationale for the benchmark applied	In our professional judgement the equity balance was determined as the appropriate measure as income statement results are volatile given the early stages of the company's operation.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £15k (2016: £13k), 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.

An overview of the scope of our audit

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

Other information

We have nothing to report in respect of these matters.

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

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

Responsibilities of directors

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

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

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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

Report on other legal and regulatory requirements

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.

Matters on which we are required to report by exception

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.

Directors' remuneration

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

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 9 March 2015 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering the years ending 31 December 2015 to 31 December 2017.

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).

Craig Cosham CA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Edinburgh, United Kingdom

27 March 2018

Statement of Comprehensive Income

	Note	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Interest receivable and similar income		3,389	1,502
Interest payable and similar charges		(200)	(214)
Net interest income	4	3,189	1,288
Non-interest income		465	172
Net non-interest income	5	465	172
Income from currency operations		251	179
Total income		3,905	1,639
Administrative expenses		(9,638)	(7,282)
Depreciation and amortisation		(627)	(616)
Operating expenses	6	(10,265)	(7,898)
Operating loss before impairment losses		(6,360)	(6,259)
Impairment on loans and advances to clients		-	-
Loss before tax	6	(6,360)	(6,259)
Tax expense	8	-	-
Loss for the year from continuing operations (attributable to equity holders) and total comprehensive loss		(6,360)	(6,259)

Statement of Financial Position

	Note	2017 £'000	2016 £'000
Assets			
Cash and balances with central banks	16	83,278	65,539
Loans and advances to banks	16	58,618	62,988
Loans and advances to clients	16	94,198	48,008
Prepayments and accrued income		417	388
Other assets		186	168
Property, plant and equipment	12	258	312
Intangible assets	13	3,241	2,948
Total assets		240,196	180,351
Liabilities			
Deposits from banks	16	686	682
Deposits from clients	16	193,926	143,456
Accruals and deferred income	14	1,703	1,310
Other liabilities and provision	15, 24	158	7
Total liabilities		196,473	145,455
Equity			
Share capital	19	59,369	49,282
Share premium account	19	14,812	9,939
Other reserves	19	19	19
Retained earnings		(30,477)	(24,344)
Total equity		43,723	34,896
Total liabilities and equity		240,196	180,351

The financial statements on pages 22 to 51 were approved by the Board of Directors and authorised for issue on 27 March 2018 and were signed on its behalf by:

G. T. Hartop
Chief Executive Officer

A. K. Mulligan
Finance Director

Company Registration No. SC386922

Statement of Changes in Equity

	Note	Share capital	Share premium account	Other reserves	Retained earnings	Total
		£'000	£'000	£'000	£'000	£'000
At 1 January 2016		46,090	9,048	-	(18,085)	37,053
Loss for the year and total comprehensive loss		-	-	-	(6,259)	(6,259)
Issue of share capital	19	3,211	963	-	-	4,174
Direct share issue costs	19	-	(72)	-	-	(72)
Cancellation of ordinary B shares and C shares	19	(19)	-	19	-	-
At 31 December 2016		49,282	9,939	19	(24,344)	34,896
Loss for the year and total comprehensive loss		-	-	-	(6,360)	(6,360)
Issue of share capital	19	10,087	5,043	-	-	15,130
Direct share issue costs	19	-	(170)	-	-	(170)
Equity settled share based payments		-	-	-	227	227
At 31 December 2017		59,369	14,812	19	(30,477)	43,723

Statement of Cash Flows

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Cash flows from operating activities		
Loss before tax	(6,359)	(6,259)
Reconciliation from loss before tax to net cash flows from operating activities:		
Depreciation and amortisation	627	616
Equity settled share based payments	227	-
(Increase) in prepayments and accrued income	(29)	(154)
Increase / (Decrease) in accruals and deferred income	394	(514)
(Increase) in loans and advances to clients and banks	(43,213)	(45,194)
Increase in deposits by clients and banks	55,429	110,649
(Increase) in other assets	(19)	(20)
Increase in other liabilities and provisions	151	3
Elimination of foreign exchange differences	-	1
Net cash from operating activities	7,208	59,126
Cash flows from investing activities		
Purchase of property, plant and equipment	(11)	(25)
Purchases / development of intangible assets	(855)	-
Net cash flows from investing activities	(866)	(25)
Cash flows from financing activities		
Proceeds from issue of shares	15,130	4,050
Direct costs of share issuance	(170)	(72)
Net cash flows from financing activities	14,960	3,978
Net increase in cash and cash equivalents	21,301	63,079
Cash and cash equivalents at beginning of year	108,938	43,290
Effects of foreign exchange rate changes on cash & cash equivalents	(4,955)	2,569
Cash and cash equivalents at end of year	125,284	108,938

Analysis of cash and cash equivalents at end of year

Cash and balances with central banks	83,278	65,539
Loans and advances to banks repayable on demand	42,006	43,399
	125,284	108,938

Notes to the financial statements

For the year ended 31 December 2017

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 is the provision of banking services to high net worth individuals.

1.1 Presentation of financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations, as endorsed by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The impact of accounting standards and interpretations issued but not yet effective is summarised in note 26. The financial statements are presented in sterling.

1.2 Going concern

The Directors have assessed the outlook of the Bank over a longer period than twelve months. As anticipated in the initial business plan, the Bank will be required to raise additional capital during the period 2019 to 2020. The success of future capital raising activities is predicated upon the Bank achieving its growth plans and financial objectives as set out in the Strategic Risk statement. The Directors, having made such enquiries as they considered appropriate and having reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future, consider the going concern basis of preparation to be appropriate.

2 Summary of significant accounting policies

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

2.1 Property, plant and equipment

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

Leasehold improvements	10 years
Computer equipment	5 years

The residual values, useful lives and methods of depreciation are reviewed at each financial period end and adjusted prospectively, if appropriate. Property, plant and equipment are reviewed 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 fair value less cost to sell and value in use. Any impairment losses are recognised immediately in profit or loss.

2.2 Intangible assets

Intangible assets, which represent developed software and software licences, are measured on initial recognition at cost. Staff and development costs in relation to the development of

2 Summary of significant accounting policies *(continued)*

2.2 Intangible assets *(continued)*

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

2.3 Cash and balances at central banks

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

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

2.4 Equity

Equity is recorded at the proceeds received. Direct issue costs are charged to equity through the share premium account.

2.5 Leases

Rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the relevant lease except where another systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

2.6 Taxes

Current tax

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

Deferred tax

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

2 Summary of significant accounting policies *(continued)*

2.7 Foreign currencies

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

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

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

2.8 Financial Instruments

Financial assets and financial liabilities are recognised in the Bank's balance sheet 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. All financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate 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 effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Loans and receivables

Loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

2 Summary of significant accounting policies *(continued)*

2.8 Financial Instruments *(continued)*

For all other financial assets classified as loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

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.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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 'other financial liabilities'.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

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

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate 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.

2 Summary of significant accounting policies *(continued)*

2.8 Financial Instruments *(continued)*

Derecognition of financial liabilities

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

2.9 Non-interest income

Non-interest income is recognised on an accruals basis when the underlying service has been provided.

2.10 Interest receivable and payable

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

2.11 Pension costs

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

2.12 Share based payments

Employees of the Bank 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 a Binomial valuation model, depending on the rules of the scheme. Inputs into the valuation model include the risk free interest rate and volatility assumptions. Further details regarding the determination of the fair value of equity-settled share based transactions are set out in note 11. The fair value includes the effect of non-vesting conditions and any market based performance conditions.

2.13 Provisions

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

2.14 Change in Balance Sheet Classification

Deferred fee income and interest receivable have been reclassified to loans and advances to banks/clients from prepayments and accrued income and interest payable has been reclassified to deposits from banks/clients from accruals and deferred income in the current year. These

2 Summary of significant accounting policies *(continued)*

2.14 Change in Balance Sheet Classification *(continued)*

balances have been reclassified as they form part of the calculation of the effective interest rate. Prior year comparatives have been reclassified to ensure comparability.

3 Critical accounting judgements and key sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The Directors consider the critical accounting judgements to be:

Impairment losses on loans and advances to clients

The Bank reviews its loan and advances to clients to assess whether an impairment loss should be recorded in the Statement of Comprehensive Income. Impairment provisions are made when there is objective evidence that an event since initial recognition of an asset has adversely affected the amount or timing of future cash flows from the asset. Judgement is applied, on a case by case basis, to determine whether a loss event has occurred. No impairment provision has been recognised against the loans and advances to clients in the current or prior year.

Deferred tax asset

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits. There is currently no deferred tax asset recognised for the current or prior year.

There are no key sources of estimation uncertainty.

4 Net interest income

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Interest income on loans and receivables to banks	604	359
Interest income on loans and receivables to clients	2,785	1,143
Interest receivable	3,389	1,502
Interest expense on deposits from banks	(4)	(5)
Interest expense on deposits from clients	(196)	(209)
Interest payable	(200)	(214)
Net interest income	3,189	1,288

Interest income recognised on impaired financial assets amounted to £nil (2016: £nil).

5 Net non-interest income

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Banking income	465	172
Net non-interest income	465	172

6 Loss before tax

Loss before tax stated after charging:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Staff costs & Directors' remuneration	5,474	4,250
Depreciation of property, plant and equipment (note 12)	65	62
Amortisation of intangible assets (note 13)	562	554
Operating lease payments in respect of property	1,013	452
Other administrative expenses	3,151	2,580
Operating expenses	10,265	7,898

7 Auditor's Remuneration

The analysis of the auditor's remuneration is as follows:	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Fees payable to the Bank's auditor and its associates for the audit of the Bank's annual accounts	85	72
Total audit fees	85	72
Audit related assurance services	-	9
Other assurance services	26	-
Taxation compliance services	-	8
Total non-audit fees	26	17

8 Taxation

Total tax on loss on ordinary activities was £nil for year ending 31 December 2017 (2016: £nil).

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

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Loss before tax	(6,360)	(6,259)
Tax on loss before tax at standard UK corporation tax rate of 19.25 per cent (2016: 20 per cent)	(1,224)	(1,252)
Effects of:		
- Expenses not deductible for tax purposes	31	18
- Change in unrecognised deferred tax assets	1,193	1,234
Total tax charge for year	-	-

The standard rate of UK corporation tax applied to reported profit is 19.25% (2016: 20%). The standard rate of UK corporation tax decreased from 20% to 19% from 1 April 2017 and will reduce further to 17% from 1 April 2020. The effective tax rate of 0% differs from the standard rate of tax applied to the reported loss primarily as a result of the non-recognition of a deferred tax asset in respect of the current year tax loss.

The Bank has tax losses carried forward to future periods of £25,016k (2016: £19,904k). Due to the uncertainty surrounding when sufficient future taxable profits will be generated by the Bank that these tax losses can be offset against, no deferred tax asset has been recognised on these losses. No deferred tax asset has been recognised on other deductible temporary differences amounting to £1,358k, comprising fixed asset temporary differences (£1,332k) and pension contributions unpaid at the balance sheet date (£26k).

9 Employees

The monthly average Full Time Equivalent "FTE" number of employees (including directors) was 80 (2016: 65).

Aggregate remuneration for the year comprised:

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Wages and salaries	4,606	3,711
Share Options Granted	227	-
Social security costs	490	440
Pension costs	151	99
	5,474	4,250

10 Directors' Remuneration

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

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Short term employee benefits	1,086	1,080
Post-employment benefits	6	4
Other long term benefits	-	-
Termination benefits	-	-
Share Options Granted	174	-
	1,266	1,084

The total amount of Directors remuneration in accordance with Schedule 5 to the Accounting Regulations were £1,086k (2016: £1,080k) relating to salary and variable pay and £6k of contributions to a money purchase pension scheme (2016: £4k).

No Directors exercised share options during the year. Remuneration of the highest paid director in respect of qualifying services was £318k (2016: £295k).

11 Share Based Payments

The Bank launched a share option scheme for the executive management team during the year. This scheme consisted of tranche 1 and tranche 2 share options. The options have a five year vesting period and, if the options remain unexercised after a period of twenty years from grant date, the options expire. All options are equity settled and both the tranche 1 and tranche 2 options have non-market performance conditions and the tranche 2 options also contains non-vesting conditions. No options were exercisable at the end of the period.

11 Share Based Payments *(continued)*

As the scheme was launched during 2017 there are no prior year comparatives.

Details of the share options outstanding during the year are as follows:

	31st December 2017			
	Tranche 1 (number of shares)	**Weighted average exercise price (pence)**	**Tranche 2 (number of shares)**	**Weighted average exercise price (pence)**
Outstanding at the beginning of the period	-	-	-	-
Granted during the period	125,000,000	6.5	125,000,000	13.08
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	-	-
Expired during the period	-	-	-	-
Outstanding during the period	125,000,000	6.5	125,000,000	13.08
Fair value of shares awarded (pence)	2.88	-	0.79	-

The options outstanding at 31 December 2017 had a weighted average exercise price of 6.5p for Tranche 1 and 13.08p for Tranche 2 options, and a weighted average remaining contractual life of 20 years. On 2 October 2017 125,000,000 tranche 1 and 125,000,000 tranche 2 options were granted. The aggregate of the estimated fair values of the options granted is £4,600k. The Tranche 1 and Tranche 2 options have been valued using a binomial valuation methodology.

11 Share Based Payments *(continued)*

The inputs into the fair value model are as follows:

	31st December 2017	
	Tranche 1	**Tranche 2**
Weighted average share price	7.5p	7.5p
Weighted average exercise price	6.5p	13.08p
Expected volatility	30%	30%
Expected life	7 Years	5 Years
Risk-free rate	1.02%	0.76%

As an unlisted entity, the expected volatility was determined by considering the expected volatility of publically 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 binomial model has been adjusted, based on management's best estimates for the effects of exercise restrictions and behavioural considerations.

It is expected that at the end of the 5 year vesting period all Tranche 1 and Tranche 2 share options will vest.

The Bank recognised a total expense of £227k related to equity settled share based payments transactions (2016: £nil).

12 Property, plant and equipment

	Leasehold improvements £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2017	237	191	428
Additions	2	9	11
At 31 December 2017	239	200	439
Depreciation			
At 1 January 2017	38	78	116
Charge for the year	24	41	65
At 31 December 2017	62	119	181
Net book value			
At 31 December 2017	177	81	258

	Leasehold improvements £'000	Computer equipment £'000	Total £'000
Cost			
At 1 January 2016	213	190	403
Additions	24	1	25
At 31 December 2016	237	191	428
Depreciation			
At 1 January 2016	17	37	54
Charge for the year	21	41	62
At 31 December 2016	38	78	116
Net book value			
At 31 December 2016	199	113	312

13 Intangible assets

	Developed software £'000	Software licences £'000	Total £'000
Cost			
At 1 January 2017	2,925	896	3,821
Additions	855	-	855
At 31 December 2017	3,780	896	4,676
Amortisation			
At 1 January 2017	666	207	873
Charge for the year	432	130	562
At 31 December 2017	1,098	337	1,435
Net book value			
At 31 December 2017	2,682	559	3,241

During the year £740k of costs incurred on the development of mobile banking were capitalised. The amortisation period for the asset has not commenced as the asset is still under development.

	Developed software £'000	Software licences £'000	Total £'000
Cost			
At 1 January 2016	2,925	896	3,821
Additions	-	-	-
At 31 December 2016	2,925	896	3,821
Amortisation			
At 1 January 2016	243	76	319
Charge for the year	423	131	554
At 31 December 2016	666	207	873
Net book value			
At 31 December 2016	2,259	689	2,948

14 Accruals and deferred income

	2017 £'000	2016 £'000
Deferred fee income	148	142
Expense accruals	1,555	1,168
	1,703	1,310

15 Other liabilities

	2017 £'000	2016 £'000
Other liabilities	39	7
	39	7

16 Financial instruments

Categories of financial instruments

At 31 December 2017	**Loans and receivables £'000**	**Total £'000**
Financial Assets:		
Cash and balances with central banks	83,278	83,278
Loans and advances to banks	58,618	58,618
Loans and advances to clients	94,198	94,198
Total financial assets	236,094	236,094

At 31 December 2017	**Other financial liabilities £'000**	**Total £'000**
Financial Liabilities:		
Deposits from banks	686	686
Deposits from clients	193,926	193,926
Total financial liabilities	194,612	194,612

16 Financial instruments *(continued)*

Categories of financial instruments *(continued)*

At 31 December 2016	**Loans and receivables £'000**	**Total £'000**
Financial Assets:		
Cash and balances with central banks	65,539	65,539
Loans and advances to banks	62,988	62,988
Loans and advances to clients	48,008	48,008
Total financial assets	176,535	176,535

At 31 December 2016	**Other financial liabilities £'000**	**Total £'000**
Financial Liabilities:		
Deposits from banks	682	682
Deposits from clients	143,456	143,456
Total financial liabilities	144,138	144,138

No impairment provision has been recognised against the loans and advances to clients in the current or prior year.

17 Fair value

Fair value measurements

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

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

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

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

Fair value measurements recognised in the statement of financial position

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

18 Financial risk management

Financial risk management objectives

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

The Bank seeks to minimise the effects of these risks by using both natural hedging and derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Bank's policies (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 ALCO and appropriate metrics are presented monthly to the Board and the RMC. Metrics are also presented quarterly to the BRC, an independent body that monitors risks and policies implemented to mitigate risk exposures.

Market Risk

Foreign currency risk management

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

The Bank does not maintain any material open currency positions, and as such has no material exposure to the effects of fluctuations in foreign exchange rates. 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 borrowings, and by the use of interest rate swap contracts if required. Hedging activities are evaluated regularly to align with the defined risk appetite; ensuring the most cost-effective hedging strategies are applied.

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.

18 Financial Risk Management *(continued)*

Interest rate sensitivity analysis *(continued)*

At 31 December 2017

	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 with central banks	83,278	-	-	-	-	-	83,278
Loans and advances to banks	42,291	-	16,327	-	-	-	58,618
Loans and advances to clients	94,138	-	-	-	-	60	94,198
Other assets	-	-	-	-	-	4,102	4,102
Total assets	**219,707**	**-**	**16,327**	**-**	**-**	**4,162**	**240,196**
Liabilities							
Deposits from banks	-	-	686	-	-	-	686
Deposits from clients	165,241	7,665	21,020	-	-	-	193,926
Other liabilities and provisions	-	-	-	-	-	1,861	1,861
Total liabilities	**165,241**	**7,665**	**21,706**	**-**	**-**	**1,861**	**196,473**
Interest rate sensitivity gap	**54,467**	**(7,665)**	**(5,379)**	**-**	**-**	**2,301**	
Cumulative gap	**54,467**	**46,802**	**41,423**	**41,423**	**41,423**	**43,724**	

At 31 December 2016

	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 with central banks	65,539	-	-	-	-	-	65,539
Loans and advances to banks	45,675	7,000	10,313	-	-	-	62,988
Loans and advances to clients	47,959	-	-	-	-	49	48,008
Other assets	-	-	-	-	-	3,816	3,816
Total assets	**159,173**	**7,000**	**10,313**	**-**	**-**	**3,865**	**180,351**
Liabilities							
Deposits from banks	-	-	682	-	-	-	682
Deposits from clients	122,668	3,830	16,958	-	-	-	143,456
Other liabilities and provisions	-	-	-	-	-	1,317	1,317
Total liabilities	**122,668**	**3,830**	**17,640**	**-**	**-**	**1,317**	**145,455**
Interest rate sensitivity gap	**36,505**	**3,170**	**(7,327)**	**-**	**-**	**2,548**	
Cumulative gap	**36,505**	**39,675**	**32,348**	**32,348**	**32,348**	**34,896**	

18 Financial Risk Management *(continued)*

Interest rate sensitivity analysis (*continued)*

The Bank monitors its exposure to interest rate risk, and reports this to the ALCO. One such internally reported measure is calculating the net present value of a 2% change in the yield curve. The results at both 31 December 2017 and 31 December 2016 do not show a significant change in net present value.

Liquidity risk management

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

Liquidity risk tables

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

At 31 December 2017	**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 with central banks	83,278	-	-	-	-	83,278
Loans and advances to banks	42,292	-	16,327	-	-	58,619
Loans and advances to clients	9,005	2,797	7,682	56,273	36,911	112,668
Total financial assets	**134,575**	**2,797**	**24,009**	**56,273**	**36,911**	**254,565**
Financial Liabilities						
Deposits from banks	-	-	686	-	-	686
Deposits from clients	165,400	7,520	21,005	-	-	193,925
Total financial liabilities	**165,400**	**7,520**	**21,691**	**-**	**-**	**194,611**
Maturity gap	**(30,825)**	**(4,723)**	**2,318**	**56,273**	**36,911**	
Cumulative gap	**(30,825)**	**(35,548)**	**(33,230)**	**23,043**	**59,954**	

18 Financial Risk Management *(continued)*

Liquidity risk tables *(continued)*

At 31 December 2016	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 with central banks	65,539	-	-	-	-	65,539
Loans and advances to banks	45,674	7,000	10,313	-	-	62,987
Loans and advances to clients	6,186	284	5,470	29,661	14,899	56,500
Total financial assets	**117,399**	**7,284**	**15,783**	**29,661**	**14,899**	**185,026**
Financial Liabilities						
Deposits from banks	-	-	682	-	-	682
Deposits from clients	122,668	3,830	16,958	-	-	143,456
Total financial liabilities	**122,668**	**3,830**	**17,640**	**-**	**-**	**144,138**
Maturity gap	**(5,269)**	**3,454**	**(1,857)**	**29,661**	**14,899**	
Cumulative gap	**(5,269)**	**(1,815)**	**(3,672)**	**25,989**	**40,888**	

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, connected 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. 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.

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

The Bank structures its level of credit risk by placing limits on the amount of risk it takes by individual borrower, groups of borrowers, in addition to concentration risk by product, industry and geographical sectors. These limits are monitored monthly at Credit Committee and Board.

Maximum exposure to credit risk

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

18 Financial Risk Management *(continued)*

Credit risk management *(continued)*

	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Exposure	118,367	72,269
Collateral	219,098	109,226
Cover	185%	151%

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 all facilities afforded to clients are reviewed on at least an annual basis with knowledge of the client's financial affairs being of paramount importance in the credit assessment process.

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

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

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

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

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

ICG-5 – Affordability / repayment ability questionable, security may have deteriorated, much greater probability of default

The table below provides a summary of the Bank's asset quality analysed by internal credit grades. At both 31 December 2017 and 31 December 2016 there were no provisions against loans and advances.

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

At 31 December 2017	**ICG-1 £000**	**ICG-2 £000**	**ICG-3 £000**	**ICG-4 £000**	**ICG-5 £000**	**Accruing Past Due £000**	**Total £000**
Cash and balances with central banks	83,278	-	-	-	-	-	83,278
Loans and advances to clients	83,541	4,756	4,500	1,380	-	21	94,198
Loans and advances to banks	58,618	-	-	-	-	-	58,618
Commitments	20,581	30	376	3,184	-	-	24,171
	246,018	**4,786**	**4,876**	**4,564**	**-**	**21**	**260,265**

18 Financial Risk Management *(continued)*

Credit risk management *(continued)*

At 31 December 2016	ICG-1 £000	ICG-2 £000	ICG-3 £000	ICG-4 £000	ICG-5 £000	Accruing Past Due £000	Total £000
Cash and balances with central banks	65,539	-	-	-	-	-	65,539
Loans and advances to banks	62,988	-	-	-	-	-	62,988
Loans and advances to clients	45,154	1,354	309	1,191	-	-	48,008
Commitments	20,178	1,458	641	1,855	-	-	24,132
	193,859	**2,812**	**950**	**3,046**	**-**	**-**	**200,667**

Collateral

The Bank has £245k (2016: £267k) of financial assets which it has pledged as collateral.

19 Share capital

	2017 £'000	2016 £'000
Allotted, called up and fully paid		
1,187,382,934 (2016: 985,647,768) Ordinary shares of £0.05 each	59,369	49,282
	59,369	**49,282**

	2017 £'000	2016 £'000
Authorised, allotted, called up and fully paid:		
At 1 January 2017	49,282	46,090
Issued ordinary shares	10,087	3,211
Cancellation of B and C Shares	-	(19)
At 31 December 2017	**59,369**	**49,282**

Ordinary shares

During the year 201,735,166 (2016: 64,230,767) ordinary shares were issued at a gross premium of £5,043k (2016: £963k).

Direct issue costs of £170k (2016: £72k) associated with fund-raising activities have been recorded in the share premium account.

At 31 December 2017 1,718,828,079 (2016: 1,718,828,079) ordinary shares were authorised with a par value of £0.05 (2016: £0.05).

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

19 Share Capital *(continued)*

Share premium account

	2017 £'000	2016 £'000
At 1 January 2017	9,939	9,048
Premium arising on issue of equity shares	5,043	963
Direct share issue costs	(170)	(72)
At 31 December 2017	**14,812**	**9,939**

Other Reserves

Included within other reserves is a capital redemption reserve of £19k (2016: £19k) which was created in 2016 on redemption of the B shares and C shares, which were cancelled for £nil consideration. The B shares and C shares issue proceeds were established as part of a share based management incentive scheme and had significantly restricted participation rights.

20 Control

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

21 Related parties

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

Key management personnel and their close family members aggregate deposits were £381,272 (2016: £233,155) and aggregate lending was £nil (2016: £nil) at year end. Interest expense on deposits was £180 (2016: £194). Committed loans at the year ended 31 December 2017 were £2,500,000 (2016: £nil). Subsequent to 31 December 2017, these commitments expired without being drawn down.

Hampden Holdings Limited and its subsidiary undertakings are related entities by virtue of a member of the key management personnel's significant influence over the Hampden Holdings Group. The following transactions were undertaken during the year with Hampden Holdings group entities:

Hampden Holdings Limited:

- Deposits at the year ended 31 December 2017 were £2,929 (2016: £35,537) and lending was £296 (2016: £nil).
- A fee of £136,906 (2016: £40,127) has been charged to Hampden Holdings Limited for the provision of staff and related services, of which £24,010 was due at 31 December 2017 (2016: £23,536).

Hampden Agencies Limited:

- Deposits at the year ended 31 December 2017 were £52,467 (2016: £53) and lending was £54,967 (2016: £nil).

The Bank received insurance services from XL Insurance Company SE, part of the XL Group, through the broker Willis Towers Watson. The charge for the year was £26,908 (2016: £28,446).

No provisions have been made for doubtful debts in respect of amounts owed by related parties.

21 Related parties *(continued)*

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

22 Financial commitments

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

	2017 £'000	2016 £'000
- within one year	530	415
- between one and five years	1,535	793
- after five years	164	-
	2,229	**1,208**

Operating lease payments represents rentals payable by the Bank for its office premises.

23 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.

	2017 £'000	2016 £'000
Commitments to lend	24,170	24,132
Commitments for intangible asset development	345	-
	24,515	**24,132**

24 Provisions

	2017 £'000
At 1 January 2017	-
Provided during the year	119
Utilised during the year	-
At 31 December 2017	**119**

The above provision relates to anticipated costs of restoring leased assets to their original condition. It is expected that the provision will be utilised at the end of the leased terms, the longest of which is due to end in 2025.

25 Capital management policy

The European Capital Requirements Directive (Basel II) came into force on 1 January 2007. On 1st of January 2014, Basel III regulations, commonly known as CRD IV revised the definition of capital

25 Capital management policy *(continued)*

resources and included additional capital and disclosure requirements. Basel III is an international initiative aimed at implementing a more risk sensitive framework for the calculation of regulatory capital. The Prudential Regulation Authority (PRA) is responsible for the implementation and enforcement of the Directive. The framework consists of three pillars:

- Pillar 1 sets minimum capital requirements that firms must meet for credit, market and operational risk.
- Pillar 2 requires that firms undertake an overall assessment of their capital adequacy, taking into account all risks to which the firm is exposed and whether additional capital should be held to cover risks not adequately covered by Pillar 1 requirements.
- Pillar 3 complements Pillar 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 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 who enforce the directive.

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

26 New accounting standards and interpretations not adopted

In January 2016 the IASB issued an amendment to IAS 7 Statement of Cash Flows and is effective for annual periods beginning on or after 1 January 2017. The amendments require entities to provide disclosure that enable users of the financial statements to evaluate changes in liabilities arising from financing activities. The changes arising from IAS 7 have had no impact on the disclosures in the Statement of Cash Flows as the Bank has no liabilities arising from financing activities.

The following International Financial Reporting Standards and IFRIC interpretations applicable to the Bank were issued but are not yet effective. The Bank has chosen not to adopt these early and is in the process of analysing their impact upon its operations.

- Annual improvements to IFRS cycle 2015 -2017 were issued in December 2017 making a number of minor amendments to IFRS as part of the annual improvements process. Amendments have been made to IFRS 3 'Business Combinations', IAS 12 'Income Taxes' and IAS 23 'Borrowing Costs'. The effective date of the 2015-2017 annual improvements cycle is 1 January 2019.
- IFRS 9 'Financial Instruments' replaces IAS 39 and is effective for annual periods beginning on or after 1 January 2018. The Bank has developed an internal model to calculate expected credit losses on financial instruments within the scope of IFRS 9. An internal scorecard methodology has been adopted to assess the staging classification of the Banks exposures. As at the end of December all exposures are classified as Stage 1 performing assets as there has been no significant deterioration in credit risk since origination. The Bank has engaged with an external consultant to provide probability of default ("PD") inputs used to estimate the credit loss allowances and macroeconomic data in order to determine the resilience of our lending portfolios. The definition of default used in the measurement of expected credit losses and our credit scorecard will be consistent with the definition of default used for internal credit risk management purposes. Loss given default ("LGD") is calculated based on the collateral value after an appropriate haircut has been applied to the market value of the security. The impact is attributable to the new impairment

26 New accounting standards and interpretations not adopted (continued)

requirements, and we do not expect the adoption of IFRS 9 to have a significant impact on our Common Equity Tier 1 (“CET1”) capital. Based on current estimates the likely quantitative impact on the transition to IFRS 9 will be to reduce shareholders’ equity at 1 January 2018 by an amount not greater than 0.5% of shareholders’ equity as at 31 December 2017.

- IFRS 15 ‘Revenue from Contracts with Customers’ establishes a single comprehensive model for entities in use in accounting for revenue arising from contracts with clients and supersedes a number of existing standards and interpretations from its effective date for accounting periods on or beginning on or after 1 January 2018. IFRS 15 introduces principles to recognise revenue by allocation of transaction price to performance obligations. This standard is not considered to have a material impact as the Bank’s revenue will be predominantly recognised in line with IFRS 9.
- IFRS 16 ‘Leases’ specifies how to measure, present and disclose leases and is effective for accounting periods on or beginning on or after 1 January 2019. The Bank is assessing the effect of adopting this standard on its financial statements. On adoption the Bank is likely to incur an increase in both assets and liabilities.
- Amendment to IFRS 2 ‘Classification and measurement of share based payment transactions’ Effective from 1 January 2018, the amendment seeks to clarify the classification and measurement of share based payment transactions. The amendment introduced an exception to IFRS 2 so that a share-based payment where the entity settles the share based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity settled had it not included the net settlement feature. The Banks share based payments are all classified as equity settled and as such the amendment has no impact on the Bank.