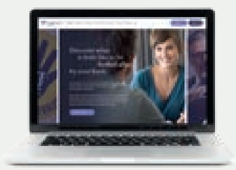
Hampden & Co.
BANKERS

2022

Annual Report and Financial Statements

For the year ended 31 December 2022

Contents

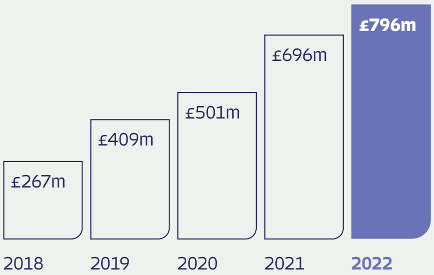


For more information on Hampden & Co,
please visit our website at
hampdenandco.com/investors

2022 Performance highlights

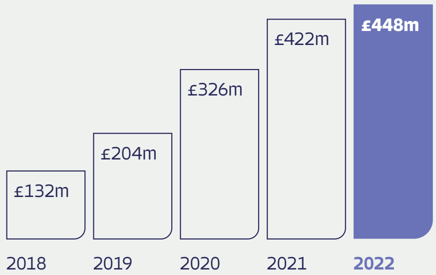
Deposits from clients

Up 14% to £796m



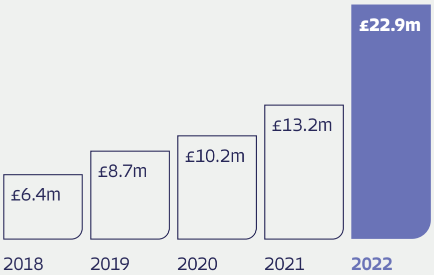
Loans and advances to clients

Up 6% to £448m



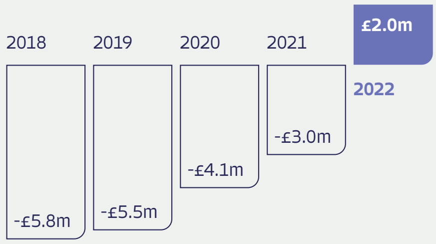
Total income

Up 73% to £22.9m



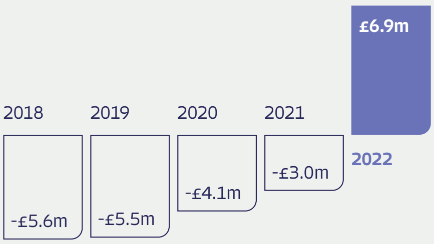
Profit/(loss) before tax

Inaugural profit of £2.0m



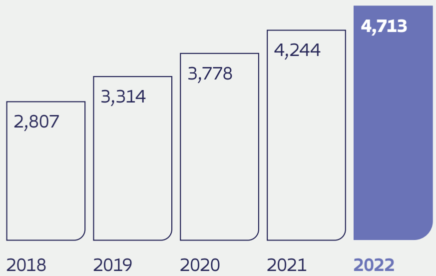
Profit/(loss) after tax

Inaugural profit of £6.9m



Client numbers

Up 11% to 4,713



Client endorsement

Net Promoter Score 73 (2018: 71)
Likely to recommend average 9.1/10

Introducing Hampden & Co

Our vision

Hampden & Co's strategic vision is to provide an exceptional banking service, personalised to the needs of high-net-worth clients, delivered by experts and enhanced by digital capabilities.

We provide private banking as it should be: approachable, accessible expertise delivered through loyal, long-lasting client relationships.

The services we provide for our clients

Financially successful people are increasingly appreciating the benefits of being with a private bank and the value of having access to a banker.

At Hampden & Co, your banker gets to know you, your needs and the needs of your family and business to provide a personal banking service.

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

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

Deposits
Tailored solutions, including Call (instant access), Notice and Term accounts.

Digital banking
The convenience of online banking and mobile apps complement the personal service of a banker.

Awards success in 2022

Outstanding Private Bank - UK - Domestic Clients

Private Bank of the Year
UK Spear's Wealth Management

Outstanding Private Bank – UK – Domestic Clients
Private Banker International

Our clients are our strongest advocates

"Hampden & Co is unlike any bank. The level of professionalism, genuine kindness and discretion is by far the biggest asset the bank has.

"Dealing with people at Hampden & Co, I feel I am the only client of the bank.

"I cannot recommend Hampden & Co more highly. It is the first time I have ever had a banker who is genuinely in your corner.

"The first bank I have come across, in both a business and personal capacity, that took a considered view of my overall financial situation.

Quotes taken from Hampden & Co client satisfaction survey 2022

Chairman's statement

Simon Miller
Chairman

"Achieving profitability earlier than expected signifies real progress and positions the Bank on the cusp of capital self-funding.

It has been by any standards an extraordinary year for the global economy, for the United Kingdom and indeed for Hampden & Co (the Bank).

Rising inflation accompanied by rising interest rates; a swift and targeted international response to Russian aggression in the Ukraine, with its profound impact on energy and food prices; and Covid, still continuing worldwide but in particular in China. Most recently, there has been renewed turbulence in the banking sector.

Strong performance

It is therefore ironic that 2022 has proved to be such a strong year for the Bank. In last year's Chairman's Statement, I indicated that the Bank was focussing its efforts on achieving profitability towards the end of the year. This process was accelerated by the rise in the Bank of England Base Rate from 0.25% at the start of the year to 3.5% by the year end.

Profit before tax amounted to £2.0m and profit after tax was £6.9m (2021 saw a loss of £3.0m). The Bank's financial performance is covered in the Chief Executive Officer's Business Review on pages 6 to 8.

The year end loan book stood at £448m (up 6% from £422m in 2021) and year end deposits amounted to £796m (up 14% from £696m in 2021). Due to rising interest rates, repayments of existing loans were higher than in previous years. There was also a shift from variable to fixed rate lending, with many clients considering the ongoing economic uncertainty and seeking the stability offered by fixed rates.

Supportive shareholders

During the year, the Cornerstone shareholders invested a further £8m in the Bank to support balance sheet growth. Achieving profitability earlier than expected signifies real progress and positions the Bank on the cusp of capital self-funding.

A culture centred around clients

The Bank now has more than 4,700 clients whose needs are served by 125 colleagues, including a 30-strong banking team. As evidenced by the responses to the 2022 Satisfaction Survey, clients are strong advocates of the Bank's service. Face-to-face contact is and will remain at the heart of the Bank's service to clients and access to a specialist banker is regularly given as a key reason why new clients join. To evolve the Bank's ability to serve their needs, there will be further investment to enhance online and mobile banking services and a new client relationship management system is being implemented.

Throughout the pandemic we have supported our people in many different ways, focussing on their physical and mental wellbeing, offering improved healthcare benefits and flexible working hours or helping those who need financial support. Our employee survey demonstrates that people are engaged in their roles and highlights in particular how proud they are to work for the Bank.

The Bank plans to move its offices in Edinburgh in 2024 when the leases on 9 Charlotte Square and Scotia Bank House expire. The intention is to lease another building nearby which will allow us to consolidate both Edinburgh offices into one building. This will be to the benefit of both clients and employees.

The Bank received two awards in 2022. Hampden & Co was announced as 'Private Bank of the Year – UK' at the Spear's Wealth Management Awards, and 'Outstanding Private Bank of the Year – UK – Domestic Clients' by Private Banker International. Judges cited high levels of client satisfaction.

Board and senior management

The Board recently announced the appointment of Kaushalya Somasundaram as a Non-Executive Director. She is a qualified accountant and an MBA and much of her executive career was at HSBC where she was, most recently, Global Head of Fintech Partnerships. Kaushalya brings with her a depth of banking, financial and digital experience which will be beneficial for the next phase of the Bank's growth.

There were three new appointments to the executive management team. Jonathan Peake was appointed to the Board as Chief Financial Officer, joining from Standard Bank International where he was also Chief Financial Officer. Peter Craigie joined as Chief Risk Officer having previously worked for Lloyds Banking Group where he was Chief Risk Officer for Islands Banking. Gordon Syme joined as General Counsel and Company Secretary from Aegon Asset Management, the Dutch-owned investment company, where he was Head of Legal & Regulatory (UK).

Andy Mulligan and Alison Inverarity retired from the Bank in 2022 while Peter Sparkes stepped down from his role as Non-Executive Director. The Board is most grateful for their respective contributions.

Looking forward to 2023

Since the banking crisis of 2009 until the end of 2021, the Bank of England base rate averaged less than 0.6% but historically, interest rates stood far higher and indeed the average interest rate for the period from 1971 to 2022 stands at around 7%. Most commentators believe that UK interest rates will now, in the short to medium term, settle in the range of 3% to 5%.

The Board and the management team regularly review the Bank's strategy to ensure it remains aligned to the demands of stakeholders, resilient to changes in the economy and responsive to opportunities for growth. The Board believes the macroeconomic climate is supportive for Hampden & Co and the private banking sector, and this has been reflected in the Bank's strong start to 2023.

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

Yours sincerely

Simon Miller
Chairman

30 March 2023

Chief Executive Officer's business review

Graeme Hartop
Chief Executive Officer

"We continue to evolve our services as we anticipate demand and in response to the needs of clients.

Strategy and vision

The Bank's purpose is to help high-net-worth clients, their families and associated businesses to achieve their aspirations. We aim to do this by providing an exceptional banking service that is personalised to their needs, delivered by experts and enhanced by digital capabilities.

Our vision is to always be relevant, connected and rewarding for our clients, colleagues and stakeholders. We aim to be timely, knowledgeable and personalised when meeting our clients' needs in the moments that matter to them, providing a service that exceeds their expectations. We also add value through our extensive connections with other professional advisers.

The Bank offers day-to-day banking services, deposits and lending which, together command the margins we believe will meet the Bank's business plan. Personalised, face-to-face contact with specialists remains at the core of our service to clients. Digital services complement this and are provided for the convenience of clients. We continue to evolve our services as we anticipate demand and in response to the needs of clients.

The management team and Board regularly review the Bank's strategy to assess opportunities and risks and have reaffirmed our commitment to focusing exclusively on banking. This differentiates the Bank from most other private banks who combine banking and wealth management services. This strategic decision provides key benefits for the Bank and for our clients. It means we are totally focussed on providing a high quality relationship driven private banking service. By avoiding this conflict of interest and competition with wealth managers, solicitors and accountants, we can more readily work in partnership with these professional advisers for the benefit of our clients while cultivating introductions to new clients.

The quality of business and its safe, managed growth remain key priorities. The Board and the management team engender a culture centred around clients, promoting high ethical values and standards of excellence that meet the expectations of clients and of the regulator. These values are vital in building and maintaining the Bank's reputation for integrity and this drives the Bank's risk appetite.

Financial performance

2022 was a landmark year for the Bank. From launch, we have been building the strong foundations necessary to deliver on the needs of our various stakeholders. This work has now resulted in the first full year of profit. The Bank of England raised interest rates on eight separate occasions during the year and with the impediment of historically low interest rates removed, the Bank delivered a profit before tax of £2.0m. This was achieved on income of £22.9m, up 73% on 2021. Profit after tax was £6.9m, and includes £4.9m from the first-time recognition of a deferred tax asset in respect of forecast future utilisation of historical tax losses.

The Bank of England bank rate rises, up from 0.25% at the start of the year to 3.5% by the end, served to dampen demand for lending across the market. Nevertheless, lending balances were up 6% to end the year at £448m. Included in this number were loans against investment portfolios which increased by 10% to £30m and our focus on working with mortgage introducers saw borrowing from this channel rise by 11% to £101m.

Deposits also reached a new total high at £796m, up 14% on 2021.

Many new clients were welcomed to the Bank with the total number up by 11% to over 4,700. Client retention rates remained very high. This is testament to the continued demand for personalised banking and the award winning levels of service provided by the team.

Developments in 2022

During the year, various initiatives were undertaken to enhance the experience for clients, to grow revenue and to ensure the continued smooth operation of the Bank.

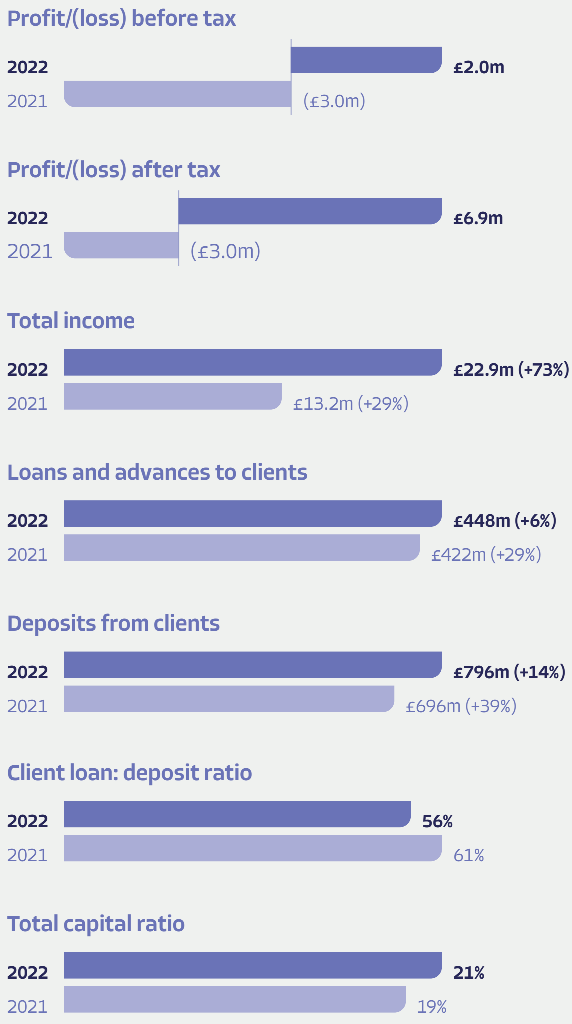
The ability to lend against investments has proved a strong addition to our service, enabling clients with select wealth managers to secure borrowing against their investment portfolios while remaining invested in and participating in the returns of the market. To expand our offering, we adopted standardised portfolio criteria and streamlined our decision-making process and are now working with a wider range of wealth managers.

Our access to a network of professionals allows us to share expertise that complements our own and is a key benefit of being a client of the Bank. We identified and teamed up with Hiscox Private Client as one of the world's leading providers of general insurance, which allows clients to benefit from their comprehensive range of bespoke insurance services. The Bank receives a fee for any introductions that lead to a client becoming a client of Hiscox.

To accelerate our environmental strategy, the Bank has signed a Memorandum of Understanding with NatureScot, the public body responsible for Scotland's natural heritage, in partnership with Palladium and Lombard Odier. This is designed to help landowners source the finance necessary to create woodlands that positively improve the environment. As we strive to

Key Performance Indicators (KPIs)

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



Chief Executive Officer's business review (continued)

achieve our own target of being net zero carbon by 2030, we appointed a specialist consultancy to help develop a new set of product and service propositions that will better align our sustainability and charitable efforts with our commercial interests.

A significant investment in our core banking platform ensured a smooth upgrade to the latest version of the software provided by Oracle. This was a considerable undertaking which will bring comprehensive support and operational benefits from improved processes. This enhances our ability to deliver services to clients and facilitates improvements to our digital services.

To continue to attract new clients and to maintain the exceptional levels of service we offer, we invested in building and strengthening our teams. 125 colleagues, up from 102 at the start of the year, are now based in our London and Edinburgh offices.

Economic and political backdrop

The cost and consequences of the pandemic began to emerge in 2022 and, together with the implications of the war in Ukraine on food and energy prices, inflation has been rising globally. The impact on real income levels has caused turmoil, leading to strikes across various sectors and the response by the Bank of England has been to raise interest rates, albeit to more normal historic levels. A result has been price reductions in the housing market and dampened demand for residential mortgages and commercial lending. This trend is expected to continue into 2023.

Although a recession in the UK economy, predicted by various commentators, has yet to transpire and inflation is expected to fall over the short to medium term, the environment of uncertainty will continue. It remains to be seen how the economy will perform and recover, what the long-term economic impact of events in Ukraine will be and how governments will respond globally.

Looking forward to 2023

Most recently, there has been renewed turbulence in the banking sector. While the Bank has no direct exposures to Silicon Valley Bank or Credit Suisse and remains both highly liquid and well-capitalised, it remains alert to this emerging macroeconomic risk.

Despite the economic uncertainty, and while no-one is entirely immune to its impact, the Bank's lending quality remains high.

In past reports, I have written about the path to profitability and it is thanks to the commitment of shareholders and the work of my colleagues that this was achieved in 2022. We expect to see continued growth on both sides of the balance sheet and, with interest rates returning to more normal historic levels, we look forward positively to developing increased profitability.

Graeme Hartop
Chief Executive Officer
30 March 2023

Engaging with our stakeholders (Section 172 statement)

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

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

The Bank is a growing business and the Board is focussed on prioritising its long-term success. Material decisions taken during 2022 in this regard were:

New appointments

There were three new appointments to the executive management team. Jonathan Peake was appointed as Chief Financial Officer, joining from Standard Bank International where he was also Chief Financial Officer. Peter Craigie joined as Chief Risk Officer having previously worked for Lloyds Banking Group where he was Chief Risk Officer for Islands Banking. Gordon Syme joined as General Counsel and Company Secretary from Aegon Asset Management, the Dutch-owned investment company, where he was Head of Legal & Regulatory (UK).

Capital investment to support business growth

The Bank raised £8m during 2022.

Investment in technology

The Bank completed a significant upgrade of its core banking platform to the latest software version during 2022. This upgrade brings comprehensive support and operational benefits from improved processes and will enhance the Bank's ability to deliver services to clients.

b. Employee engagement

The Bank now employs 125 colleagues across offices in Edinburgh and London, up from 102 in 2021.

Several new reward benefits for colleagues were added during 2022, including private health insurance, health cash plan, additional annual leave, and holiday buy / sell scheme. This recognises one of the focus areas from the last colleague engagement survey in November 2021. The next colleague engagement survey will take place early summer 2023.

A new hybrid working policy has delivered flexibility through a combination of home and office working, striking a balance which works for clients, the business, teams and individuals, whilst still benefitting from collaboration, communication, culture and social interaction with colleagues.

In response to the cost of living crisis, during summer 2022 salary increases were given to colleagues earning less than £45k per annum, and all colleagues received a one-off award of £500 in December 2022.

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

Clients

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

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

Suppliers

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

Others

The Bank develops collaborative relationships with relevant professional services firms in order to grow and develop its client base.

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

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

Community

The Bank is a socially responsible business and all colleagues are encouraged to support our society and our communities as described on page 12.

Environment

The Bank has a small environmental footprint but is working to reduce the contributors to operational carbon emissions, primarily from business travel and commuting. This will help the Bank to achieve its target of being net-zero carbon by 2030. Further details are provided in the Sustainability Report on pages 11 and 12.

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

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

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

The Bank continues to engage with its shareholders through regular communications and interactive shareholder forums.

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

Sustainability report

Hampden & Co is a socially responsible bank committed to reducing its impact on the environment and to making a positive contribution to the communities in which we live and work.

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

This strategy is set and managed by the Executive Management Committee (EMC) and overseen by the Board. The EMC, led by the Chief Executive Officer, is responsible for identifying and mitigating the corporate risks of climate change, and for setting, embedding and governing high standards of environmental and social practices. It is supported by working groups focused on the delivery of planned environmental and social initiatives and reviews performance against targets and delivery of initiatives against the plan.

Environmental specialist consultancy, Perigon Partners, was engaged during the year to review and develop the strategy. The objective of this work was to identify opportunities to accelerate our environmental and social activities to help us meet our medium- and long-term sustainability goals. This work has proposed recommendations which we are actively considering, including new product and service propositions and opportunities to better align our charitable efforts with our commercial interests.

Measuring the Bank's environmental impact

As we strive to achieve our target of being net-zero carbon by 2030, we are measuring our carbon footprint annually in tonnes of carbon dioxide equivalent (tCO_2e) against a 2019 pre-Covid benchmark. The emissions which result from running the Bank, including travel, waste, energy and paper usage are reported in three categories:

Scope 1

All direct emissions

Emissions from the activities under our control. This includes fuel used in our offices, such as gas. Between 2019 and 2021, this increased by 0.182 tCO_2e to 0.487 tCO_2e.

Scope 2

Indirect emissions

Emissions created during the production of the energy and eventually used in our offices, such as electricity. This reduced in 2021 by 12.603 tCO_2e to 14.145 tCO_2e.

Scope 3

All other indirect emissions

Emissions from sources we do not own or control occurring from our activities, such as business travel and commuting, and procurement of consumables such as paper, plastics and water. This reduced significantly in 2021, down 293.411 tCO_2e to 55.648 tCO_2e.

The reductions in scope 2 and scope 3 emissions were a result of hybrid working which meant colleagues worked part of the week from home and more meetings were conducted online. This led to a reduction in commuting and business travel with rail travel increasingly preferred to air travel.

A separate Environmental and Social Report will be published when the results of the Bank's 2022 emissions are available.

Reducing our footprint

The Bank is committed to reducing contributions to its operational carbon emissions. The most significant contribution arises from scope 3 emissions primarily from business travel and commuting. We are working to reduce these emissions by promoting:

- use of virtual meetings where appropriate;
- rail travel instead of air travel;
- a hybrid model of working that balances office and home working;
- attractive terms for colleagues on the lease of electric vehicles; and
- a cycle to work scheme.

Sustainability report (continued)

Supporting environmental projects

The Bank has signed a Memorandum of Understanding to work in partnership with NatureScot, Scotland's nature agency, global impact firm Palladium and Lombard Odier Investment Managers. This partnership is exploring the potential for providing finance to support the creation of woodlands which deliver multiple benefits for nature, communities, the economy and the climate.

To highlight the benefits to the environment and communities of woodland creation, the Bank created a podcast series featuring interviews with experts from across the forestry sector. Titled 'The Return Of The Woodland', the series explores what it takes to create a woodland, looking at the potential pitfalls and at the help available through secured financing, government grants and the burgeoning carbon credits market. The series is supported by a written report to summarise the guidance and highlights the help available from experts in the field.

Supporting our communities

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

Appointed as our elected charity in 2021, colleagues continued to raise funds for FACE in 2022. FACE is a small charity dedicated to supporting patients and families who have been affected by cancer.

The charity is run entirely by volunteers who have been directly or indirectly impacted by cancer. They have no paid members of staff and no offices to maintain, thereby keeping administration costs to a minimum and directing the funds raised towards providing help.

The charity uses funds raised to provide the 'little things' that can make a difference to a patient or their supporters comfort and environment. These include maintaining the hospital grounds and waiting areas to provide comfortable surroundings, such as seating, air conditioning, aromatherapy and a supply of newspapers and flowers.

They also provide trips for sick children to see Santa Claus in Lapland. Many of the ideas for which donations are used are suggested by patients, visitors and nursing staff.

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

Supporting worthy causes

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

Matched funding

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

Volunteering

Each colleague can request one paid personal volunteering day and one paid day for a corporate volunteering opportunity working with other colleagues.

Payroll giving

We offer an easy, safe and tax-friendly way for colleagues to support the charities they care about through payroll giving, also known as 'Give As You Earn'. This enables them to donate straight from their monthly pay to any UK registered charity. Donations are deducted from gross pay, which gives immediate tax relief.

The Bank holds a Silver Payroll Giving Quality Mark Award for our commitment to Payroll Giving.

People and culture

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

Our values reflect what is important to us and these are displayed in our behaviours. We have summarised these as ‘Think of the client’, ‘Take ownership’ and ‘Deliver at pace’, which we call ‘The Hampden Way’. In 2022, we continued to embed The Hampden Way to align it with our vision and purpose. This included holding our fifth Hampden Way awards to recognise colleagues, nominated by their peers, who have gone over and above to demonstrate The Hampden Way.

Colleague engagement

Our last colleague engagement survey was carried out in November 2021 and provided great insights into colleagues’ views about working at the Bank and with a positive colleague engagement score of 84%. One of the focus areas from the survey was on enhancing our reward proposition and over 2022 we have added several new reward benefits for colleagues, including private health insurance, health cash plan, additional annual leave, and holiday buy/sell scheme. Our next colleague engagement survey will take place early summer 2023.

Our Employee Assistance Programme provides confidential support for financial, physical, and mental wellbeing and includes access to a qualified counsellor. In 2022 nine colleagues received training which saw them qualify as mental health first aiders.

Hybrid working

2022 started with most colleagues continuing to work from home due to the Covid-19 pandemic, however during the year as the impact of the pandemic lessened, we introduced our hybrid working policy and principles. Hybrid working has allowed us to achieve flexibility through a combination of home and office working, striking a balance which works for our clients, our business, our teams, and individuals, whilst still benefiting from collaboration, communication, culture, and social interaction with colleagues.

Cost of living

There was considerable uncertainty and instability in the external environment in 2022 due to increased energy costs, rising interest rates and inflation. In the summer we took action to support colleagues and gave salary increases to colleagues earning less than £45k per annum, and all colleagues received a one-off award in December 2022 of £500.

Diversity and inclusion

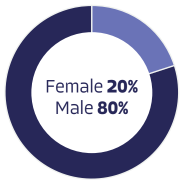
We are committed to promoting equality of opportunity for all colleagues and job applicants. We believe that a diverse workforce and an inclusive, caring environment that respects and nurtures people improves colleague engagement and business performance.

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

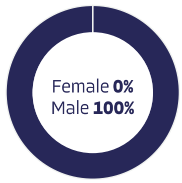
We recognise we have further to go to achieve our aim of a diverse workforce and we are committed to identifying strategies to achieve greater gender balance and representation of people from Black, Asian and minority Ethnic groups.

As at 31 December 2022 our gender diversity was:

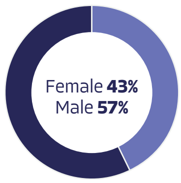
Non-Executives



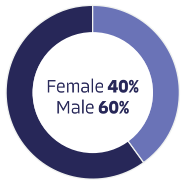
Executive management



Colleagues



All



Colleague development

We continue to invest in our colleagues and support them with their professional and personal development. Our aim is that colleagues thrive working for us in a culture which supports them to develop and realise their career aspirations. During 2022 several colleagues were recognised for their talents and capabilities and were promoted into new roles. We also welcomed 36 new colleagues to the Bank as part of our continued growth.

Principal risks and uncertainties

The Board has identified the principal risks and uncertainties which could threaten the Bank's business and successful delivery of the Bank's strategy and business plan. These risks are monitored and assessed for their impact on the Bank's finances and reputation. Detailed risk management disclosures are set out in note 21 to the financial statements. Details of the Bank's risk management and governance framework are provided in the Governance section on page 23.

Business/strategic risk

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

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

Political and economic developments continue to be monitored as part of business-as-usual activities. While the Bank has no direct exposure to Russia or Ukraine the situation continues to stress food and gas prices which impact the UK economy and our clients. More locally, the political situation in Scotland continues to require close attention despite the UK Supreme Court ruling a referendum would not be lawful.

Capital risk

Capital risk is the risk that the Bank does not have sufficient capital to meet the requirements of the business including under stressed conditions.

The Bank's capital risk framework includes the setting of capital risk appetite, capital planning and stress testing. The Assets & Liabilities Committee (ALCO) monitors the Bank's capital and capital adequacy to ensure its capital exceeds regulatory requirements set by the Prudential Regulation Authority, which is reported to the Board and the Board Risk Committee (BRC). The ALCO monitors early warning indicators to identify emerging capital concerns at an early stage, so that mitigating actions can be taken as part of a Recovery Plan, if needed.

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

Conduct risk

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

The introduction of Consumer Duty has increased regulatory expectations in relation to measuring and demonstrating good client outcomes. A programme of work is underway to deliver the enhanced expectations of Consumer Duty.

Credit risk

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

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. Client lending is undertaken within prescribed limits and risk appetite measures, which are reviewed regularly by the Credit Committee (CC), RMC, BRC and approved by the Board.

The Bank aims to support its clients through times of uncertainty and recognises that clients may require forbearance during periods of economic volatility. The impact on clients of the economic climate, war in Ukraine, higher interest rates and inflation continues to be closely monitored.

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 internally by ALCO.

Credit risk information is reported to CC, RMC, BRC and the Board.

Funding and liquidity risk

Funding risk is the risk that the Bank does not have sufficiently stable and diverse sources of funding. Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due.

The Board accepts a limited level of risk to achieve the Bank's strategic goals and sets its risk appetite and liquidity requirement measures accordingly. The Treasury function seeks to minimise liquidity risk on a forward-looking basis under the supervision of ALCO. Liquidity and funding positions are reviewed and analysed daily, and a monthly review of the liquidity position and the composition of the balance sheet is undertaken by ALCO. Liquidity risk information is reported to RMC, BRC and the Board.

Market risk

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

Interest rate risk is the risk that arises from the volatility in interest rates. The Bank's exposure to interest rate risk arises only from Banking activity – the Bank does not operate a trading book. The interest rate risk that arises from fixed rate assets and liabilities is hedged by entering into interest rate swaps as required. Sensitivity to interest rate changes is managed within set limits by the Treasury function and regularly reported to, and reviewed by, ALCO, RMC, BRC and the Board. The Treasury function manages the risk of failing to control the effects of material movements in foreign exchange markets through adherence to agreed exposure limits and risk appetite metrics, overviewed by members of ALCO, and reported to RMC, BRC and the Board. The Bank's foreign exchange risk is managed by natural hedges and foreign exchange forward contracts to leave no material open currency positions.

Operational risk

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

These risk sources include 'cyber' risks, principally in relation to information security and financial crime. The situation with Russia and Ukraine along with the pace of technological development increases the threat of cyber-attack.

Accordingly, the Board and the Risk Committees have a focus on maintaining an effective control framework across all areas of Operational Risk. An Operational Risk Committee oversees the Bank's arrangements and key risk appetite metrics are monitored regularly and reported to RMC, BRC and the Board. The Bank's insurance coverage is reviewed annually.

As the Bank grows and enhances its client services and digital capabilities, it will have due regard to emerging and evolving risks and will develop its people, systems and processes accordingly. The Bank completed a material upgrade to its core banking system during 2022. The risks associated with this change were subject to oversight via Board governance and project steering committees.

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. Operational resilience is the ability to respond to, recover, and learn, from operational disruptions. The Bank has identified its Important Business Services, and undertakes scenario exercises to identify any areas where enhancements can be made that minimise the impact of disruptions on these and our client base.

Material events are escalated in line with policy to the Board and/or the most appropriate Risk Committee(s).

Climate-related financial disclosures

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

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

Governance

The Bank has a robust and well-established governance framework (as set out on page 23). Therefore, the Bank considers sustainability issues within its existing governance. The EMC is responsible for ensuring that the Bank delivers on its strategic aim of being a socially and environmentally sustainable private bank over the long-term.

The Bank's senior policy-making body is the Board, which sets the Bank's Sustainability Strategy for responding to climate-related risks and ensures that the approach is both appropriate and consistent across the Bank. The Sustainability Strategy was comprehensively reviewed in 2021 and from 2022 the Board has received regular climate-related reporting to enable it to monitor and oversee progress against goals and targets for addressing climate-related issues.

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

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

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

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

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

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

Strategy

Sustainability

The aims of the Bank's Sustainability Strategy are to:

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

Further details are provided in the Sustainability Report on pages 11 and 12.

Managing climate-related risks

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

The Bank's exposure to climate-related financial risk is deemed to be low, due to the nature of its lending activity. The Bank uses credit assessments, Risk Committees and a limit and threshold structure to keep its exposures within agreed risk tolerance limits.

For new lending, credit application due diligence assesses the extent to which proposed lending is susceptible to climate change risks. The assessment includes Energy Performance Certificate grades and Future Flood Risk Ratings.

The Bank's credit governance over existing lending assesses potential climate-related risks, principally the risk of climate change impacting on collateral values.

Stress testing to simulate the impact on the lending portfolio is completed using the Bank of England published climate risk scenarios for transition and physical risks.

Risk assessment methodologies and risk management techniques will be further developed in 2023, including enhanced management information on risk factors such as flood risk, coastal erosion and ground stability.

The Bank is also exposed to other (non-financial) climate-related risks, for example from its third-party suppliers for office space, software and other services. For office space, the Bank's premises are located in areas with a low exposure to climate-related risks. The Bank collects climate-related information from key suppliers, to assess their climate credentials and ensure that they have adequately considered and mitigated their exposure to climate-related risk.

Maximising climate-related opportunities

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

Risk management

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

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

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

Credit risk		
	Identifying and assessing climate-related risks	**Managing climate-related risks**
Lending collateral	The Bank accepts a wide range of collateral through its lending operations. For new lending, credit application due diligence assesses the extent to which proposed lending is susceptible to climate change risks. This assessment includes Energy Performance Certificate grades and Future Flood Risk Ratings.	The Bank uses credit assessments, Risk Committees and a limit and threshold structure to keep its exposures within agreed risk tolerance limits. The Bank continues to refine its risk management methodologies to incorporate relevant climate related risk information. Exposure limits and thresholds for climate related risks are in the process of being developed.
Financial counterparties	As a result of placing surplus funds with third party financial institutions, including the Bank of England, the Bank is exposed to climate related risks from these institutions. This risk incudes factors such as the extent to which climate-related risks are factored into counterparty business models and the impact of geographical and sector concentrations on counterparties' long-term loan books.	Information provided by the financial institutions assists the Bank in understanding the climate change credentials of these third parties. The Bank also uses Your Treasurer, a third-party Treasury services provider, to provide benchmark analysis to inform investment decisions.

Climate-related financial disclosures (continued)

Liquidity risk		
	Identifying and assessing climate-related risks	**Managing climate-related risks**
Funding and liquidity	The Bank relies on retail depositors to fund lending activities. A client, or group of clients, representing a significant deposit balance may be required to withdraw funds because of exposure to climate-related financial risk.	The Bank prepares stress scenarios that model potential outflows of deposits to ensure that it maintains sufficient high-quality liquid assets to meet the outflow demands under these scenarios.
Operational risk		
	Identifying and assessing climate-related risks	**Managing climate-related risks**
Property	The Bank's office premises are located in areas with a low exposure to climate-related risk; however, the increase in energy prices exposes the Bank to rising costs.	The Bank will commit to being supplied with 100% renewable energy (electricity and gas) across all its offices when it is possible to do so. A Property strategy review in 2022 concluded that future Bank premises will be required to meet a high level of EPC rating and where possible the energy will be supplied by electricity rather than gas.
Third party	The Bank could be exposed to climate-related risks from its external suppliers for equipment, software, and facilities. To identify these potential risks, the Bank will collect climate-related information from key suppliers, such as evidence of having considered their exposure to climate-related risk (physical and transition risks).	The Bank has introduced climate-risk related questions to its supplier due diligence process which is used to onboard new suppliers, and in due diligence refreshes of existing supplier relationships over the past year. If suppliers are deemed high-risk based on this information, the Bank may consider excluding them from the procurement process.
Business/strategic risk		
	Identifying and assessing climate-related risks	**Managing climate-related risks**
Client activity	The Bank could be exposed to reputational risk and consequent financial risk through any business relationships with non-carbon friendly clients and investors. To identify this potential risk an assessment of the commercial, ethical and reputational risk of developing a relationship with the client is required.	The Bank's credit governance assesses the financial and reputational risks associated with new and existing lending commitments. Risk assessment methodologies and risk management techniques will be further developed in 2023, including enhanced risk management information on risk factors such as flood risk, coastal erosion and ground stability. Reputational risk associated with deposit-taking is considered along with other risk factors when considering establishing client relationships.

Metrics and targets

Climate-related risks

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

The Bank's understanding and measurement of its exposure to physical and transition risks continues to be developed and will evolve over time. Developments in 2022 include stress testing which is used to provide the Bank with a view of the potential outlook in terms of how climate change may impact the physical and transition risks it is exposed to, across various different climate risk scenarios. Risk assessment methodologies will be further developed in 2023.

The Bank's carbon footprint

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

An assessment of the Bank's environmental impact and the steps being taken to achieve this goal are set out in the Sustainability Report on pages 11 and 12.

Climate-related opportunities

The Bank is committed to helping clients to finance projects that complement its environmental aims.

Board of Directors

Simon Miller
Non-Executive Chairman

Graeme Hartop
Chief Executive Officer

Jonathan Peake
Chief Financial Officer

Caroline Taylor
Non-Executive Director

David Huntley
Non-Executive Director

Finlay Williamson
Non-Executive Director

Angus Macpherson
Non-Executive Director

Committee membership key

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

Simon Miller
Non-Executive Chairman

N R

Appointed: 26 May 2020, Chair of the Nomination Committee.
Key areas of experience: An Independent Non-Executive Director with a wide range of experience in the financial services sector, including wealth management and investment management.
Current external appointments: Senior Independent Director of STV Group PLC.
Previous experience: Called to the Bar and subsequently worked for Lazard Brothers and County NatWest. Chairman of Dunedin Capital Partners. Chairman of Brewin Dolphin Holdings PLC.

Graeme Hartop
Executive Director – Chief Executive Officer

Appointed: 14 January 2013.
Key areas of experience: Banking industry, finance, financial services sector and operations.
Previous experience: Head of Finance at Adam & Company before joining Scottish Widows Bank as Finance & Operations Director and where he became Managing Director. Council member of the Chartered Banker Institute and Vice-President from 2007 to 2010. Qualified chartered accountant.

Jonathan Peake
Executive Director – Chief Financial Officer

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

Caroline Taylor
Non-Executive Director

R N

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

David Huntley
Non-Executive Director

RC A

Appointed: 1 October 2020, Chair of the Risk Committee.
Key areas of experience: Risk, financial services, insurance and operations.
Current external appointments: Scottish Friendly Assurance Society, Scottish Friendly Asset Managers Limited, Scottish Friendly Insurance Services Limited, S.L. Insurance Services Limited, SFIS (Nominees) Limited, MGM Assurance (Trustees) Limited, SF Pension Managers & Trustees Limited, FIL Life Insurance Limited, Huntley Consulting Limited.
Previous experience: MD of Pearl Life Ltd, CEO of Scottish Re Ltd and CEO of Swiss Re Life and Health Australia.

Finlay Williamson
Non-Executive Director

A N RC

Appointed: 26 May 2020, Chair of the Audit Committee and Senior Independent Director.
Key areas of experience: Audit, Financial services, banking industry, finance and operations.
Current external appointments: Non-executive Director of Secure Trust Bank PLC and member of the, Audit, Risk and Nomination Committees.
Previous experience: A qualified Chartered Accountant, Finlay was formerly Chief Financial Officer of Virgin Money plc and a former divisional finance director, head of internal audit, and head of mergers and acquisitions at RBS Group. He also served as a Non-Executive Director and Chair of Risk Committee at Paragon Banking Group PLC and Paragon Bank PLC.

Angus Macpherson
Non-Executive Director

A R RC

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

Corporate governance

Board and Committee attendance record

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

The table shows attendance at scheduled meetings only, held during 2022.
The Board and Committees also meet on an ad hoc basis when required.

1. Andy Mulligan resigned from the Board on 27 April 2022.
2. Jonathan Peake was appointed to the Board on 25 April 2022. He attended all Board meetings held from his date of appointment.
3. Peter Sparkes resigned from the Board on 19 January 2022.

Board and Committee roles

Chairman

- Provides leadership to the Board, promoting constructive debate and challenge between the Executive and Non-Executive Directors.
- Ensures that there is a good information flow to the Board, and from the Board to its key stakeholders.
- Supports and advises the Chief Executive Officer, particularly on the development of strategy and culture.
- Builds an effective and complementary Board, regularly considering its composition and balance, diversity and succession planning.

Chief Executive Officer

- Provides leadership to the Bank.
- Develops strategy proposals for recommendation to the Board and is accountable for business performance.
- Maintains a dialogue with the Chairman on all important matters and strategic issues facing the Bank.
- Ensures that there is an effective framework of internal controls, including risk management, covering all business activities.
- Ensures that the Board is fully informed of all key matters.

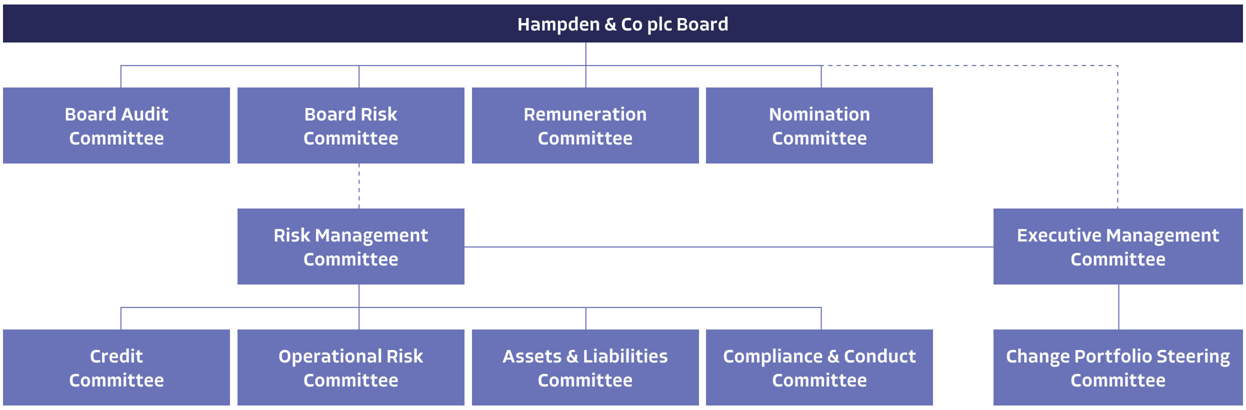
Chief Financial Officer

- Supports the Chief Executive Officer in developing and implementing strategy.
- Oversees the financial delivery and performance of the Bank and provides insightful financial analysis that informs key decision making.
- Ensures that all aspects of financial regulation are complied with, including fiscal and regulatory reporting.
- Works with the Chief Executive Officer to develop budgets and medium-term plans to support the agreed strategy.

Independent Non-Executive Directors

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

Governance framework



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

Board Committees

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

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

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

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

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

During 2022 the Board also established an ad hoc Core Banking Upgrade Sub-committee to oversee the upgrade of the Bank's main banking platform. This sub-committee operated for the duration of the project.

Executive Committees

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

Risk Management Committee is chaired by the CRO and has responsibility for the development, maintenance and effectiveness of the risk management framework, and for overseeing implementation of any action required to enhance the control environment.

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

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

Compliance & Conduct Committee has responsibility to develop, implement and maintain oversight of the compliance and conduct frameworks.

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

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

Committee reports

Audit Committee

Finlay Williamson	Non-Executive Director Chair of the Committee
David Huntley	Non-Executive Director
Peter Sparkes	Non-Executive Director (to 19 January 2022)
Angus Macpherson	Non-Executive Director (from 20 January 2022 to 15 December 2022)

Finlay Williamson
Chair of the Audit Committee

This, my second year as Chair of the committee, has been one of change for the Committee and the Bank. The Committee currently consists of two independent Non-Executive Directors. However, during the year we have seen the retirement of Peter Sparkes, whose perspective on the Bank and the Committee's work will be missed. In January, following a comprehensive induction program, Angus Macpherson joined the Committee and served until December, at which point he stood down as planned to concentrate on the Remuneration and Risk Committees. I thank Peter and Angus for their contribution to the Committee's work and look forward to Kaushalya Somasundaram joining the Board and the Committee in April 2023. In addition, Andy Mulligan retired as Chief Financial Officer in April, a position he held since 2011. The significant contribution he made to the Bank's success is greatly appreciated and I wish him well in his retirement. In March we welcomed Jonathan Peake who joined as Andy's successor.

The Bank has also seen a lot of change over the course of the year. Positives coming from the fading of the Covid-19 pandemic and the achievement of full year profitability are offset to an extent by the geopolitical risks exemplified by Russia's intervention in Ukraine and uncertainty in UK economic policy forming the backdrop to a growing cost of living crisis. All of these factors present new considerations for the Committee as it assesses the appropriateness of the various accounting judgments required to compile these financial statements.

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

During the year the Committee's principal activities were:

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

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

- The level of impairment provision against loan assets and, in particular assessment of the impact of the Covid – 19 pandemic and the subsequent economic uncertainty arising from the cost of living crisis referenced above;
- The implementation of hedge accounting;

- The first-time recognition of a deferred tax asset in respect of the expected future utilisation of historical tax losses;
- The ability of the Bank to report its financial results on a going concern basis in light of the improving profitability and capital position of the Bank taking into consideration any impact of the current economic environment.

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

During the year the Committee also carried out its role in assessing the independence and effectiveness of both the external and internal audit functions currently carried out by Deloitte and Grant Thornton respectively. From discussion with management and both sets of auditors the Committee was able to conclude that the external audit was effective during the year and that the recommendations of my review of the internal audit function had been implemented and as such the internal audit function was now also considered effective.

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

- Continued monitoring of any potential impact of the developing economic situation in the UK on the Bank's accounting particularly in relation to loan impairment;
- Considering ongoing developments in accounting, financial reporting, regulation and auditing to ensure that the Bank is well-positioned to respond appropriately;
- Ensuring the Bank's control processes and internal audit capabilities continue to evolve as the Bank matures;
- Assessing the impact on the Bank of proposals from the Audit and Corporate Governance BEIS legislation.

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

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

Finlay Williamson
Chair of the Audit Committee
30 March 2023

Committee reports (continued)

Risk Committee

David Huntley	Non-Executive Director Chair of the Committee
Finlay Williamson	Non-Executive Director
Peter Sparkes	Non-Executive Director (to 19 January 2022)
Angus Macpherson	Non-Executive Director (from 20 January 2022)

David Huntley
Chair of the Risk Committee

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

During 2022 the Committee met nine times, four scheduled meetings plus a further five ad hoc occasions.

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

- provision of oversight and challenge to the design and content of the Annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reports to meet the requirements of the Board and the regulator. In particular, reviewing the relevant regulations, with specific focus on risks inherent in the strategy, the overall capital and liquidity needs assessment, and the adequacy of stress and scenario testing;
- review and challenge of the Risk Framework, Risk Appetite and Policy Principles before recommending to the Board for approval;
- scrutiny and challenge of regular reports from the second-line risk and compliance teams outlining the key prudential, operational and conduct risks facing the Bank and the controls and actions in place to mitigate their impact;
- oversight and challenge of the risks associated with the upgrade of the Bank's core platform;
- consideration of the current risks facing the business as well as those emerging on the horizon, including climate change; and
- review of the Committee terms of reference including an assessment of how they were fulfilled.

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

- the continued evolution of the Bank's ICAAP, ILAAP and risk and control framework and systems; and
- the embedding of policies and procedures associated with the Bank's focus on sustainability together with reviewing risks associated with new sustainability related products and services.

Finally, I would like to acknowledge the hugely valuable contribution made by Alison Inverarity to the establishment of a safe and strong risk and control environment at the Bank in her role as Chief Risk Officer (CRO) since the Bank's inception and to welcome her successor, Peter Craigie who joined in July. I would also like to take the opportunity to formally thank Peter Sparkes for his contribution to the work of the BRC and to welcome Angus Macpherson who joined the BRC at the start of 2022.

David Huntley
Chair of the Risk Committee
30 March 2023

Remuneration Committee

Caroline Taylor	Non-Executive Director Chair of the Committee
Simon Miller	Non-Executive Chairman
Peter Sparkes	Non-Executive Director (to 19 January 2022)
Angus Macpherson	Non-Executive Director (from 20 January 2022)

Caroline Taylor
Chair of the Remuneration Committee

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

During 2022 the Committee met five times. The Chief Executive Officer and the HR Director are standing attendees at Committee meetings. They exclude themselves from discussions relating to their respective positions.

During 2022, the main areas of focus for the Committee were:

- Review of the 2022 salary and 2021 variable pay proposals, for recommendation to the Board.
- Approval of remuneration package for the new Chief Risk Officer.
- Working with our Senior Independent Consultant (Mark Quinn of QQPM – appointed in 2021) to conduct a holistic review of existing remuneration arrangements.
- Approval of the implementation of a new Annual Variable Pay Plan for the Executive Management Committee based on financial and non-financial measures, which is running parallel to the existing discretionary approach for 2022.
- Approval of the implementation of a new Long Term Incentive Plan for the Executive Management Committee, a three year plan linked to cumulative adjusted profitability, subject to hurdle assessments for regulatory breaches and the journey to net zero.
- Launch of staff mortgage and personal lending products.
- Review of Reward Benefits roadmap.
- Review of cost of living salary increases.
- Arrangement of a staff private health insurance, health cash plan and income protection schemes.
- Approval of the Malus and Clawback policy.
- Approval of remuneration for the Code Staff and Material Risk Takers.
- Approval of staff tax advantaged share option awards in June 2022.
- Approval of a one-off award in December 2022 for all colleagues at a fixed rate of £500.
- Annual review and update of the Committee's Terms of Reference.
- Annual review of the Remuneration Policy.

In the coming year the Committee will continue to focus on linking remuneration to individual and corporate performance based on financial and non-financial measures.

I would like to thank members of the Committee and our advisors for their support and advice this year, and also to thank Peter Sparkes for his contribution to the Committee and to welcome Angus Macpherson.

Caroline Taylor
Chair of the Remuneration Committee
30 March 2023

Committee reports (continued)

Nomination Committee

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

Simon Miller
Chair of the Nomination Committee

The Committee's principal task is to review the effectiveness and composition of the Board and consider the succession plans for the Executive and Non-Executive Directors.

The Committee had four formal meetings during the year and met informally on other occasions. Committee meetings are also attended by the CEO who is excluded from any conversations which relate to him.

Revised terms of reference were approved in December.

Peter Sparkes stepped down from the Board in January 2022. Jonathan Peake joined the Board as Chief Financial Officer in April, replacing Andy Mulligan. I paid tribute to both retiring Directors in last year's Annual Report. Gordon Syme joined the Bank in September as General Counsel and Company Secretary.

The Committee has recognised the benefit of further strengthening the skillset of the Board, particularly with respect to an enhancement of digital technology skills. Accordingly, the Committee appointed an external consultant to carry out a search process, following which the appointment of Kaushalya Somasundaram was recommended. Kaushalya is expected to formally join the Board on 1 April 2023 and brings significant digital experience to the Board, reflecting the growing diversity of Board membership.

Board succession for both Non-Executive and Executive Directors was considered by the Committee as part of a continuing process. Succession plans for members of the Executive Management Committee were also considered.

An internal Board Effectiveness Review was carried out during the year. The review concluded that the Board operated effectively, while also agreeing several actions which are on track for delivery over 2023. It is the intention that an external Board appraisal should take place during 2023.

Simon Miller
Chair of the Nomination Committee
30 March 2023

Directors' report

The Directors present their report and financial statements for the year ended 31 December 2022. Information regarding future developments and risk management as required by Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Accounting Regulations) to be contained in the Directors' Report has been included in the Strategic Report and Chairman's Statement in accordance with section 414C(11) of the Companies Act 2006.

Governance structure

The Bank is led by its Board comprising of a majority of Non-Executive Directors including the Chairman. The Board has established four standing committees to support proper discharge of its responsibilities: the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination Committee. Further details of the governance structure are set out on in the Governance section on page 23.

Directors

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

Risk management and governance

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

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

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

Risk and internal control governance framework

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

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

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

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

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

Directors' report (continued)

Risk management framework

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

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

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

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

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

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

Capital structure

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

During 2022 the Bank raised additional capital of £8.0m.

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

Shareholder	Number of shares at 31 December 2022	% of voting rights
Drake Enterprises AG	**18,470,357**	19.98%
Euripides Investments Limited	**13,025,984**	14.09%
Miamoo Investments Pty Limited	**12,984,442**	14.04%
XL Bermuda Limited	**11,557,435**	12.50%
Hampden Holdings Limited	**11,604,247**	12.55%

Going concern

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

In making this assessment the Directors considered:

- business projections;
- the level of capital requirements expected to be set by the PRA;
- their evaluation of the Bank's principal risks and uncertainties, including those that could threaten the Bank's business model, its future performance or solvency;
- the ICAAP; and
- the ILAAP.

The Bank's business projections provide the basis for the Bank's financial forecasts which include a detailed annual budget for year one (2023) and forecasts for years two to five (2024-2027). These form an integral part of the assessment of the capital and funding required.

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

The sensitivity analysis performed demonstrates that throughout the going concern period the Bank would remain above Total Capital Requirements. As a result of these assessments, the Directors have a reasonable expectation that, for a period of at least 12 months from the date that the financial statements have been authorised for issue, the Bank will generate sufficient capital, continue in operation and meet its liabilities as they fall due.

Financial instruments

Information about the use of financial instruments by the Bank is given in notes 19 and 21 to the financial statements.

Research and development

As part of the Bank's commitment to operating with secure, efficient IT systems which meet the demands of our business and clients, during 2022 the management team completed a project to upgrade the core banking system provided by Oracle. This upgrade brings with it improved processes, continued comprehensive support, and will enable the Bank to further develop its services for clients.

The Bank also continued to invest in the development of its mobile digital banking app in 2022.

Statement of disclosure to auditor

The Directors confirm that:

a) so far as they are aware, there is no relevant audit information of which the Bank's auditor is unaware, and
b) they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

Indemnity insurance

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

Post balance sheet events

Significant events which have arisen between 31 December 2022 and the date of this report are disclosed in note 35.

On behalf of the Board

Graeme Hartop
Chief Executive Officer

30 March 2023

Statement of Directors' responsibilities

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

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

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

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

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

Report on the audit of the financial statements

1. Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • The appropriateness of preparing the financial statements using the going concern basis of accounting; and • The measurement of expected credit losses on loans and advances to clients Within this report, key audit matters are identified as follows: Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £729k which was determined on the basis of 1% of the total equity balance as at 31 December 2022.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There have been no significant changes in our approach in the current year.

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

4. Conclusions relating to going concern

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

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

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

5. Key audit matters

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

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

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

Key audit matter description	The Directors' statement on going concern is on pages 30 and 31, with the related accounting policy disclosure on page 46. The Company is required by the Prudential Regulation Authority ('PRA') to maintain sufficient capital and liquidity to continue in operational existence for the foreseeable future. The Company's ability to maintain sufficient capital and liquidity is therefore central to the assessment of the appropriateness of preparing the financial statements using the going concern basis of accounting. We note that the Company is now profitable, and as such is capital generative, and accordingly the risk of not meeting the Company's regulatory capital requirements has reduced since the prior year. However, given the judgement required in determining the Company's ability to meet forecast capital requirements under reasonably possible scenarios in the current macroeconomic environment, and the associated potential impact on the financial performance of the Company, we have identified a key audit matter in relation to the appropriateness of the use of the going concern basis of accounting. The Directors, in making their assessment of the appropriateness of preparing the financial statements using the going concern basis of accounting, have considered the level of future capital requirements, the Company's Business Plan, the Internal Capital Adequacy Assessment Process ('ICAAP') and the Internal Liquidity Adequacy Assessment Process ('ILAAP'). The Directors have also considered stress scenarios, their impact on the Company's capital and liquidity requirements and the mitigating actions they could take to conserve capital resources.
How the scope of our audit responded to the key audit matter	We performed the following procedures to evaluate the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting over a period of at least 12 months from the date of approval of the financial statements: **Risk assessment** We considered as part of our risk assessment the nature of the Company, its business model and related risks including the continuing uncertain economic environment, the requirements of the applicable financial reporting framework, and the system of internal control.

How the scope of our audit responded to the key audit matter (continued)	**Controls** We obtained an understanding of and tested the relevant controls over the going concern assessment including the preparation of the Company's key financial, capital and liquidity forecasts. **Financial forecasts** We evaluated the reliability of the Directors' forecasts by comparing historical forecasts to actual results for the year ended 31 December 2022. We challenged the achievability of the Directors' financial forecasts with reference to the Company's historic performance, the specific growth strategies that the Directors have put in place, the performance of the Company since 31 December 2022 and forecasts regarding the future macroeconomic environment and how this may affect the Company's performance. **Capital and liquidity position and forecasts** With involvement of Deloitte prudential regulatory specialists, we assessed and challenged the analysis prepared by the Directors to support the going concern assumption, including the Company's ICAAP and ILAAP. This included an assessment of the mitigating actions that the Directors could take that are wholly within their control to make sure that the Company continues to meet its regulatory capital and liquidity requirements in the event of stress scenarios. We considered the potential scenarios under which the Company would need to raise additional capital to remain above its regulatory capital requirements during the period of at least 12 months from the date the financial statements are authorised for issue. We considered whether there was any potential regulatory risk which could impact the Company's forecast position. This included reviewing correspondence between the Company and the regulator and meeting with the regulator. We inspected the capital that was received from the Cornerstone shareholders during the financial year. **Disclosures** We assessed the Directors' statements on going concern disclosed in the Company's financial statements with reference to the evidence obtained through the procedures above.
Key observations	Based on the work performed, we conclude that the use of the going concern basis of accounting in the preparation of the financial statements and the disclosures in relation to going concern are appropriate.

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

Key audit matter description	Expected credit losses ('ECL') on loans and advances to clients are detailed within note 13. Management's associated accounting policies are detailed on pages 48 to 50. The Company has recorded an ECL of £194k at 31 December 2022 (31 December 2021: £168k) on loans and advances to clients of £447,869k (31 December 2021: £422,328k). The Company measures the ECL on loans and advances to clients using an ECL model. Determining ECL is a judgemental area which requires the formulation of assumptions including the probability of default, the exposure at default and the loss given default ('LGD'), all of which should incorporate forward-looking information. Given the degree of judgement involved, we consider that there is a potential for fraud through possible manipulation of this balance.

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

Key audit matter description (continued)	We have determined the most significant areas of management judgement in the measurement of ECL to be: • The calibration of the LGD assumption for loans with a loan to value of over 65% and secured by commercial property and undeveloped land, given the additional judgement required to determine the realisable values of such collateral including the use of third party experts; and • The incorporation of forward-looking macroeconomic information into the measurement of ECL. Management incorporates five macroeconomic scenarios into the measurement of ECL. The determination of the probability weightings applied to each scenario and the related adjustments to the key model inputs under each scenario requires significant judgement, particularly in light of the current uncertain macroeconomic environment. We have therefore identified a key audit matter in relation to these specific judgements.
How the scope of our audit responded to the key audit matter	We performed the following procedures to evaluate significant areas of management judgement identified in the measurement of ECL on loans and advances to clients: **Risk assessment** We considered as part of our risk assessment and our fraud risk assessment the nature of the Company's loan portfolio and the key inputs used in Management's modelling of ECL. **Controls** We obtained an understanding of the overall ECL process. We performed a specific assessment of the relevant management review controls over the LGD assumption and the selection of different macroeconomic scenarios, their probability weightings and the adjustments to the key model inputs under each scenario. **LGD calibration** For a sample of loans, we assessed relevant documentation to assess whether the Company had first charge over the collateral. We obtained the third party collateral valuation reports which the Company had commissioned from external experts and involved our internal property specialists to challenge both the original valuation of the collateral that was used as the basis of the LGD calibration and the haircuts applied by Management to the collateral valuation in determining the LGD, with reference to similar market transactions and other relevant information. We have also evaluated the competence, capabilities and objectivity of the external experts. **Incorporation of forward-looking macroeconomic information into the measurement of ECL** We challenged the macroeconomic scenarios selected by Management, including the related probability weightings, with involvement of our internal economic modelling specialists. This included comparison of the appropriateness of selected macroeconomic variables and weightings to those used by peer lenders for the macroeconomic forecasts, the probability weightings and the adjustments to the key model inputs under each scenario. We assessed whether there was sufficient downside risk in the modelled approach given the heightened economic uncertainty. We assessed the performance of the macroeconomic model to assess whether the economic variables previously selected were still appropriate in light of the uncertain economic environment through considering the modelled macroeconomic results relative to those observed in historical recessions and tested their arithmetical accuracy.
Key observations	Based on the work performed, we concluded that the Company's ECL on loans and advances to clients were reasonably stated.

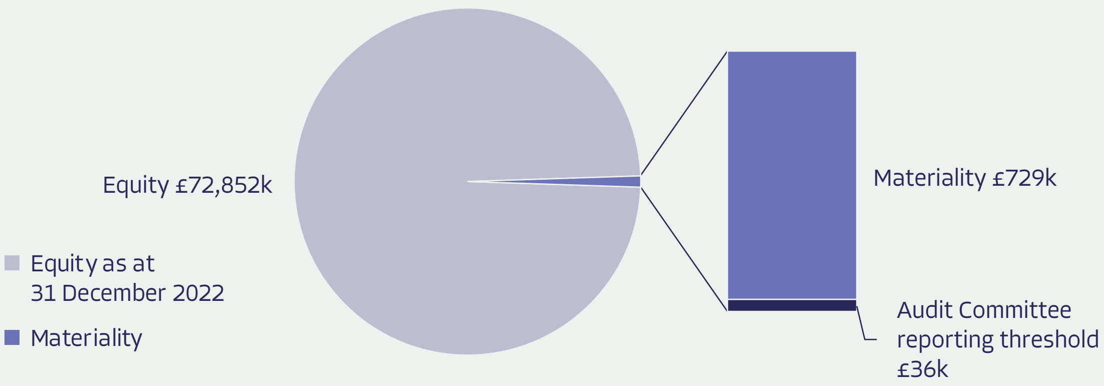
6. Our application of materiality

6.1. Materiality

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

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

Materiality	£729k (2021: £574k).
Basis for determining materiality	Materiality has been determined on the basis of 1% of the total equity balance as at 31 December 2022 (2021: 1% of the total equity balance as at 31 December 2021).
Rationale for the benchmark applied	In our professional judgement, the equity balance was determined as the appropriate measure given the early stages of the Company's operation as income statement results are volatile and the focus for stakeholders is on regulatory capital.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2022 audit (2021: 70%).

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

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £36k (2021: £29k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

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

7.2. Our consideration of the control environment

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

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

We assessed the operating effectiveness of the general IT controls of the system and relied on those controls. Our risk assessment included reviewing the System and Organisation Controls 1 (‘SOC1’) report prepared by the independent service auditor of the service organisation, as well as assessing the specific controls which operate at the Company.

We took a controls reliance strategy over the client lending and deposit product cycles (loans and advances to clients and deposits from clients). This included testing the controls associated with client account opening, the processing of client payments and deposits, foreign exchange income, and the application of interest to client accounts. We undertake a rotational approach to testing these controls. Under our rotational plan, we tested the operating effectiveness of controls related to interest changes in the current period. We therefore used the audit evidence obtained in previous audit periods to assess their operating effectiveness.

We also took a controls reliance strategy over the operating expenses business cycle, including the processing of staff costs and administrative expenses. This included testing controls related to the review and approval of invoices and the review and approval of payroll reports. We undertake a rotational approach to testing these controls. Under our rotational approach we tested the operating effectiveness of controls related to administrative expenses in the current period. We therefore used the audit evidence obtained in previous audit periods to assess their operating effectiveness.

7.3. Our consideration of climate-related risks

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

The Company continues to develop its assessment of the potential impacts of climate change and its related risk management. As stated in the strategic report on page 16, the most material climate-related risks to which the Company is exposed are financial risks relating to financial assets that are expected to manifest over a medium (1-5 years) to long (+5 years) time horizon. The initial assessment is that the Company’s exposure to climate-related financial risks is low, due to the nature of its lending activity. We also note that for new lending, an assessment of climate-change risk now forms part of the acquisition process. This considers the potential impact of climate change on the client’s business or income as well as the susceptibility of any property held as security to environmental factors such as flooding. The Company will continue to evolve its approach and develop methodologies as its understanding of climate-related risks progresses.

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

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. The Directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

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

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

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

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of Management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Company's sector;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including prudential and regulatory, IT, tax, property and economic modelling specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the measurement of ECL on loans and advances to clients and we identified the greatest potential for non-compliance with laws and regulations in the appropriateness of preparing the financial statements using the going concern basis of accounting. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

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

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

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

11.2. Audit response to risks identified

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

In our opinion the information given in note 34 to the financial statements for the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country by Country Reporting) Regulations 2013.

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

14.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 9 March 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 8 years, covering the years ended 31 December 2015 to 31 December 2022.

15.2. Consistency of the audit report with the additional report to the Audit Committee

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

16. Use of our report

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

Stephen Williams ACA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom

30 March 2023

Statement of comprehensive income

	Note	**Year ended 31 December 2022 £'000**	Year ended 31 December 2021 £'000
Interest receivable and similar income		**22,882**	12,542
Interest payable and similar charges		**(2,821)**	(868)
Net interest income	4	**20,061**	11,674
Non-interest income	5	**906**	758
Income from currency operations		**1,069**	775
Net gains from derivatives and hedge accounting	6	**820**	–
Total income		**22,856**	13,207
Administrative expenses		**(19,837)**	(15,006)
Depreciation and amortisation		**(945)**	(1,176)
Operating expenses	7	**(20,782)**	(16,182)
Operating profit/(loss) before impairment losses		**2,074**	(2,975)
Impairment (charge)/credit on loans and advances to clients	13	**(29)**	5
Profit/(loss) before tax	7	**2,045**	(2,970)
Tax income	9	**4,819**	–
Profit/(loss) for the year from continuing operations (attributable to equity holders) and total comprehensive profit/(loss)		**6,864**	(2,970)

Statement of financial position

	Note	2022 £'000	2021 £'000
Assets			
Cash and balances at central banks	19	**172,477**	139,948
Loans and advances to banks	19	**241,254**	189,686
Loans and advances to clients	13	**447,675**	422,160
Fair value adjustment for hedged risk on loans and advances to clients		**(256)**	–
Derivative financial instruments	22	**1,867**	–
Deferred tax asset	17	**4,819**	–
Prepayments and accrued income		**1,118**	913
Other assets		**2,372**	212
Property, plant and equipment	14	**143**	85
Right-of-use assets	15	**714**	1,139
Intangible assets	16	**2,302**	2,038
Total assets		**874,485**	756,181
Liabilities			
Deposits from clients	19	**796,049**	695,590
Derivative financial instruments	22	**838**	–
Accruals and deferred income	18	**3,440**	2,014
Lease liabilities	15	**756**	1,134
Other liabilities		**174**	18
Provisions	29	**376**	123
Total liabilities		**801,633**	698,879
Equity			
Share capital	24	**4,623**	4,223
Share premium account	24	**24,001**	16,555
Retained earnings	25	**44,228**	36,524
Total equity		**72,852**	57,302
Total liabilities and equity		**874,485**	756,181

The financial statements on pages 42 to 74 were approved by the Board of Directors and authorised for issue on 30 March 2023 and were signed on its behalf by:

Graeme Hartop
Chief Executive Officer

Jonathan Peake
Chief Financial Officer

Company Registration No. SC386922

Statement of changes in equity

	Note	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
At 1 January 2021		3,823	9,064	38,452	51,339
Loss for the year and total comprehensive loss		–	–	(2,970)	(2,970)
Issue of share capital	24	400	7,600	–	8,000
Direct share issue costs	24	–	(109)	–	(109)
Equity settled share-based payments	12	–	–	1,042	1,042
At 31 December 2021		4,223	16,555	36,524	57,302
Profit for the year and total comprehensive profit		**–**	**–**	**6,864**	**6,864**
Issue of share capital	24	**400**	**7,600**	**–**	**8,000**
Direct share issue costs	24	**–**	**(154)**	**–**	**(154)**
Equity settled share-based payments	12	**–**	**–**	**840**	**840**
At 31 December 2022		**4,623**	**24,001**	**44,228**	**72,852**

Statement of cash flows

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Cash flows from operating activities		
Profit/(loss) before tax	**2,045**	(2,970)
Reconciliation from profit/(loss) before tax to net cash flows from operating activities:		
Net gains from derivatives and hedge accounting	**(820)**	–
Depreciation and amortisation	**945**	1,176
Equity settled share-based payments	**840**	1,042
Impairment charge/(credit) for the year	**29**	(5)
(Increase) in prepayments and accrued income	**(205)**	(185)
Increase in accruals and deferred income	**1,560**	353
(Increase) in loans and advances to clients and banks	**(43,506)**	(132,311)
Increase in deposits by clients and banks	**90,941**	194,668
(Increase)/decrease in other assets	**(2,160)**	3
Increase/(decrease) in other liabilities and provisions	**405**	(22)
Elimination of foreign exchange differences	**8**	(9)
Cash generated from operations	**50,082**	61,740
Net cash inflow from operating activities	**50,082**	61,740
Cash flows from investing activities		
Purchase of property, plant and equipment	**(86)**	–
Purchases/development of intangible assets	**(891)**	(1,145)
Net cash outflow from investing activities	**(977)**	(1,145)
Cash flows from financing activities		
Repayment of lease liabilities	**(378)**	(445)
Proceeds from issue of shares	**8,000**	8,000
Direct costs of share issuance	**(154)**	(109)
Net cash inflow from financing activities	**7,468**	7,446
Net increase in cash and cash equivalents	**56,573**	68,041
Cash and cash equivalents at beginning of year	**228,768**	160,960
Effects of foreign exchange rate changes on cash and cash equivalents	**9,510**	(233)
Cash and cash equivalents at end of year	**294,851**	228,768
Analysis of cash and cash equivalents at end of year		
Cash and balances at central banks	**172,477**	139,948
Loans and advances to banks repayable on demand	**122,374**	88,820
	294,851	228,768

Notes to the financial statements

For the year ended 31 December 2022

1. General information

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

1.1 Presentation of financial statements

The financial statements have been prepared in accordance with United Kingdom adopted international accounting standards in conformity with the requirements of the Companies Act 2006. The impact of accounting standards and interpretations issued but not yet effective is summarised in note 33. The financial statements are presented in sterling.

1.2 Going concern

The Directors have assessed the outlook of the Bank over a period longer than 12 months and therefore consider the Bank to be sufficiently capital generative to support planned business growth, whilst also meeting its regulatory capital requirements for a period of not less than 12 months following the date of signing the accounts. The Directors, having made such enquiries as they considered appropriate and having reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future, consider the going concern basis of preparation to be appropriate.

2. Summary of significant accounting policies

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

2.1 Property, plant and equipment

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

Leasehold improvements	10 years
Computer equipment	5 years

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

2.2 Intangible assets

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

2.3 Cash and balances at central banks

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

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

2.4 Equity

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

2.5 Leases

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

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

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

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

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

2.6 Taxes

Current tax

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

Deferred tax

Deferred tax assets are recognised only to the extent that it is probable that losses carried forward will be recoverable against future taxable profits. The recognition of deferred tax requires management to make estimates and judgements about future conditions and events, changes in which could have a material impact on the Bank's reported financial position or performance.

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

2.7 Foreign currencies

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

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

Foreign exchange gains or losses on translation are recognised in the statement of comprehensive income in the period in which they arise.

Notes to the financial statements (continued)

For the year ended 31 December 2022

2. Summary of significant accounting policies (continued)

2.8 Financial instruments

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

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

Financial assets

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

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

Effective interest rate method

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

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

Impairment of financial assets

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

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

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

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

Determining significant increase in credit risk since origination

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

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

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

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

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

Quantitative criteria:

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

Qualitative criteria:

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

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

Backstops:

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

1. The Bank considers that if an asset's contractual payments are more than 30 days past due then a significant increase in credit risk has taken place;

2. If a position is greater than 90 days past due it is considered to be in default.

Definition of default

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

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

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

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

Write-off policy

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

No assets were written off during the years ended 31 December 2022 and 2021.

Model inputs and assumptions

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

- ECLs are determined by assessing the probability of default (PD), loss given default (LGD), exposure at default (EAD) and discount factor for each individual exposure. The four components are multiplied together in order to derive expected ECLs for the relevant period.
- PD represents the likelihood of a borrower defaulting on their financial obligation either over the next 12 months or over the remaining lifetime of the obligation, depending on what stage the financial asset is in at the reporting date. The Bank uses an external consultant to provide PD data that has been profiled against the Bank's lending book. As the Bank historically has limited instances of default it is not possible to use internally collected data to derive PD rates. PD rates remain under constant review and are adjusted to reflect the potential impact of differing future economic scenarios.

Notes to the financial statements (continued)

For the year ended 31 December 2022

2. Summary of significant accounting policies (continued)

2.8 Financial instruments (continued)

- LGD is based on collateral recovery value to give an expected loss at default, defined as a percentage of EAD. The model uses the market value less a defined haircut to work out the value of collateral for calculating LGD. The haircuts typically vary between 20-50% and are assessed on a case by case basis depending on the type, location, size and nature of the collateral. The haircut to the market value of the collateral includes assumptions to reflect the cost of liquidating collateral in a forced sale, legal costs and the time value of money. Haircut percentages and values remain under constant review with the option to increase or decrease to reflect any market movements or forward-looking macro-dependencies of LGD. If the expected proceeds from the collateral exceeds the amount loaned, the entity may have an LGD of 0% and hence an ECL of zero.
- EAD – the model predicts EAD as the expected principal balance outstanding plus three months interest at the time of default. Partial prepayment is excluded from the modelling of EAD as the Bank does not have sufficient prepayment information to accurately predict prepayment rates.
- Discount factor – IFRS 9 expects credit losses to reflect the time value of money, which is achieved by discounting the estimated losses at the reporting date. The Bank has applied an operational simplification to use the interest rate at the time of origination as the basis for the discount rate as an approximation of the EIR. This operational simplification of using the interest rate at origination rather than the EIR is deemed to have an immaterial impact on the ECLs. ECLs are discounted to the reporting date.
- Lifetime ECLs – Lifetime ECLs are the ECLs that result from all possible default events over the contractual life of the financial instrument. For revolving credit facilities, such as overdrafts, the contractual term is 12 months. The lifetime of the overdraft facility is therefore taken to be 12 months.
- Forward-looking macroeconomic judgements – IFRS 9 requires ECLs to reflect a range of possible outcomes and consider possible future economic conditions. The Bank has addressed these requirements using several economic scenarios to represent a range of possible outcomes. These economic scenarios are described in note 13, which also sets out their impact on the measurement of ECLs.

Derecognition of financial assets

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

Financial liabilities and equity

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

Financial liabilities

Financial liabilities are classified as 'financial liabilities at amortised cost'.

Financial liabilities at amortised cost

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

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

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

Derecognition of financial liabilities

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

Derivative financial instruments and hedge accounting

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

The Bank uses derivative financial instruments for economic hedging purposes, to manage its exposures to foreign exchange and interest rate risks as they arise from operating activities. It does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are initially measured at fair value on the contract date and are remeasured at fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments are recognised as they arise.

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

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

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

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

2.9 Non-interest income

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

2.10 Interest receivable and payable

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

2.11 Pension costs

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

2.12 Share-based payments

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

The fair value of the share option plan is calculated at the grant date using either a Binomial valuation model or Black Scholes valuation model, depending on the rules of the scheme. Inputs into the valuation model include the risk-free interest rate and volatility assumptions. Further details regarding the determination of the fair value of equity settled share-based transactions are set out in note 12. The fair value includes the effect of non-vesting conditions and any market-based performance conditions.

Notes to the financial statements (continued)

For the year ended 31 December 2022

2. Summary of significant accounting policies (continued)

2.13 Provisions

Provisions are liabilities that are uncertain in timing or amount. A provision is recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. If appropriate, the Bank makes provisions with respect to potential client redress and legal claims (2022: £250k; 2021: £nil). The Bank informs the Regulator of any such matters within its regular engagement.

2.14 Contingent liabilities

Contingent liabilities can occur during the ordinary course of business where the Bank may be subject to threatened or actual legal proceedings, which may result in a cash outflow. One such claim is outstanding at the year end. Based on analysis of the claim, no material adverse impact on the financial position of the Bank is expected to arise. The Bank has appropriate insurance arrangements in place to cover any such matters and therefore the Directors assess the net financial impact of all such liabilities as £nil (2021: £nil).

3. Critical accounting judgements and key sources of estimation uncertainty

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

Judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Key sources of estimation uncertainty which the Directors consider to be significant are those relating to deferred tax and loan impairment provisions, as follows.

Deferred tax

The Bank has recognised a deferred tax asset in respect of future taxable profits for the first time in 2022. The recognition of deferred tax has been limited to £4.8m in respect of historical tax losses that the Bank expects will be used to reduce future tax charges based on the first two years from the latest financial forecasts approved by the Board. The forecast is inherently sensitive to the assumptions used, particularly those relating to the macroeconomic environment, and is dependent on successful execution of the Bank's strategy. As such, the actual future utilisation of the deferred tax asset may be significantly different.

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

If the estimation period was extended to three years, the deferred tax asset would increase to £7.7m, or if shortened to one year it would reduce to £2.1m.

Forward-looking macroeconomic scenarios

The Bank has used a number of probability-weighted forward-looking macroeconomic scenarios to reflect a range of possible outcomes. These scenarios have been used to model impacts on ECLs based on the estimated effect of economic variables on key risk inputs, assessed using long term historical data and expert judgement. Particular attention is given to the calibration of LGD assumptions for loans with a loan to value of over 65% and secured by commercial property or undeveloped land. The scenarios and probability weightings as set out in note 13.4 were approved by CC but it is recognised that there is considerable uncertainty about the actual outcome. Further details regarding the range of possible outcomes are provided in the *Economic Conditions* section of note 13.5.

4. Net interest income

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Interest receivable on instruments held at amortised cost:		
Interest income and receivables from banks and central banks	**4,831**	228
Interest income on loans and receivables to clients	**18,051**	12,314
Interest receivable	**22,882**	12,542
Interest payable on instruments held at amortised cost:		
Interest expense on deposits from clients	**(2,534)**	(761)
Interest expense on lease liabilities	**(77)**	(107)
	(2,611)	(868)
Interest payable on instruments held at fair value through profit or loss	**(210)**	–
Interest payable	**(2,821)**	(868)
Net interest income	**20,061**	11,674

5. Net non-interest income

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Banking income	**906**	758
Net non-interest income	**906**	758

6. Net gains from derivatives and hedge accounting

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Derivatives designated as fair value hedges		
Gains on derivatives designated as fair value hedges	**111**	–
Movement in fair value of hedged items attributable to hedged risk	**(256)**	–
	(145)	–
Gains on other derivatives	**965**	–
Net gains from derivatives and hedge accounting	**820**	–

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

Notes to the financial statements (continued)

For the year ended 31 December 2022

7. Profit/(loss) before tax

Profit/(loss) before tax is stated after charging:

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Staff costs & Directors' remuneration	**11,199**	8,951
Depreciation of property, plant and equipment (note 14)	**28**	26
Depreciation of right-of-use assets (note 15)	**425**	425
Amortisation of intangible assets (note 16)	**492**	725
Other property-related expenses	**478**	432
Other administrative expenses	**8,160**	5,623
Operating expenses	**20,782**	16,182

8. Auditor's remuneration

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

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Fees payable to the Bank's auditor and its associates for the audit of the Bank's annual financial statements*	**237**	194
Total audit fees	**237**	194
Total non-audit fees	**–**	–

* The fees for 2021 include £7k in respect of the audit of the 2020 financial statements that was billed in 2021.

9. Taxation

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Deferred tax		
Prior year adjustment credit	**3,766**	–
Effect of change in tax rate	**1,053**	–
Total tax credit for the year	**4,819**	–

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

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Profit/(loss) before tax	**2,045**	(2,970)
Tax on profit/(loss) before tax at UK corporation tax rate of 19 per cent (2021: 19 per cent)	**389**	(564)
Effects of:		
– Expenses not deductible for tax purposes	**17**	9
– Recognition of a deferred tax asset on losses generated in prior periods	**(3,766)**	–
– Deferred tax credit attributable to changes in tax rates	**(1,053)**	–
– Utilisation of brought forward losses against current period taxable profits	**(594)**	–
– Increase in unrecognised deferred tax assets	**188**	555
Total tax (credit)/charge for the year	**(4,819)**	–

The Bank has recognised a deferred tax asset in respect of future taxable profits for the first time in 2022 (note 17).

The effective tax rate of -236% (2021: nil) differs from the standard rate of UK corporation tax applied to the reported profit. This is primarily attributable to the recognition of a deferred tax asset of £4,819k, largely in respect of tax losses that arose in prior periods, and the current year taxable profit being relieved by brought forward tax losses that no deferred tax asset had previously been recognised on.

An increase in the UK corporation tax rate from 19% to 25% (effective from 1 April 2023) was substantively enacted on 24 May 2021 and this has been taken into account in the calculation of the deferred tax asset recognised at 31 December 2022.

10. Employees

The monthly average Full Time Equivalent number of employees (including Directors) was 113 (2021: 102).

Aggregate remuneration for the year comprised:

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Wages and salaries	**8,476**	6,403
Social security costs	**1,217**	925
Pension costs	**666**	581
Share-based payments	**840**	1,042
	11,199	8,951

11. Directors' remuneration

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

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Short term employee benefits	**1,050**	845
Post-employment benefits	**25**	15
	1,075	860

The total amount of Directors' remuneration in accordance with Schedule 5 to the Accounting Regulations was £1,050k (2021: £845k) relating to salary and variable pay and £25k of contributions to a money purchase pension scheme (2021: £15k).

One Director has retirement benefits accruing under a defined contribution scheme (2021: one).

No Directors exercised share options during the year. Remuneration of the highest paid Director in respect of qualifying services was £396k (2021: £359k). The Bank does not have a defined benefit pension scheme so there are no defined benefit pension arrangements for the highest paid Director.

Notes to the financial statements (continued)

For the year ended 31 December 2022

12. Share-based payments

The Bank operates a share option scheme with two parts, the details of which are set out below. Options were granted under Part 2 of the scheme during 2022 (2021: Part 1 and Part 2).

Part 1 – Share Option Plan

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

Part 2 – Company Share Option Plan

A HMRC approved Company Share Option Plan (CSOP) was introduced during 2018 and offered to all employees including Executive Directors. Each employee share option converts into one ordinary share on exercise and no amounts were payable by the recipient on receipt of the option. Options may be exercised at any time from the date of vesting to the date of their expiry. The vesting period is five years and, if they remain unexercised after a period of ten years from the date of grant, the options will expire. There are no performance conditions or vesting conditions other than a five-year service condition. Options are forfeited if the employee leaves the Bank before the options vest, except for retirals where the options may be exercised within six months of the date of retirement. It is expected that, at the end of the five-year vesting period, 68 per cent of the share options will vest.

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

	2022		2021	
	SOP	CSOP	SOP	CSOP
At 1 January	**13,429,500**	**1,546,676**	12,957,500	1,212,969
Granted during the year	**–**	**632,707**	472,000	473,707
Exercised during the year	**–**	**–**	–	–
Forfeited during the year	**–**	**(120,000)**	–	(125,000)
Expired during the year	**–**	**(89,000)**	–	(15,000)
At 31 December	**13,429,500**	**1,970,383**	13,429,500	1,546,676
Exercisable at the end of the year	**12,500,000**	**–**	–	–
Weighted average remaining contractual life	**15 years**	**7.9 years**	16 years	8.1 years
Weighted average exercise price (pence)	**192.1**	**107.9**	189.2	111.2
Fair value of options awarded (pence)	**–**	**29.2**	33.2	24.5

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

	2022		2021	
	SOP	CSOP	SOP	CSOP
Weighted average share price (pence)	**–**	**100.0**	100.0	100.0
Weighted average exercise price (pence)	**–**	**100.0**	100.0	100.0
Expected volatility	**–**	**28%**	27%	27%
Expected life	**–**	**5 years**	9 years	5 years
Risk-free rate	**–**	**2.23%**	0.56%	0.41%

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

During 2022 the Bank recognised a total expense of £840k related to equity settled share-based payments transactions (2021: £1,042k).

13. Impairment of loans and advances to clients

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

13.1 Impairments by stage

Total impairment allowances

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

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

As at 31 December 2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross loans and advances to clients	402,514	19,690	124	422,328
Impairment allowances	(106)	(56)	(6)	(168)
Net loans and advances to clients	402,408	19,634	118	422,160
Coverage ratio	0.026%	0.284%	4.839%	0.040%

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

Analysis of stage 2 loans

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

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

As at 31 December 2021	< 30 days past due £'000	>30 <= 90 days past due £'000	Total £'000
Gross loans and advances to clients	19,690	–	19,690
Impairment allowances	(56)	–	(56)
Net loans and advances to clients	19,634	–	19,634
Coverage ratio	0.284%	–	0.284%

Notes to the financial statements (continued)

For the year ended 31 December 2022

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

13.1 Impairments by stage (continued)

Analysis of stage 3 loans

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

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

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

13.2 Movements in impairment allowances

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

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

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

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

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

13.3 Impairments charged to income

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

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Impairment charge/(credit) on loans and advances to clients	**26**	(3)
Impairment charge/(credit) on loan commitments	**3**	(2)
Total impairment charge/(credit)	**29**	(5)

13.4 Forward-looking macroeconomic scenarios

IFRS 9 requires ECLs to reflect a range of possible outcomes and consider possible future economic conditions. The Bank has addressed these requirements using five distinct economic scenarios, chosen to represent a range of possible outcomes. Three of these scenarios were developed by the Bank and two are based on the scenarios published by the PRA for banks that are not part of the annual concurrent stress testing exercise.

In developing its economic scenarios, the Bank considers analysis from reputable external sources to form a general market consensus which informs its central (base case) scenario. For 2022 these sources included forecasts produced by the Office of Budget Responsibility (OBR) and the PRA as well as private sector economic research bodies.

The five economic scenarios comprise a base case, which carries the highest probability weighting, an upside case, a PRA stress (rates up) case, a PRA stress (rates down) case and a very severe downside case. Each scenario represents a different pace and extent of recovery or otherwise from the current inflationary stresses and therefore a different economic impact.

Notes to the financial statements (continued)

For the year ended 31 December 2022

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

13.4 Forward-looking macroeconomic scenarios (continued)

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

Base case	The most likely scenario, based on OBR and Fiscal Outlook dated 17 November 2022. Inflation, rising interest rates and falling house prices all weigh on consumption and investment, tipping the economy into recession.
Upside	Recovery is quicker than anticipated and a return to pre-pandemic growth levels is achieved. Inflation reduces and interest rates stabilise.
PRA stress (rates up)	Based on the ‘rates up’ stress test published by the PRA on 14 October 2022 for banks that are not part of the annual concurrent stress testing exercise.
PRA stress (rates down)	Based on the ‘rates down’ stress test published by the PRA on 14 October 2022 for banks that are not part of the annual concurrent stress testing exercise.
Very severe downside	A severe path with delayed economic recovery, low public confidence and higher unemployment. Inflation reduces slower than anticipated and higher interest rates impact the repayment of debt.

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

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

2021	Weighting	Annual growth in GDP	Bank of England bank rate	Annual house price inflation	Unemployment
Base case	50%	3.7%	1.02%	1.7%	4.2%
Upside	10%	4.1%	1.32%	3.5%	4.1%
Severe downside	25%	2.5%	1.42%	-0.2%	6.2%
Very severe downside	12%	-3.5%	2.42%	-6.7%	8.8%
BoE solvency stress test scenario	3%	3.9%	-0.06%	-35.0%*	9.9%

* To lowest point.

The asymmetry in the scenarios is demonstrated by comparing the probability-weighted impairment allowance at 31 December 2022 with the impairment allowance from the base case scenario.

	2022 £’000	2021 £’000
Probability-weighted impairment allowance	**205**	176
Base case scenario impairment allowance (100% weighted)	**139**	80
Effect of multiple economic scenarios	**66**	96

13.5 Sensitivities

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

Economic conditions

The table below shows the potential impact of differing future economic scenarios, by comparing the impairment allowance which would arise if each of the economic scenarios were 100% weighted with the probability-weighted impairment allowance of £205k (2021: £176k):

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

2021	Impairment allowance £'000	Difference £'000
Base case	80	(96)
Upside	23	(153)
Severe downside	191	15
Very severe downside	454	278
BoE solvency stress test scenario	1,040	864

Loss given default

The principal assumptions impacting on LGD are the estimated security values. If the market value reductions in residential and commercial property values assumed in the ECL model were increased by a factor of 1.5, which is a reasonably possible movement based on historic data, then the impairment allowance under the base case scenario would increase by £9k (2021: £13k).

Significant increase in credit risk

The model incorporates a roll rate for accounts moving from stage 1 to stage 2 and from stage 2 to stage 3. If the roll rates of accounts from stage 1 to stage 2 and from stage 2 to stage 3 assumed in the model were increased by 50%, then the impairment allowance under the base case scenario would increase by £27k (2021: £9k).

14. Property, plant and equipment

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

Notes to the financial statements (continued)

For the year ended 31 December 2022

14. Property, plant and equipment (continued)

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

15. Leases

Right-of-use assets

	2022 £'000	2021 £'000
Cost		
At 1 January	**2,450**	2,536
Adjustments	**–**	(86)
At 31 December	**2,450**	2,450
Depreciation		
At 1 January	**1,311**	886
Charge for the year	**425**	425
At 31 December	**1,736**	1,311
Carrying amount		
At 31 December	**714**	1,139

The Bank leases three offices, two in Edinburgh and one in London. The average original lease term is 8 years 8 months, and the average remaining lease term at 31 December 2022 was 1 year 4 months (2021: 2 years 4 months).

There are no leases to which the Bank was committed and which had not yet commenced at 31 December 2022 (2021: none).

Amounts recognised in the statement of comprehensive income

	2022 £'000	2021 £'000
Depreciation expense on right-of-use assets	**425**	425
Interest expense on lease liabilities	**77**	107
Expense relating to leases of low-value assets	**49**	51

Total cash outflow for leases during the year ended 31 December 2022 was £504k (2021: £605k).

Lease liabilities

	2022			2021		
	Current £'000	**Non-current £'000**	**Total £'000**	Current £'000	Non-current £'000	Total £'000
Lease liabilities – property	**365**	**391**	**756**	378	756	1,134

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

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

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

16. Intangible assets

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

The total carrying value of intangible assets whereby amortisation had not yet commenced was £nil at 31 December 2022 (2021: £918k).

	Developed software £'000	Software licences £'000	Total £'000
Cost			
At 1 January 2021	4,299	896	5,195
Additions	397	614	1,011
At 31 December 2021	4,696	1,510	6,206
Amortisation			
At 1 January 2021	2,728	715	3,443
Charge for the year	619	106	725
At 31 December 2021	3,347	821	4,168
Net book value			
At 31 December 2021	1,349	689	2,038

Notes to the financial statements (continued)

For the year ended 31 December 2022

17. Deferred tax

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

The Bank has recognised a deferred tax asset of £4,819k (2021: £nil), most significantly in respect of tax losses carried forward that it expects to utilise in 2023 and 2024. Of the total deferred tax asset of £4,819k, £2,687k is expected to be recovered after more than 12 months.

An increase in the UK corporation tax rate from 19% to 25% (effective from 1 April 2023) was substantively enacted on 24 May 2021 and this has been taken into account in the calculation of the deferred tax asset recognised at 31 December 2022.

The Bank has used a two-year forecast period to set the deferred tax asset and, as such, no deferred tax asset has been recognised on tax losses carried forward of £15,412k (2021: £38,065k), fixed asset temporary differences of £1,882k (2021: £1,733k), transitional adjustments arising under IFRS 9 and IFRS 16 that are spread for tax purposes of £4k (2021: £37k) and pension contributions unpaid at the balance sheet date of £nil (2021: £50k).

18. Accruals and deferred income

	2022 £'000	2021 £'000
Deferred fee income	**141**	137
Expense accruals	**3,299**	1,878
	3,440	2,015

19. Financial instruments

Categories of financial instruments

	2022			2021		
	Amortised cost £'000	Fair value through profit or loss £'000	Total £'000	Amortised cost £'000	Fair value through profit or loss £'000	Total £'000
Financial assets						
Cash and balances at central banks	**172,477**	–	**172,477**	139,948	–	139,948
Loans and advances to banks	**241,254**	–	**241,254**	189,686	–	189,686
Loans and advances to clients	**447,675**	–	**447,675**	422,160	–	422,160
Derivative financial instruments	–	**1,867**	**1,867**	–	–	–
Total financial assets	**861,406**	**1,867**	**863,273**	751,794	–	751,794
Financial liabilities						
Deposits from clients	**796,049**	–	**796,049**	695,590	–	695,590
Derivative financial instruments	–	**838**	**838**	–	–	–
Lease liabilities	**756**	–	**756**	1,134	–	1,134
Total financial liabilities	**796,805**	**838**	**797,643**	696,724	–	696,724

20. Fair value

Fair value measurements

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

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

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

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

Fair value measurements recognised in the statement of financial position

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

21. Financial risk management

Financial risk management objectives

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

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

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

Market risk

Foreign currency risk management

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

The Bank does not maintain any material open currency positions, and as such has no material exposure to the effects of fluctuations in foreign exchange rates. No material open positions arose during 2022 and none existed at the year end (2021: nil). The Bank's foreign exchange rate risk is managed by natural hedges and/or FX Forward contracts to leave no material FX open positions.

Notes to the financial statements (continued)

For the year ended 31 December 2022

21. Financial risk management (continued)

Market risk (continued)

Interest rate risk management

The Bank is exposed to interest rate risk because the Bank accepts deposits from clients and other counterparties at both fixed and floating rates and lends money at both fixed and floating rates. The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate assets and liabilities, and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with the defined risk appetite; ensuring the most cost-effective hedging strategies are applied. Details of interest rate swaps held at 31 December 2022 are included in note 22.

Interest rate sensitivity analysis

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

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

At 31 December 2022	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and balances at central banks	172,477	–	–	–	–	–	172,477
Loans and advances to banks	152,326	36,257	52,671	–	–	–	241,254
Loans and advances to clients	252,114	1,730	10,792	182,954	–	85	447,675
Non-interest bearing assets	–	–	–	–	–	13,079	13,079
Total assets	576,917	37,987	63,463	182,954	–	13,164	874,485
Liabilities							
Deposits from clients	703,559	41,902	43,562	7,026	–	–	796,049
Non-interest bearing liabilities	–	–	–	–	–	5,584	5,584
Total liabilities	703,559	41,902	43,562	7,026	–	5,584	801,633
Effect of derivatives	70,000	–	–	(70,000)	–	–	–
Interest rate sensitivity gap	(56,642)	(3,915)	19,901	105,928	–	7,580	
Cumulative gap	(56,642)	(60,557)	(40,656)	65,272	65,272	72,852	

At 31 December 2021	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and balances at central banks	139,948	–	–	–	–	–	139,948
Loans and advances to banks	104,622	55,226	29,838	–	–	–	189,686
Loans and advances to clients	348,611	–	15,888	57,610	–	51	422,160
Non-interest bearing assets	–	–	–	–	–	4,387	4,387
Total assets	593,181	55,226	45,726	57,610	–	4,438	756,181
Liabilities							
Deposits from clients	543,549	43,415	107,728	898	–	–	695,590
Non-interest bearing liabilities	–	–	–	–	–	3,289	3,289
Total liabilities	543,549	43,415	107,728	898	–	3,289	698,879
Effect of derivatives	–	–	–	–	–	–	–
Interest rate sensitivity gap	49,632	11,811	(62,002)	56,712	–	1,149	
Cumulative gap	49,632	61,443	(559)	56,153	56,153	57,302	

The Bank monitors its exposure to interest rate risk, and reports this to ALCO. One such internally reported measure is calculating the net present value of a 2% change in the yield curve. The results at both 31 December 2022 and 31 December 2021 do not show a material change in net present value.

Liquidity risk

Liquidity risk management

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

Liquidity risk tables

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

At 31 December 2022	**Up to 1 month £'000**	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Over 5 years £'000**	**Total £'000**
Financial assets						
Cash and balances at central banks	**172,477**	**–**	**–**	**–**	**–**	**172,477**
Loans and advances to banks	**153,628**	**36,309**	**52,831**	**–**	**–**	**242,768**
Loans and advances to clients	**40,318**	**15,005**	**30,526**	**263,998**	**227,078**	**576,925**
Total financial assets	**366,423**	**51,314**	**83,357**	**263,998**	**227,078**	**992,170**
Financial liabilities						
Deposits from clients	**703,727**	**41,981**	**44,066**	**7,114**	**–**	**796,888**
Lease liabilities	**–**	**104**	**313**	**426**	**–**	**843**
Total financial liabilities	**703,727**	**42,085**	**44,379**	**7,540**	**–**	**797,731**
Maturity gap	**(337,304)**	**9,229**	**38,978**	**256,458**	**227,078**	
Cumulative gap	**(337,304)**	**(328,075)**	**(289,097)**	**(32,639)**	**194,439**	

Notes to the financial statements (continued)

For the year ended 31 December 2022

21. Financial risk management (continued)

Liquidity risk (continued)

At 31 December 2021	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Financial assets						
Cash and balances at central banks	139,948	–	–	–	–	139,948
Loans and advances to banks	104,623	55,234	29,864	–	–	189,721
Loans and advances to clients	39,515	9,696	33,558	236,626	165,139	484,534
Total financial assets	284,086	64,930	63,422	236,626	165,139	814,203
Financial liabilities						
Deposits from clients	543,554	43,430	107,846	899	–	695,729
Lease liabilities	–	114	341	843	–	1,298
Total financial liabilities	543,554	43,544	108,187	1,742	–	697,027
Maturity gap	(259,468)	21,386	(44,765)	234,884	165,139	
Cumulative gap	(259,468)	(238,082)	(282,847)	(47,963)	117,176	

Credit risk

Credit risk management

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

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

In the event that a client faces financial difficulty, the Bank seeks to make early contact and to work with them in a responsible and reasonable way, usually via a bespoke solution. The early identification and management of clients in financial difficulty is one of the principal ways in which the Bank manages asset quality and improves the outcome for both the client and the Bank.

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

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

Maximum exposure to credit risk

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

	2022 £'000	2021 £'000
Exposure	**526,901**	508,420
Collateral	**1,328,842**	1,316,269
Cover	**252%**	259%

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

Credit quality

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

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

ICG 1: Very strong affordability, negligible risk of default and/or very low loan to security value
ICG 2: Strong affordability, minimal risk of default and/or low loan to security value
ICG 3: Good affordability, very unlikely to result in default and/or acceptable loan to security value
ICG 4: Satisfactory affordability, unlikely to result in default and/or either partially secured or unsecured
ICG 5: Affordability/repayment ability questionable, much greater risk of default and/or security may have deteriorated

No balances were in category ICG 5 in 2022 or 2021.

The table below provides a summary of the Bank's asset quality analysed by ICG. At 31 December 2022 the ECL was £194k against loans and advances (2021: £168k) and £11k against commitments (2021: £8k).

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

At 31 December 2022	ICG 1 £'000	ICG 2 £'000	ICG 3 £'000	ICG 4 £'000	Accruing past due £'000	Non-accrual £'000	Impairment allowance £'000	Total £'000
Cash and balances at central banks:								
– Stage 1	**172,477**	**–**	**–**	**–**	**–**	**–**	**–**	**172,477**
Loans and advances to banks:								
– Stage 1	**241,254**	**–**	**–**	**–**	**–**	**–**	**–**	**241,254**
Loans and advances to clients:								
– Stage 1	**370,480**	**13,785**	**45,882**	**2,371**	**–**	**–**	**(111)**	**432,407**
– Stage 2	**13,105**	**–**	**2,113**	**5**	**–**	**–**	**(67)**	**15,156**
– Stage 3	**–**	**–**	**128**	**–**	**–**	**–**	**(16)**	**112**
Derivatives:								
– Stage 1	**1,867**	**–**	**–**	**–**	**–**	**–**	**–**	**1,867**
	799,183	**13,785**	**48,123**	**2,376**	**–**	**–**	**(194)**	**863,273**
Commitments:								
– Stage 1	**66,772**	**25**	**3,291**	**7,868**	**–**	**–**	**(2)**	**77,954**
– Stage 2	**1,080**	**–**	**–**	**201**	**–**	**–**	**(9)**	**1,272**
– Stage 3	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	67,852	**25**	**3,291**	**8,069**	**–**	**–**	**(11)**	**79,226**

Notes to the financial statements (continued)

For the year ended 31 December 2022

21. Financial risk management (continued)

Credit risk (continued)

At 31 December 2021	ICG 1 £'000	ICG 2 £'000	ICG 3 £'000	ICG 4 £'000	Accruing past due £'000	Non-accrual £'000	Impairment allowance £'000	Total £'000
Cash and balances at central banks:								
– Stage 1	139,948	–	–	–	–	–	–	139,948
Loans and advances to banks:								
– Stage 1	189,686	–	–	–	–	–	–	189,686
Loans and advances to clients:								
– Stage 1	361,761	10,000	29,652	1,101	–	–	(106)	402,408
– Stage 2	17,860	–	1,825	5	–	–	(56)	19,634
– Stage 3	–	–	124	–	–	–	(6)	118
	709,255	10,000	31,601	1,106	–	–	(168)	751,794
Commitments:								
– Stage 1	71,288	1,223	6,106	7,234	–	–	(8)	85,843
– Stage 2	416	–	–		–	–	–	416
– Stage 3	–	–	–	–	–	–	–	
	71,704	1,223	6,106	7,234	–	–	(8)	86,259

Collateral

The Bank has £278k (2021: £247k) of financial assets which it has pledged as collateral.

22. Derivative financial instruments and hedge accounting

Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract, such as interest rates. During 2022 the Bank has entered into interest rate swap contracts to hedge interest rate risk on fixed rate loans. The Bank also uses cross currency swaps to hedge foreign exchange risk but none were held at the year end (2021: £nil).

All derivatives entered into by the Bank are for hedging purposes but not all are designated as such for accounting purposes.

The table below shows the value of derivatives by type:

	2022			2021		
	Contract or underlying principal amount £'000	**Positive fair value £'000**	**Negative fair value £'000**	Contract or underlying principal amount £'000	Positive fair value £'000	Negative fair value £'000
Interest rate swaps						
Designated in fair value accounting hedges	**56,500**	**1,565**	**838**	–	–	–
Not designated in accounting hedges	**13,500**	**302**	**–**	–	–	–
Total derivatives held for hedging	**70,000**	**1,867**	**838**	–	–	–

The following table analyses derivatives by contractual and residual maturity:

	2022		2021	
	Notional principal amount £'000	**Replacement cost £'000**	Notional principal amount £'000	Replacement cost £'000
1 to 5 years	**70,000**	**1,867**	–	–
Total derivatives	**70,000**	**1,867**	–	–

Hedge accounting

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

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

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

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

	2022	
	1 to 5 years £'000	Total £'000
Macro hedges of loans and advances to clients		
Swap notional	**56,500**	**56,500**
Average fixed interest rate	**3.75%**	**3.75%**

The tables below analyse the impacts of hedge accounting on the Statement of Financial Position and the Income Statement:

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

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

Overview
Strategic report
Governance
Financial statements

Notes to the financial statements (continued)

For the year ended 31 December 2022

23. Reconciliation of liabilities arising from financing activities

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

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

24. Share capital

Ordinary shares

	2022		2021	
	Number	**£'000**	Number	£'000
Allotted, called up and fully paid				
At 1 January (£0.05 per share)	**84,459,698**	**4,223**	76,459,698	3,823
Issued ordinary shares	**8,000,000**	**400**	8,000,000	400
At 31 December (£0.05 per share)	**92,459,698**	**4,623**	84,459,698	4,223

During the year 8,000,000 (2021: 8,000,000) ordinary shares were issued at a gross premium of £7,600k (2021: £7,600k). Direct issue costs of £154k (2021: £109k) associated with fundraising have been recorded in the share premium account.

At 31 December 2022 121,683,854 (2021: 121,683,854) ordinary shares were authorised with a par value of £0.05 (2021: £0.05).

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

Share premium account

	2022 £'000	2021 £'000
At 1 January	**16,555**	9,064
Premium arising on issue of equity shares	**7,600**	7,600
Direct share issue costs	**(154)**	(109)
At 31 December	**24,001**	16,555

25. Retained earnings

	2022 £'000	2021 £'000
At 1 January	**36,524**	38,452
Profit/(loss) for the year attributable to equity holders	**6,864**	(2,970)
Equity settled share-based payments	**840**	1,042
At 31 December	**44,228**	36,524

26. Control

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

27. Related parties

In accordance with IAS 24 *Related Party Disclosures*, the Bank's key management personnel, being those persons having responsibility for planning, directing and controlling the Bank's activities, are considered to be the Directors. Directors' remuneration for the year is disclosed in note 11.

Key management personnel and their close family members' aggregate deposits were £377,802 (2021: £183,546) and aggregate lending was £nil (2021: £1,804,377) at year end. Committed loans at 31 December 2022 were £nil (2021: £nil).

Noble & Company (UK) Limited is a related party by virtue of the significant influence of a member of the Bank's key management personnel. During 2022 Noble & Company (UK) Limited charged fees of £105,000 (2021: £36,774) for corporate advisory services and at 31 December 2022 the amount owed by the Bank to Noble & Company (UK) Limited was £nil (2021: £15,000). Noble & Company (UK) Limited's aggregate deposits were £111,373 (2021: £nil) at year end.

No impairment losses have been recognised in respect of amounts owed by related parties (2021: £nil).

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

28. Commitments

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

	2022 £'000	2021 £'000
Commitments to lend	**79,226**	86,259
Commitments for intangible asset development	**–**	394
	79,226	86,653

29. Provisions

	2022			2021		
	Dilapidation provision £'000	**Loss provision £'000**	**Other provision £'000**	Dilapidation provision £'000	Loss provision £'000	Other provision £'000
At 1 January	**115**	**8**	**–**	115	10	–
Provided/(released) during the year	**–**	**3**	**250**	–	(2)	–
Utilised during the year	**–**	**–**	**–**	–	–	–
At 31 December	**115**	**11**	**250**	115	8	–

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

The loss provision represents ECLs on undrawn lending commitments.

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

30. Contingent liabilities

Contingent liabilities can occur during the ordinary course of business where the Bank may be subject to threatened or actual legal proceedings, which may result in a cash outflow. One such claim is outstanding at the year end. Based on analysis of the claim, no material adverse impact on the financial position of the Bank is expected to arise. The Bank has appropriate insurance arrangements in place to cover any such matters and therefore the Directors assess the net financial impact of all such liabilities as £nil (2021: £nil).

31. Capital management policy

The Bank's capital is measured using the regulatory framework defined by the Capital Requirements Directive and Capital Requirements Regulation (together CRD IV) as implemented and enforced in the UK by the PRA.

Notes to the financial statements (continued)

For the year ended 31 December 2022

31. Capital management policy (continued)

The framework consists of three pillars:

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

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

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

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

32. Adoption of new and amended IFRSs

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

33. New accounting standards and interpretations not adopted

The International Accounting Standards Board has issued a number of minor amendments to IFRSs effective 1 January 2023 and in later years, including:

- Amendments to IAS 1 *Presentation of Financial Statements*
- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

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

34. Country by country reporting

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

a) Name, nature of activities and geographical location

This information is provided in note 1.

b) Turnover

Total income is set out in the Statement of Comprehensive Income on page 42.

c) Average number of employees

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

d) Profit or loss before tax

Profit or loss before tax is set out in the Statement of Comprehensive Income on page 42.

e) Corporation tax paid

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

f) Public subsidies received

The Bank does not receive public subsidies.

35. Post balance sheet events

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

Company information

Directors
S E C Miller*
G T Hartop (Chief Executive Officer)
J C N Peake (Chief Financial Officer) (appointed 25 April 2022)
D C Huntley*
C H Taylor*
F F Williamson*
R A Macpherson*

A K Mulligan (Chief Financial Officer) (resigned 27 April 2022)
P A Sparkes* (resigned 19 January 2022)

* Non-Executive Director

Secretary
G M Syme

Company number
SC386922

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Statutory Auditor
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