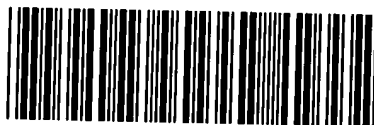


HOGGANT LTD

DIRECTORS' REPORT AND FINANCIAL
STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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HOGGANT LTD
DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2016

DIRECTORS AND ADVISORS

Company number: 08700921

Executive Directors

Alexander Leicester
Dominic Slade
Nicholas Toby Westcott

Registered Office

21 Palmer Street
London
SW1H 0AD

Independent Auditor

KPMG LLP
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

HOGGANT LTD
DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2016

Hoggant Ltd

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HOGGANT LTD
DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2016

Directors' Report

The Directors present their report and consolidated financial statements for the year ended 31st December 2016.

Principal Activities

The Company is a holding company. The only subsidiary of the Company is Hampshire Trust Bank plc (referred to as 'the Bank' or 'HTB', which is a UK Bank, authorised by the Prudential Regulatory Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). As HTB is the only subsidiary the Group's financial results are consistent with those of the bank. The Bank provides bank finance to small and medium sized enterprises in the UK secured against property and business assets, including vehicles. It also provides retail savings products to private individuals and SMEs.

Board Composition

The directors who held office during the year were as follows:

Alexander Leicester
Dominic Slade
Nicholas Toby Westcott

Going Concern

The financial statements are prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions including future projections of profitability, cash flows and capital resources. The Group has also considered a number of stress tests on capital and liquidity and these provide assurance that the Group is sufficiently capitalised and is comfortably in excess of liquidity stress tests. For this reason, the Directors continue to adopt a going concern basis in preparing the Group's financial statements.

Results for the year

The Group made a profit before tax on continuing activities of £4.4m (2015: loss £3.1m), and a profit after tax of £2.1m, (2015: loss £2.9m). A review of the Group's activities, operating environment and future outlook are contained in the Strategic report below.

Proposed Dividend

The Group's trading profit for the period ended 31st December 2016 after taxation was £2.1m (2015: £2.9m loss). The Directors do not recommend the payment of a final dividend.

Political and Charitable Donations

The Group made £150 of charitable donations during the year (2015: £575) and did not make any political donations or incur any political expenditure during the year (2015: £nil).

Remuneration Matters

The Group adheres to the requirements of the Remuneration Code as defined by the Regulator. The non-executive directors do not receive variable remuneration. Information on the Bank's Remuneration Code is set out in the Pillar 3 disclosures and will be published on the Bank's website www.htb.co.uk

HOGGANT LTD
DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2016

Disclosure of Information to Auditor

The directors who held office at the date of approval of this directors' report confirm that so far as each of the directors are aware, there is no relevant audit information of which the Group's auditor is unaware and the directors 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 Group's auditor is aware of that information.



ALEXANDER LEICESTER
Director

By order of the board

Date: 24th July 2017

HOGGANT LTD
DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2016

Strategic Report - Review of Activities

HTB provides finance to SME customers in the UK – supporting a vital part of the UK economy. It employs experienced lenders in each of its business areas to deliver a valued service to its customers. Its principal lending activities are as follows:

Asset finance provides small ticket leasing and hire purchase secured on vehicles and business assets. Business is sourced through a network of specialist finance brokers who are serviced by a regionally based team of broker managers. Originations in the year increased from £54.3m in 2015 to £85.1m in 2016 and consequently, the asset finance book increased from £56.1m in 2015 to £112.1m in 2016. Arrears remain at low levels and asset quality has generally been good.

Block Discounting, which is also part of Asset Finance, provides finance to non-bank small finance houses secured on the receivables in their own loan books. The Bank employs an experienced team to undertake this specialised activity which is direct to the customer. Loan books are routinely audited by an in-house audit team and the loan agreements allow for defaulting underlying customer loans to be replaced with new security paper. The business grew from £12.9m to £41.7m in 2016. All loans were fully performing with no arrears throughout the year.

Property Finance provides mainly development finance to well established UK SME house builders and commercial property developers. The business lends throughout England and Wales and is mainly sourced direct from the market. The business has financed the construction of over 1,500 residential units since its inception in May 2014. The loan book grew from £99.2m in 2015 to £207.5m in 2016. The Bank's specialist lenders continue to be well received by the market. The loan book is now experiencing a steady flow of maturing loans as developments are successfully completed and marketed for sale. This has validated the approach taken by the Bank in this market. A key focus of this business is to undertake repeat business which comprises around 47% of business written.

Commercial Mortgages provides various forms of mortgage loans to SME borrowers via a range of different broker and direct channels in the UK. Lending comprises bridging finance for property investors in the residential and commercial markets, buy to let mortgage loans secured on residential properties for professional landlords and commercial owner-occupied and commercial investment mortgages on commercial premises. This business commenced operations in April 2016 with the loan book finishing the year at £101.3m. There have been no arrears on the loan portfolio since lending commenced.

Commercial Finance – the Bank discontinued the asset based lending business during the year. All but one of the loans in this business have been refinanced elsewhere as part of the withdrawal from this market. The loan book, comprising of one loan, stood at £2.6m at 31 December 2016 (2015: £9.4m).

Customer Deposits

The main funding for the loan books comes in the form of deposits. The strong growth in the loan book has been matched by deposits which have been serviced by traditional post and telephone methods and the recent launch of an on-line capability. The bank's deposit business comprises notice accounts and a range of fixed rate bonds:

	2016 £'000	2015 £'000
Notice deposits	141,377	65,184
Term deposits	381,938	121,988
Total Customer Deposits	523,315	187,172

HOGGANT LTD

DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Deposits are sourced direct from the public and SMEs from a combination of on-line marketing and appearance in best buy tables. Growth in both retail and business deposits has been steady throughout the year supported by an in-house servicing team. Deposit balances increased from £187.2m in 2015 to £523.3m in 2016. Customer numbers have risen substantially from around 4,700 at the start of the year to over 11,000 at the year end. Despite a competitive market and historically low interest rates, the depth of liquidity is more than sufficient to meet the funding needs of the Bank on economic terms.

Deposits with HTB are protected under the terms of the Financial Services Compensation Scheme. At 31st December 2016, 92% of deposits with a value of £481.4m were protected under the Scheme.

Capital

The Group received fresh ordinary share capital of £20m in May 2016 to support its growth. At 31st December 2016 the Bank had a Common Equity Tier 1 ratio of 17% which was substantially in excess of the level required by the Prudential Regulation Authority ("PRA").

The business has developed plans for further growth over the coming years which will require further capital. The principal shareholder is supportive of these plans and the provision of further capital.

Liquidity

The Group had £142.1m (2015: £60.8m) in loans and advances to banks as at 31 December 2016. This represented over 26% of total deposits held (2015: 32%), including high quality liquid assets of £128.8m at 31st December 2016 (2015: £30m), all in the form of deposits held with the Bank of England Reserve Account. The liquidity coverage ratio ("LCR") was 816% (2015: 1,246%), comfortably in excess of the minimum set by the PRA of 80%.

Performance

The following are the key metrics used by management to assess the Group's performance:

HOGGANT LTD

DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
	£'000	Restated* £'000
Group		
Total Profit / (Loss) after tax	2,140	(2,858)
Net interest income on continuing activities	20,627	5,915
Operating Income on continuing activities	20,911	6,065
Net impairment charge on continuing activities	(1,001)	(149)
Profit / (Loss) before tax on continuing activities	4,396	(3,112)
Loans and advances to Banks	142,120	60,774
Loans and advances to customers	463,525	177,612
Customer deposits	523,315	187,172
Bank		
Risk weighted assets ("RWA")	430,807	157,455
Common Equity Tier 1 capital	72,227	51,576
Common Equity Tier 1 capital to RWA	17%	33%
Leverage ratio	11%	57%
Loan to deposits ratio	88%	94%

The Group recorded a full year's profit before tax on continuing activities of £4.4m (2015: loss before tax on continuing activities £3.1m) in only its second full year of operation. This was achieved through increased levels of activity in all key lending sectors. The Group withdrew from the asset backed lending market in early 2016, which is shown as discontinued operations. Operating income increased by £14.7m from 2015 to £20.9m reflecting the lending growth.

Administration and other expenses of £15.5m increased from £9.0m in 2015 with continued investment in the Bank:

People – the continued expansion of the business, including the commencement of commercial mortgage lending in 2016, required recruitment of staff at all levels.

Premises – during the year additional space was taken at the Bank's headquarters premises at 131 Finsbury Pavement, London to accommodate growth in the short term. During the year, the Bank signed a 10 year lease for 21,000 sq.ft of office space at 55 Bishopsgate, London and moved into the building in February 2017. These premises should accommodate its anticipated future requirements.

Risk and compliance – during the year the Bank worked to refine and embed risk management and compliance frameworks across the Bank within an effective governance structure. We believe in setting high standards and have invested time and money accordingly.

Systems – the Bank benefits from its selection of a single integrated operating platform for all its main activities. It continues to invest in developing and refining this infrastructure and is committed to maintaining resilient, secure, reliable and scalable systems. Third party data centres safely house its IT and communications infrastructure.

HOGGANT LTD

DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Continued low interest rates combined with resilient economic growth in the UK economy have contributed to favourable credit conditions. Nevertheless, care and diligence have been exercised in loan origination and underwriting. Impairment losses on continuing activities of £1.0m (2015: £0.1m) represented cost of risk on continuing activities of 0.34% (2015: 0.19%).

Operating Environment

The continuing political uncertainty following the EU Referendum vote has not yet impacted the real UK economy on which the Bank depends for its business. SME prospects remain positive as the economy operates with low levels of unemployment. However, the prospect of inflationary pressures created by the strong pound and rising levels of consumer indebtedness contribute to a cautionary outlook.

The UK housing market continues to suffer from a supply/demand imbalance, despite government attempts to stimulate affordable housing supply. House prices continued to rise throughout 2016, but indexes have shown some recent weakening in certain areas of London and the South East. These areas remain core markets for our franchises but we have taken steps to broaden our regional distribution. The introduction of Stamp Duty tax changes has impacted transaction levels in London, particularly amongst higher priced properties. We have a limited exposure to such properties, typically operating in the more affordable end of the market. Despite these changes, most forecasters predict modest price inflation in 2017. We remain generally optimistic about the opportunities for our property exposed businesses, but recognise the specific uncertainty regarding regulatory and fiscal changes for Buy to Let.

The regulatory environment continues to place demands on smaller banks which impact their ability to compete on a level playing field with their larger counterparts. We monitor continually the returns we are achieving on our lending in the context of the regulatory capital requirements for different asset classes to ensure that the capital is applied effectively in support of the businesses offering sustainable returns.

Outlook

Despite this uncertain environment, we remain confident that 2017 will be another significant year of strong delivery for the Group, with continued growth in our business franchises driving towards greater scale, improved operational efficiency and further enhancement in the customer experience. All this will contribute to the continuing upward trajectory in shareholder returns.

Principal Risks

The Board regards the identification, monitoring and management of risk as fundamental to its role. The Group operates within risk management frameworks, limits and policies which are set by the Bank's Board and are managed through three lines of defence; the Bank's operational line management, the Bank's risk and compliance teams and by the Bank's internal audit function. The principal risks of the Group are as follows:

Credit risk – through the provision of loans and the holding of security against those loans. This is overseen through the Bank's Credit Committee approval process (meeting weekly or when required), the monitoring of live loans through credit performance reviews and the oversight of portfolio performance in the Bank's Board Risk Committee;

Liquidity risk – the risk of not being able to meet financial obligations as they fall due. This could arise if depositors want to be repaid faster than loans or other assets can mature. This risk is managed day-to-day by the treasury team and overseen monthly through the Bank's Asset and Liability Committee ("ALCO"), and by the Bank's Board through the Internal Liquidity Adequacy Assessment Process ("ILAAP");

Market risk – Market risk is the risk that changes in market prices will affect the Bank's income or the value of its holdings of financial instruments. The Bank does not engage in any trading operations. The Bank's exposure to foreign currency risk is limited and overseen by the ALCO on a monthly basis;

HOGGANT LTD

DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Interest rate risk – the risk of loss arising from unhedged or mismatched asset and liability positions, which are sensitive to interest rate movements. Where possible, the Bank seeks to achieve a natural hedge through the interest rate structure of assets and liabilities or deposits of similar terms. Where this is not possible, the Bank will enter into swap agreements to convert fixed rate assets and liabilities into variable rate assets and liabilities, which are then matched with variable rate liabilities and assets respectively. This risk is overseen by ALCO;

Operational risk – the risk of loss arising from inadequate or failed internal controls, systems or processes. Operational risk management encompasses systems and change management controls and processes which are managed via the Bank's Executive Committee and overseen by the Bank's Board Risk Committee;

Financial Crime and Sanctions Risk - the risk that the Bank knowingly or unknowingly leaves itself exposed to the risk of being abused by those seeking to utilise the financial system to obtain or launder funds through illegal means and / or for illegal purposes. The Bank's Money Laundering Reporting Officer is responsible for oversight of HTB's compliance with Anti-Money Laundering (AML) obligations and acts as the focal point for HTB's AML activities.

Conduct risk– the risk generally that the Bank's behaviours (culture, governance, systems and controls) result in poor customer outcomes, exposing the Bank to customer redress costs and the potential for regulatory action. Conduct Risk is a priority for the Bank, it is developing a robust compliance framework to control and monitor this risk; and

Cyber risk – this is the risk of financial loss, disruption or damage to the reputation of the Bank from a failure to adequately control and protect key technology assets and resources

HOGGANT LTD
DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2016

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of Hoggant Ltd

We have audited the financial statements of Hoggant Ltd for the year ended 31 December 2016 set out on pages 14 to 51. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

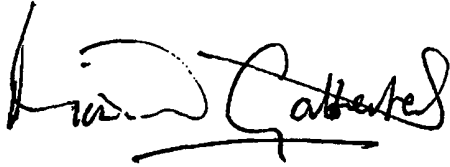
Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- We have not identified material misstatements in those reports; and
- In our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

A handwritten signature in black ink, appearing to read 'Richard Gabbertas', with a horizontal line drawn underneath the name.

Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Date: 9/8/17

HOGGANT LTD
DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2016

Consolidated Statement of Comprehensive Income

	Note	Group 2016 £000	Group 2015 Restated* £000
Interest receivable and similar income		26,697	7,596
Interest expense and similar charges		(6,070)	(1,681)
Net Interest Income	3.1	<u>20,627</u>	<u>5,915</u>
Fees and commission income		413	63
Fees and commissions payable		(134)	(31)
Net income from derivatives at fair value through profit and loss	4.3	5	91
Other Income	3.2	-	27
Operating income		<u>20,911</u>	<u>6,065</u>
Administrative expenses	3.3	(15,503)	(9,028)
Impairment losses on Loans and Advances to customers		(1,001)	(149)
Other Expenses		(11)	-
Operating profit/ (loss) before tax		<u>4,396</u>	<u>(3,112)</u>
Tax (Expense)	3.9	(968)	514
Profit/ (Loss) for the year – Continuing activities		<u>3,428</u>	<u>(2,598)</u>
(Loss) for the year – Discontinued Activities		<u>(1,288)</u>	<u>(260)</u>
Profit/ (Loss) post tax for the year		<u>2,140</u>	<u>(2,858)</u>
Other Comprehensive Income			
Net change in fair value of Investment Securities – Available for Sale		-	(1)
Tax on Other Comprehensive Income		-	-
Total other Comprehensive income for the year, attributable to the owner		-	(1)
Total Comprehensive loss for the period, net of tax		<u>2,140</u>	<u>(2,859)</u>

The notes on pages 21 to 51 are an integral part of these financial statements

**Restated for Discontinued activities for 2015*

HOGGANT LTD
DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2016

Statements of Financial Position	Note	Group	Company	Group	Company
		2016 £000	2016 £000	2015 £000	2015 £000
Assets					
Loans and Advances to Banks	4.1	142,120	5,802	60,774	90
Loans and Advances to Customers	4.2	463,525	-	177,612	-
Derivative financial instruments	4.3	622	-	146	-
Other Assets	4.4	2,336	-	1,239	-
Investment in subsidiaries	4.5	-	80,831	-	60,490
Property, Plant and Equipment	4.6	1,107	-	580	-
Intangible Assets	4.7	4,400	-	3,692	-
Deferred Tax Assets	4.8	909	3	1,340	7
Total Assets		615,019	86,636	245,383	60,587
Liabilities					
Customer Deposits	4.9	523,315	-	187,172	-
Derivative financial instruments	4.3	526	-	55	-
Other Liabilities	4.10	8,721	10	3,891	8
Provisions for Liabilities	4.11	36	-	45	-
Total Liabilities		532,598	10	191,163	8
Equity					
Share Capital	4.12	87,215	87,215	61,495	61,495
Available for Sale Reserve	4.12	-	-	-	-
Retained Earnings		(4,794)	(589)	(7,275)	(916)
Total Equity		82,421	86,626	54,220	60,579
Total Equity and Liabilities		615,019	86,636	245,383	60,587

The notes on pages 21 to 51 are an integral part of these financial statements

These financial statements were approved by the Board of Directors on 24th July 2017 and were signed on its behalf by:

Director



ALEXANDER LEICESTER

Company Number: 08700921

Director



DOMINIC SLADE

HOGGANT LTD

DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Consolidated Statement of Changes in Equity

	Share Capital £000	AFS Reserve £000	Retained Earnings £000	Total Equity £000
Balance as at 1 January 2016	61,495	-	(7,275)	54,220
Total Comprehensive Income for the period:				
Profit/(Loss) after taxation or the period	-	-	2,140	2,140
Other comprehensive income	-	-	-	-
Total Comprehensive Income for the year	-	-	2,140	2,140
Share based payments	-	-	341	341
Contributions by and distributions to owners				
Issue of ordinary shares	25,720	-	-	25,720
Total contributions by and distributions to owners	25,720	-	-	25,720
Balance at 31 December 2016	87,215	-	(4,794)	82,421
	Share Capital £000	AFS Reserve £000	Retained Earnings £000	Total Equity £000
Balance as at 1 January 2015	40,320	1	(4,826)	35,495
Total Comprehensive Income for the period:				
Loss after taxation or the period	-	-	(2,858)	(2,858)
Other comprehensive income	-	(1)	-	(1)
Total Comprehensive Income for the year	-	(1)	(2,858)	(2,859)
Share based payments	-	-	409	409
Contributions by and distributions to owners				
Issue of ordinary shares	21,175	-	-	21,175
Total contributions by and distributions to owners	21,175	-	-	21,175
Balance at 31 December 2015	61,495	-	(7,275)	54,220

The notes on pages 21 to 51 are an integral part of these financial statements

HOGGANT LTD
DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2016

Company Statement of Changes in Equity

	Share Capital £000	AFS Reserve £000	Retained Earnings £000	Total Equity £000
Balance as at 1 January 2016	61,495	-	(916)	60,579
Total Comprehensive Income for the period:				
Profit/ (Loss) after taxation or the period	-	-	(14)	(14)
Other comprehensive income	-	-	-	-
Total Comprehensive Income for the year	-	-	(14)	(14)
Share based payments	-	-	341	341
Contributions by and distributions to owners				
Issue of ordinary shares	25,720	-	-	25,720
Total contributions by and distributions to owners	25,720	-	-	25,720
Balance at 31 December 2016	87,215	-	(589)	86,626

	Share Capital £000	AFS Reserve £000	Retained Earnings £000	Total Equity £000
Balance as at 1 January 2015	40,320	-	(1,295)	39,025
Total Comprehensive Income for the period:				
Loss after taxation or the period	-	-	(30)	(30)
Other comprehensive income	-	-	-	-
Total Comprehensive Income for the year	-	-	(30)	(30)
Share based payments	-	-	409	409
Contributions by and distributions to owners				
Issue of ordinary shares	21,175	-	-	21,175
Total contributions by and distributions to owners	21,175	-	-	21,175
Balance at 31 December 2015	61,495	-	(916)	60,579

The notes on pages 21 to 51 are an integral part of these financial statements

HOGGANT LTD
DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2016

Consolidated Statement of Cashflows

	Note	Group 2016 £000	Group 2015 £000
Cashflows from operating activities			
Profit (Loss) for the year		2,786	(3,372)
Adjustments for:			
Depreciation and amortisation		676	409
(Increase) in fair value of derivatives		(5)	(91)
Foreign Exchange (Gains)/Losses		(34)	(18)
Increase in impairment of Loans and Advances		2,607	65
(Decrease)/Increase in provisions		(9)	18
Equity-settled share based payment transactions		341	409
Changes in:			
(Increase) in Loans and Advances to Customers		(288,484)	(154,245)
(Increase) in Other Assets		(1,093)	(584)
Increase in Customer Deposits		336,143	163,691
(Decrease)/Increase in deposits from banks and building societies		-	(138)
Increase/(Decrease) in Other Liabilities		4,607	2,380
Net cash flow from changes in operating activities		57,535	8,524
Cash flows from Investing Activities			
Net disposal/(purchase) of investment securities		-	9,992
Purchase of Property, Plant and Equipment		(761)	(285)
Purchase of Intangible Assets		(1,150)	(909)
Disposal of Property, Plant and Equipment		-	4
Net cash flow from Investing Activities		(1,911)	8,802
Cash flows from Financing Activities			
Proceeds from the issue of share capital		25,720	21,175
Net increase in Cash and Cash Equivalents		81,344	38,501
Cash and cash equivalents at 1 January		60,164	21,663
Cash and Cash Equivalents at 31 December		141,508	60,164
Loans and advances to Banks	4.1	141,508	60,164
Cash and Cash Equivalents at 31 December		141,508	60,164

The notes on pages 21 to 51 are an integral part of these financial statements

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Company Statement of Cashflows

	Note	Company 2016 £000	Company 2015 £000
Cashflows from operating activities			
Loss for the year		(10)	(38)
Changes in:			
Increase/(Decrease) in Other Liabilities		2	(143)
Net cash flow from changes in operating activities		<u>(8)</u>	<u>(181)</u>
Cash flows from Investing Activities			
Net disposal/(purchase) of investment securities		-	-
(Increase)/ Decrease in Investment in Subsidiaries		(20,000)	(21,625)
Purchase of Property, Plant and Equipment		-	-
Purchase of Intangible Assets		-	-
Disposal of Property, Plant and Equipment		-	-
Net cash flow from Investing Activities		<u>(20,000)</u>	<u>(21,625)</u>
Cash flows from Financing Activities			
Proceeds from the issue of share capital		<u>25,720</u>	<u>21,175</u>
Net increase in Cash and Cash Equivalents		5,712	(631)
Cash and cash equivalents at 1 January		90	721
Cash and Cash Equivalents at 31 December		<u>5,802</u>	<u>90</u>
Loans and advances to Banks	4.1	5,802	90
Cash and Cash Equivalents at 31 December		5,802	90

The notes on pages 21 to 51 are an integral part of these financial statements

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1. Accounting Policies

1.1. Reporting entity

Hoggant Ltd is domiciled in the United Kingdom. The Consolidated Financial Statements of the Group as at and for the year to 31 December 2016 comprise the company and its subsidiaries (together referred to as the Group).

1.2. Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') (as adopted and endorsed by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The company is exempt under CA2006 s408 from the requirement to present its own income statement.

1.3. Going concern

The Group's business activities together with its financial position and the factors likely to affect its future development and performance are set out in the Directors' Report on pages 4 to 5. In addition, the risk management information in note 3 includes the Group's objectives, policies and processes for managing its liquidity risk, details of financial instruments and hedging activities, and its exposure to credit risk and liquidity risk. The capital management information in note 5.7 provides information on the Group's capital policies and capital resources.

The Group's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Group should be able to operate at adequate levels of both liquidity and capital, for the foreseeable future. The Group has also considered a number of stress tests on capital and liquidity and these provide assurance that the Group is sufficiently capitalised and is comfortably in excess of liquidity stress tests.

Consequently, after making enquiries, the Directors are satisfied that the Group has sufficient resources to continue in business for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

1.4. Basis of consolidation

1.3.1 Subsidiaries

Subsidiaries are entities controlled by the Group. Control is achieved where the Group is exposed to, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases. All intra-group transactions, balances, income and expenses are eliminated in preparing the consolidated financial statements.

1.3.2 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group recognises identifiable assets and liabilities at their acquisition date fair values. Fair values are determined from the estimated future cashflows generated by the assets. The cost of an acquisition is measured as the aggregate of the consideration transferred at acquisition date fair value and the amount of any non-controlling interests in the acquiree. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the

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contractual terms, economic circumstances and pertinent conditions as at the acquisition.

Any contingent or deferred consideration payable is measured at fair value at the acquisition date. If the contingent or deferred consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in fair value of the contingent or deferred consideration are recognised in profit or loss.

1.5. Future accounting developments

A number of International Accounting Standards Board (IASB) pronouncements have been issued but are not effective for this financial year. The standards considered most relevant to the Group are as follows:

1.5.1. IFRS 9 'Financial Instruments'

Effective for annual periods beginning after 1 January 2018.

This is the IASB's replacement of IAS 39 'Financial Instruments: Recognition and Measurement'. Phase one of this standard deals with the classification and measurement of financial assets and represents a significant change from the existing requirements in IAS 39. The standard contains three primary measurement categories for financial assets: 'amortised cost', 'fair value through other comprehensive income' and 'fair value through profit or loss' and eliminates the existing categories of 'held to maturity', 'available for sale' and 'loans and receivables'. Phase two of the standard covers impairment, with a new expected loss impairment model that will require expected credit losses to be accounted for from when financial instruments are first recognised and lowers the threshold for the recognition of full lifetime expected losses. Phase three covers general hedge accounting and introduces a substantially reformed model for hedge accounting with enhanced disclosure about risk management activity. The impact of IFRS 9 is likely to be material to the Group once it becomes effective. The Group commenced the implementation of IFRS9 in 2016 with delivery of an expected loss model planned for in 2017. Following a parallel run with IAS39 during 2017, the Group will be ready to apply the standard from 1 January 2018.

1.5.2. IFRS 15 'Revenue from Contracts with Customers'

Effective from 1 January 2018.

The standard replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-3. It applies to contracts with customers but does not apply to insurance contracts, financial instruments or lease contracts, which fall under the scope of other IFRSs. It also does not apply if two companies under the same line of business exchange non-monetary assets to facilitate sales to other parties.

The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognised. This does not have a material impact on the Group.

1.5.3 IFRS 16 'Leases'

IFRS 16, 'Leases' (effective from 1 January 2019). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. Leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. The most significant effect of the new requirements in IFRS 16 will be an increase in lease assets and financial liabilities. Accordingly, for companies with material off balance sheet leases, there will be a change to key financial metrics derived from the company's assets and liabilities (for example, leverage

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ratios).

1.6. Measurement convention

The financial statements are prepared on the historical cost basis as modified by the fair value of available for sale assets and derivatives.

1.7. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise loans and advances to banks and building societies and short term highly liquid debt securities with less than three months to maturity. Loans to banks and building societies comprise cash balances and call deposits.

1.8. Financial assets and financial liabilities

The Group initially recognises loans and receivables on the date that they are originated and customer deposits when cash is received from the depositors. All other financial assets and liabilities are recognised initially on the settlement date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group classifies its financial assets in the following categories: loans and receivables and available for sale financial assets. The Group's financial liabilities are designated as other financial liabilities. A financial asset is measured initially at fair value plus the transaction costs that are directly attributable to its acquisition. A financial liability is measured initially at fair value less the transaction costs that are directly attributable to its issue.

The Group has not classified any assets or liabilities as held to maturity.

1.8.1. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses. Loans and receivables comprise Loans and Advances to Banks and Building Societies and Loans and Advances to Customers.

1.8.2. Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale and that are not classified in any of the previous categories of financial assets. Subsequent to initial recognition they are measured at fair value and changes therein, other than impairment losses, are recognised within other comprehensive income and presented within equity in the available for sale reserve. On disposal, gains and losses recognised previously in equity are transferred to the income statement.

1.8.3. Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees are included within other liabilities.

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1.8.4. Other financial liabilities

Customer deposits are non-derivative financial liabilities with fixed or determinable payments. Deposits are carried at amortised cost using the effective interest method.

1.8.5. Impairment of financial assets

On an ongoing basis the Group assesses whether there is objective evidence that a loan and receivable or available for sale financial asset, or group of loans and receivables and available for sale financial assets, is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of impairment loss includes, but are not limited to, the following:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower; and
- Initiation of bankruptcy proceedings.

If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

A range of forbearance options are available to support customers who are in financial difficulty. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on their feet.

The main options offered by the Bank include:

- reduced monthly payment;
- an arrangement to clear outstanding arrears;
- capitalisation of arrears; and
- extension of term.

1.9. Derivative financial instruments

The Group's derivative activities are entered into for the purposes of matching or eliminating risk from potential movements in interest rates in the Group's assets and liabilities.

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

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Derivatives are reviewed regularly for their effectiveness as hedges and corrective action taken, if appropriate. Fair values are obtained from quoted market prices in active markets and, where these are not available, from valuation techniques including discounted cash flow models. Derivatives are measured as assets where their fair value is positive and liabilities where their fair value is negative.

1.10. Intangible assets

1.10.1. Goodwill

Goodwill arising on acquisitions represents the difference between the fair value of the cost of acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired entity. Attributable costs of the acquisition are expensed in the income statement in the period incurred. Positive goodwill is recognised as an asset in the consolidated balance sheet and is subject to an annual impairment review. Goodwill arising on the acquisition of subsidiaries is recognised separately as an intangible asset in the consolidated balance sheet. Negative goodwill is recognised in the income statement immediately.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment by reviewing detailed cash flow projections from the Group's latest approved forecast.

Where impairment is required, the amount is recognised in the income statement and cannot be subsequently reversed. Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to cash generating units ("CGU"). An impairment loss is recognised if the carrying amount of a CGU exceeds its recoverable amount. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. The estimation of recoverable value is based on value in use calculations incorporating forecasts by management of pre-tax profits for the subsequent six years, discounted at a risk-adjusted interest rate appropriate to the cash generating unit.

1.10.2. Software

Purchased software and costs directly associated with the internal development of computer software are capitalised as intangible assets where the software is an identifiable asset controlled by the Group which will generate future economic benefits and where costs can be reliably measured.

Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense as incurred. Intangible assets are stated at cost less accumulated amortisation and impairment losses.

Amortisation begins when the asset becomes available for operational use and is charged to the income statement on a straight-line basis over the estimated useful life of the software, which is generally between three to five years. The amortisation periods used are reviewed annually. Assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use.

1.11. Property, plant and equipment

Tangible fixed assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment at the following rates:

- Office equipment 10% - 33%
- Fixtures and fittings 10% - 33%

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Depreciation methods, useful lives and residual values are reviewed at each reporting date.

1.12. Interest income and expense

Interest income and expense are recognised in the Statement of Comprehensive Income for all instruments measured at amortised cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group takes into account all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fee income from Finance Lease and Hire Purchase is recognised over the period of the agreement so as to give a constant rate of return.

1.13. Fees and commission income and expense

Fees and commissions that are not considered integral to the effective interest rate are recognised on an accruals basis when the service has been provided or incurred.

1.14. Operating leases

Payments made under operating leases net of any incentives received from the lessor, are charged to the income statement, within administrative expenses on a straight line basis over the period of the lease.

1.15. Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.16. Employee share-based payment transactions

Where the Group engages in share based payment transactions in respect of services received from certain employees, these are accounted for as equity settled share based payments in accordance with IFRS 2. This equity is in the B Ordinary Shares.

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The grant date fair value of a share based payment transaction is recognised as an employee expense, with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. In the absence of market prices, the fair value of the equity at the date of the acquisition is estimated using an appropriate valuation technique.

The amount recognised as an expense in the Income Statement is based on amortising the grant date fair value at a constant rate to the vesting date.

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2. Critical Accounting Estimates and Judgements in applying Accounting Policies

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key estimates, assumptions and judgements are set out below.

2.1. Effective interest rate

In determining the expected life of loans and receivables assets, the Group uses likely redemption profiles and the anticipated level of early repayment charges. At regular intervals throughout the year, the expected life of loans and receivables assets is reassessed for reasonableness. Any variation in the expected life of these assets will change the carrying value in the statement of financial position and the timing of the recognition of interest income.

2.2. Impairment losses on loans and advances

The Group regularly reviews its loan portfolios to assess the level of impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2.3. Deferred tax asset recognition

The deferred tax asset recognised at 31 December 2016 has been recognised on the basis that the Directors believe it is probable that sufficient future taxable profits will be generated against which they can be utilised. In arriving at this conclusion the Directors have estimated the future profit performance for the Group, which is subject to a number of variables.

2.4. Employee share-based payment transactions

The fair value of shares in the employee share scheme was determined using a valuation model. The significant inputs into this model were expected term, risk free interest rate, expected dividend yield and volatility.

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3. Statement of Comprehensive Income Analyses

3.1. Interest income and expense

	Group 2016 £000	Group 2015 Restated* £000
Interest and similar income on Loans and Advances to Customers	26,403	7,325
Interest on Investment Securities – Available for Sale	-	1
Interest on Derivative Financial Instruments	-	15
Interest on Loans and Advances to Banks and Building Societies	294	255
Total interest receivable and similar income	26,697	7,596
Interest on Derivative Financial Instruments	(15)	-
Interest on Deposits from customers	(6,055)	(1,681)
Total interest expense and similar charges	(6,070)	(1,681)
Net Interest Income	20,627	5,915

3.2. Other income

	Group 2016 £000	Group 2015 £000
Foreign exchange gains	-	2
Gains on disposal of debt securities	-	-
Other Income	-	27

3.3. Administration Expenses

	Note	Group 2016 £000	Group 2015 £000
Staff Costs	3.5	10,918	6,015
Share-based payments	3.6	341	409
Depreciation and amortisation	4.6/4.7	676	409
Operating Lease rentals		634	238
FSCS costs		12	33
Other Administrative expenses		2,922	1,924
Administrative Expenses		15,503	9,028

3.4. Auditor's remuneration

	Group 2016 £000	Group 2015 £000
Audit of these financial statements	6	4
Audit of financial statements of subsidiary of the Company	65	55
Non-audit taxation compliance services	3	19
Other non-audit services	29	-
Auditor's remuneration	103	78

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3.5. Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year was as follows:

	Group 2016	Group 2015
Directors	2	2
Loan Officers	28	15
Administrators	64	54
	<u>94</u>	<u>71</u>

The Company did not directly employ any staff during the period.

The analysis includes both full-time and part-time staff but does not include non-executive directors.

The aggregate payroll costs were as follows:

	Group 2016 £000	Group 2015 £000
Wages and Salaries	8,081	4,264
Social Security costs	1,005	558
Pension costs	566	298
Other staff costs	1,266	895
	<u>10,918</u>	<u>6,015</u>

3.6. Employee share-based payment transactions

The Incentive Share scheme, comprising 'B' Ordinary shares, was introduced for directors and senior employees of HTB on 21 May 2014. All shares were issued at a price of £0.01p per share. Holders are entitled to receive a return on the shares acquired in the event of a prescribed exit event.

The Incentive Share scheme is governed by the Company's Articles of Association and is deemed by Management to be an equity settled scheme and has been accounted for as such in the financial statements of the Company.

Detail of shares issued are shown in the table below:

	2016 No. of shares	2015 No. of shares
At 1 January	846	805
Granted	350	50
Forfeited	(160)	(9)
At 31 December	<u>1,036</u>	<u>846</u>

The average fair value of shares issued was £2,909 per share. The fair values of the shares at the date of grant were calculated using the Black-Scholes valuation model. The assumptions used are as follows:

	2016	2015	2014
Expected volatility	31.4% to 32.3%	31.7% to 32.1%	32.8% to 36.1%
Risk free rate	0.2% to 1.0%	1.3% to 1.5%	1.1% to 1.6%
Dividend yield	0.0%	0.0%	0.0%
Expected life	5 years	5 years	5 years

Although the Black-Scholes equation assumes predictable constant volatility, this is not observed in real markets. In order to estimate the annualised volatility we have assessed the past standard deviation of the stock price of comparable quoted banks over a period commensurate with the expected term.

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The charge to the Consolidated Income Statement was £341k (2015: £409k).

3.7. Directors' remuneration

The remuneration of the Directors of the Company was £nil.

3.8. Operating leases

Non-cancellable operating lease rentals on land and buildings are payable as follows:

	Group 2016 £000	Group 2015 £000
Less than 1 year	192	219
Between 1 and 5 years	3,877	91
Over 5 Years	7,472	-
	11,541	310

3.9. Tax

3.9.1. Recognised in the Statement of Comprehensive Income

	2016 Continuing operations £000	2016 Discontinued operations £000	2016 Total £000	2015 Continuing operations £000	2015 Discontinued operations £000	2015 Total £000
<i>Current tax</i>						
Current tax on profits for the year	537	(322)	215	-	-	-
<i>Deferred tax:</i>						
Origination and reversal of temporary differences	455	-	455	(591)	-	(591)
Adjustments in respect of prior periods	66	-	66	(6)	-	(6)
Effect of tax rate change on opening balance	(90)	-	(90)	83	-	83
Total deferred tax charge/(credit)	431	-	431	(514)	-	(514)
Tax on profit/(loss) on ordinary activities	968	(322)	646	(514)	-	(514)

3.9.2. Tax reconciliation

	Group 2016 £000	Group 2015 £000
Profit/(Loss) for the year	2,786	(3,372)
Tax using the UK corporation tax rate of 20.00%	557	(682)
<i>Effects of:</i>		
Permanent non-deductible expenses	111	19
Impact of rate differences	(90)	65
Effect in change of deferred tax rate	-	83
Expenses not deductible for tax purposes	-	4

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Impact of unrelieved losses
 Adjustment for prior year tax differences
 Group Relief

-	3
66	(6)
2	-
<u>646</u>	<u>(514)</u>

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4. Statement of Financial Position Analyses

4.1. Loans and Advances to Banks and Building Societies

	Group 2016 £000	Company 2016 £000	Group 2015 £000	Company 2015 £000
Placements with other Banks and Building Societies included in Cash and Cash Equivalents				
Repayable on demand	141,508	5,802	60,164	90
Remaining maturity of twelve months or less but over three months*	612	-	610	-
As at 31 December	<u>142,120</u>	<u>5,802</u>	<u>60,774</u>	<u>90</u>

* relates to amounts charged to Barclays Bank plc re the provision of various banking facilities

Included within Loans to Banks and Building Societies is a balance held with the Bank of England of £128,831k (2015: £30,099k).

The table below presents an analysis of Loans and Advances to Banks and Building Societies, excluding the Bank of England Reserve account, by rating agency designation as at 31 December, based on Moody's long term ratings.

	Group 2016 £000	Company 2016 £000	Group 2015 £000	Company 2015 £000
Aa2	-	-	100	-
A1	13,186	5,802	15,727	90
A2	-	-	4,268	-
A3	102	-	10,580	-
	<u>13,288</u>	<u>5,802</u>	<u>30,675</u>	<u>90</u>

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4.2. Loans and Advances to Customers

	2016 £000	2016 £000	2015 £000
<i>Loans and advances to customers at amortised cost:</i>			
Property Finance	207,709		99,226
Less: allowance for impairment	(200)		-
		207,509	99,226
Commercial Mortgages	101,428		-
Less: allowance for impairment	(127)		-
		101,301	-
Asset Finance			
<i>Hire Purchase</i>	91,397		44,348
<i>Finance Leases</i>	21,048		11,822
Less: allowance for impairment	(359)		(86)
	112,086		56,084
<i>Block Discounting</i>	41,718		12,874
Less: allowance for impairment	(62)		(19)
	41,656		12,855
		153,742	68,939
Asset backed lending	2,573		9,448
Less: allowance for impairment	(1,600)		-
		973	9,448
		463,525	177,613

4.2.1. Hire Purchase

The table below provides an analysis of Hire Purchase receivables.

	2016 £000	2015 £000
Gross investment in hire purchase, receivable:		
Less than one year	32,166	13,273
Between one and five years	59,924	31,476
	92,090	44,749
Unearned finance income	(693)	(401)
Net investments	91,397	44,348
Less impairment allowance	(227)	(68)
	91,170	44,280
Net investment in hire purchase, receivable:		
Less than one year	31,924	13,155
Between one and five years	59,473	31,193
	91,397	44,348

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4.2.2. Finance lease receivables

The table below provides an analysis of finance lease receivables for leases of equipment in which the Group is the lessor.

	2016 £000	2015 £000
Gross investment in finance leases, receivable:		
Less than one year	6,402	2,847
Between one and five years	14,800	9,073
	<u>21,202</u>	<u>11,920</u>
Unearned finance income	(154)	(98)
Net investment in finance leases	<u>21,048</u>	<u>11,822</u>
Less impairment allowance	<u>(132)</u>	<u>(18)</u>
	<u>20,916</u>	<u>11,804</u>
Net investment in finance leases, receivable:		
Less than one year	6,356	2,824
Between one and five years	14,692	8,998
	<u>21,048</u>	<u>11,822</u>

4.2.3. Allowance for impairment

	2016 £000	2015 £000
<i>Individual allowance for impairment</i>		
Balance at 1 January	4	23
Charge for the year	2,244	64
Write offs	(363)	(83)
Balance at 31 December	<u>1,885</u>	<u>4</u>
<i>Collective allowance for impairment</i>		
Balance at 1 January	101	16
Charge for the year	362	85
Balance at 31 December	<u>463</u>	<u>101</u>

4.3. Derivative financial instruments

The Group uses derivatives to reduce exposure to market risks, and not for trading purposes. The Group uses the International Swaps and Derivatives Association ("ISDA") Master Agreement to document these transactions in conjunction with a Credit Support Annex ("CSA"). The fair value of derivatives is set out below:

	Notional Amount £000	Fair value of assets £000	Fair value of liabilities £000
Interest rate swaps: At 31 December 2016	<u>303,400</u>	<u>622</u>	<u>(526)</u>
Interest rate swaps: At 31 December 2015	<u>127,400</u>	<u>146</u>	<u>(55)</u>

It is the Group's policy to enter into master netting and margining agreements with all derivative counterparties. In general, under master netting agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding under the agreement are aggregated into

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a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are aggregated into a single net amount payable by one party to the other and the agreements terminated.

Under margining agreements where the Group has a net asset position valued at current market values, in respect of its derivatives with a counterparty, then that counterparty will place collateral, usually cash, with the Group in order to cover the position. Similarly, the Group will place collateral, usually cash, with the counterparty where it has a net liability position.

The table below illustrates the amounts that are covered by enforceable netting arrangements (i.e. offsetting agreements and any related financial collateral). The table excludes financial instruments not subject to offset and those that are subject to collateral arrangements only (e.g. loans and advances).

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting on balance sheet			Related amounts not offset		Amounts not subject to enforceable netting arrangements 31 Dec
	Gross amount 31 Dec	Amount offset 31 Dec	Net amount reported on balance sheet 31 Dec	Cash collateral 31 Dec	Net amount 31 Dec	
2016	£000	%	£000	£000	£000	£000
Derivative financial instruments - assets	622	-	622	-	-	-
Derivative financial instruments - liabilities	(526)	-	(526)	-	-	-
Total financial Instruments	96	-	96	-	-	-
2015						
Derivative financial instruments - assets	146	-	146	-	-	-
Derivative financial instruments - liabilities	(55)	-	(55)	-	-	-
Total financial instruments	91	-	91	-	-	-

Gains and losses from derivatives are as follows:

	Group 2016 £000	Group 2015 £000
Gains on derivative financial instrument	397	146
Losses on derivative financial instrument	(392)	(55)
Fair value gains on derivative financial instruments	5	91

4.4. Other Assets

	Group 2016 £000	Group 2015 £000
Other debtors	1,851	950
Prepayments	485	289
Other Assets	2,336	1,239

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4.5. Investment in subsidiaries

	Company 2016 £000	Company 2015 £000
Share capital in Hampshire Trust Bank plc ('HTB')	79,882	59,882
Equity settled share based payments	949	608
As at 31 December	<u>80,831</u>	<u>60,490</u>

HTB has the following investments in subsidiaries (amounting to £105 in total):

	Country of Incorporation	Class of shares held	Ownership	Principal Activity
Hampshire Bank Limited	England	A	100%	Dormant

HTB's subsidiaries are unlisted and have an accounting reference date of 31 December. None of HTB's subsidiaries are banking institutions.

HTB's registered address is 55 Bishopsgate, London, EC2N 3AS

4.6. Property, Plant and Equipment

	Equipment £000	Fixtures and fittings £000	Total £000
<i>Cost</i>			
At 1 January 2016	565	282	847
Additions	114	647	761
At 31 December 2016	<u>679</u>	<u>929</u>	<u>1,608</u>
<i>Depreciation</i>			
At 1 January 2016	177	90	267
Charge for year	151	83	234
At 31 December 2016	<u>328</u>	<u>173</u>	<u>501</u>
<i>Net book value</i>			
At 31 December 2016	<u>351</u>	<u>756</u>	<u>1,107</u>
At 31 December 2015	<u>388</u>	<u>192</u>	<u>580</u>

4.7. Intangible Assets

Group	Software £000	Goodwill £000	Total £000
<i>Cost</i>			
At 1 January 2016	1,459	2,555	4,014
Additions	1,150	-	1,150
At 31 December 2016	<u>2,609</u>	<u>2,555</u>	<u>5,164</u>
<i>Amortisation</i>			
At 1 January 2016	322	-	322
Charge for period	442	-	442
At 31 December 2016	<u>764</u>	<u>-</u>	<u>764</u>

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Net book value			
At 31 December 2016	1,845	2,555	4,400
Net book value			
At 31 December 2015	1,137	2,555	3,692

Goodwill acquired in business combinations relates to the acquisition of Hampshire Trust Bank plc on 21 May 2014.

(a) Impairment testing for goodwill

Management have reassessed cash generating units and the allocation of goodwill. Goodwill arose upon the acquisition of the Bank. The Bank's Loans and Advances on acquisition comprised Practice Finance loans and Property loans. Practice Finance lending ceased on acquisition and the loan book was repaid by early 2015. The Bank commenced Commercial Finance (asset-backed lending), Asset Finance and Property Development Finance lending from 21 May 2014. On this basis management consider that the most appropriate level at which to allocate goodwill and test for impairment is the group of cash generating units which form the Bank.

For the purposes of impairment testing, goodwill of £2,555k (2015: £2,555k) is therefore allocated to the Group as a whole.

The recoverable amounts of the CGU has been calculated based on their value in use, determined by discounting the cash flows expected to be generated from the continuing use of the CGU. No impairment losses were recognised in 2016 because the recoverable amounts of the CGU is determined to be higher than its carrying values.

The key assumptions used in the calculation of value in use were as follows:

Group	HTB
Discount rate (post-tax)	12.0%
Terminal value growth rate	2.0%
Cash flow period (years)	5

The discount rate is an estimate of the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset.

The terminal value growth rate is an estimate of the rate of growth of future cash flows beyond the cash flow period of five years. The rate is estimated by Management, taking into account rates disclosed by comparable institutions.

The dividend discount model (DDM) is used to calculate the recoverable amount of future cash flows. The DDM discounts future cash flows (post-tax profits) generated by the CGUs, however the cash flows are reduced by any earnings retained to support the growth in the underlying CGUs loan books through higher regulatory capital requirements. Forecasted post-tax profits were based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth.

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The key assumptions described above may change as economic and market conditions change. The Group estimated that reasonably possible changes in these assumptions would not cause the recoverable amount of the CGU to decline below the carrying amount.

4.8. Deferred Tax Asset

Deferred tax assets are attributable to the following:

	Group 2016 £000	Company 2016 £000	Group 2015 £000	Company 2015 £000
Tax value of loss carry-forwards	882	3	1,375	7
Short term timing differences	12	-	4	-
Accelerated capital allowances	15	-	(39)	-
Deferred Tax Asset	909	3	1,340	7

The movement in deferred tax during the year is as follows:

	Group 2016 £000	Group 2015 £000
Deferred Tax Asset at 1 January	1,340	826
(Charge)/credit to the income statement	(431)	514
Deferred Tax Asset at 31 December	909	1,340

The deferred tax asset is recognised based on the Group's corporate plan which projects sufficient profits. The deferred tax asset at 31 December 2016 has been calculated based on the rate of 20% at the reporting date.

4.9. Customer Deposits

	2016 £000	2015 £000
With agreed maturity dates or periods of notice by remaining maturity:		
On demand	2,880	1
Not more than three months	79,816	17,085
More than three months but not more than one year	228,243	75,692
More than one year but not more than five years	212,376	94,394
Customer Deposits	523,315	187,172

4.10. Other Liabilities

	Group 2016 £000	Company 2016 £000	Group 2015 £000	Company 2015 £000
Other taxation and social security	707	-	305	-
Other creditors	1,423	-	667	-
Accruals	6,591	10	2,919	8
Other Liabilities	8,721	10	3,891	8

4.11. Provisions

FSCS Levy

2016 2015

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	£000	£000
At 1 January	45	27
Adjustment to provision	12	36
Paid during the year	(21)	(18)
At 31 December	36	45

The levy represents the estimated amount payable under the FSCS for the 2016/2017 scheme year, which runs from March 2016 to March 2017, and is calculated with reference to the protected deposits held at 31 December 2015. The Bank, in common with all regulated UK deposit takers, pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts - a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

4.12. Capital and reserves

4.12.1. Share Capital

Authorised, issued and fully paid

	Ordinary shares of £1 each
	Class A
In issue at 1 January 2016	61,494,998
Issued during the period	25,720,116
In issue at 31 December 2016	87,215,114

During the year the Company issued 25,720,116 A Ordinary shares of £1 each at par value.

The holders of A Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

	B Class Shares of £0.01 each
In issue at 1 January 2016	855
Issued during the period	350
In issue at 31 December 2016	1,205

The Company also issued 350 new B Ordinary shares for par value at £0.01 each. The holders of B Ordinary shares are entitled to receive a dividend only with the prior written consent of the majority of the A Ordinary shareholders and have no rights to vote at meetings of the Company, except in respect of any resolution proposed to alter the class rights of the B Ordinary shares.

The B Ordinary shares are owned by key management personnel and senior employees in the Group. Holders are entitled to receive a return on the shares acquired in the event of a prescribed exit event.

The following Directors of HTB held A and B shares in the Company as at 31 December 2016:

Director	Class A Shares		Class B Shares	
	Number	£ Value	Number	£ Value
Robert East	100,000	100,000	20	0.20
Mark Sismey-Durrant	250,000	250,000	175	1.75
Ketan Malde	200,000	200,000	125	1.25
James Drummond-Smith	25,000	25,000	20	0.20

4.13. Financial instruments

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Fair values of financial assets and financial liabilities are based on quoted market prices. If the market is not active the Group establishes a fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis. The objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date as the price that would have been agreed between active market participants in an arm's length transaction.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

4.13.1. Investment Securities Available for Sale

The fair value of Investment Securities Available for Sale is determined by reference to their quoted bid price at the reporting date. These have been measured according to level 1 inputs.

4.13.2. Loans and Advances

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date, adjusted for future credit losses if considered material. These have been measured according to level 3 inputs.

4.13.3. Deposits

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. These have been measured according to level 3 inputs.

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are shown in the following table.

	Hierarchy level	Loans and receivables	Total carrying amount	Fair Value
At 31 December 2016		£000	£000	£000
Assets				
Loan and advances to Banks	Level 1	142,120	142,120	142,120

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Loans and advances to customers	Level 3	483,525	483,525	484,926
Total		605,845	605,845	607,046
Liabilities				
Customer Deposits	Level 3	523,315	523,315	525,597
Total Liabilities		523,315	523,315	525,597
At 31 December 2015				
Assets				
Loan and advances to Banks	Level 1	60,774	60,774	60,774
Loans and advances to customers	Level 3	177,612	177,612	177,762
Total		238,386	238,386	238,536
Liabilities				
Customer Deposits	Level 3	187,172	187,172	186,997
Total Liabilities		187,172	187,172	186,997

4.14 Discontinued operations

In early 2016, the Bank ceased asset backed lending activities. Further, as part of the withdrawal from this lending, the Bank disposed of all but one loan to other lenders.

Details of the discontinued operations profit for the current year and prior year is set out below.

	2016	2015
	£'000	£'000
Interest receivable and similar income	375	521
Net interest income	234	323
Operating Income	492	709
Impairment losses	(1,606)	0
Administration and other expenses	(496)	(968)
Profit before Tax	(1,610)	(260)
Tax	322	-
Profit for the year – Discontinued operations	(1,288)	(260)
Net cash flow from operating activities	6,883	(4,480)

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5. Other Analyses

5.1. Risk Management

The main areas of risk that the Group is exposed to are:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk;
- Strategic risk; and
- Capital risk and management;

5.2. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Impairment provisions are provided for losses that have been incurred at the statement of financial position date.

Lending under asset finance, property finance and commercial finance is undertaken within detailed limits and guidelines set out in Lending and Credit policies. These include maximum advances and Loan to Value ("LTV") percentages for each type of lending. These are monitored by management with the aid of monthly detailed portfolio performance reports.

Money market investments are made with eligible counterparties approved by the Bank's Board. HTB's ALCO reviews the list of counterparty exposures at least monthly and sets limits for each institution and rating.

The Group's maximum exposure to credit risk is as follows:

	Group 2016 £000	Company 2016 £000	Group 2015 £000	Company 2015 £000
Loans and Advances to Banks	142,120	5,802	60,774	90
Loans and Advances to Customers	463,525	-	177,612	-
	<u>605,645</u>	<u>5,802</u>	<u>238,386</u>	<u>90</u>
Financial guarantees	-	-	506	-
Contractual loan commitments	189,838	-	116,405	-
Total Credit Risk	<u>795,483</u>	<u>5,802</u>	<u>355,297</u>	<u>90</u>

Fair value of security is £755.0m (2015: £285.6m) in the form of land, residential and commercial property, £9.1m (2015: £29.2m) in the form of receivables and £154.2m (2015: £63.2m) in the form of finance lease and hire purchase agreements.

In addition to the collateral included above, the Group also holds other types of collateral and credit enhancements such as personal guarantees, second charges and floating charges for which specific values are not generally available.

Contractual loan commitments represent agreements entered into but not advanced at 31 December 2016. However, loan facilities of £178.5m granted under Property Finance are legally drafted as on-demand and are uncommitted.

Loans and advances to customers are reviewed regularly to determine whether there is any objective evidence of impairment:

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- Individual impairment is assessed where specific circumstances indicate that a loss is likely to be incurred.
- Collective impairment allowances are calculated for each portfolio given the homogenous nature of the assets in the portfolio.

At 31 December 2016 the total value of arrears amounted to £767k (2015: £9.6k), representing 17bps of the total book (2015: 1bps). Of this total value, £453k was over three months in arrears at 31 December 2016 (2015: £nil).

The Group maintains a forbearance policy for the servicing and management of customers who are in financial difficulty and require some form of concession to be granted, even if this concession entails a loss for the Bank. The total value of forborne loans amounted to £10.8m as at 31 December 2016 (2015: £nil).

Concentrations of credit risk

Concentration risk is the additional risk, primarily credit risk, arising from having exposures concentrated in one sector, geographical area or product. Concentrations also can arise from a large individual exposure or a number of exposures to a group of related counterparties.

The Group monitors concentrations of credit risk by sector, size and by geographical location. An analysis of concentrations of credit risk from loans and advances, investment securities, financial guarantees and contractual commitments is shown below.

Group	Loans and advances to Banks and Building Societies				Loans and advances to Customers		Financial Guarantees and Contractual Commitments	
	Group 2016	Company 2016	Group 2015	Company 2015	Group 2016	Group 2015	Group 2016	Group 2015
	£000	£000	£000	£000	£000	£000	£000	£000
Carrying amount	142,120	-	60,774	90	463,525	177,612	162,268	93,706
Concentration by sector								
Corporate	-	-	-	-	309,783	108,672	162,268	93,706
Government	128,831	-	30,099	-	-	-	-	-
Banks and Building Societies	13,289	5,802	30,675	90	-	-	-	-
Retail	-	-	-	-	153,742	68,940	-	-
	142,120	5,802	60,774	90	463,525	177,612	162,268	93,706
Concentration by location								
UK	142,120	5,802	60,774	90	463,525	177,612	162,268	93,706

5.3. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The table below analyses the Group's remaining contractual maturity undiscounted cash flows of non-derivative assets and liabilities.

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Group	Carrying value £000	Net Inflow /(outflow) £000	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000
At 31 December 2016						
Assets						
Loan and advances to Banks	142,120	142,120	141,507	-	613	-
Loans and advances to customers	463,525	547,663	39,488	56,377	136,140	315,658
Contractual loan commitments	162,268	166,097	25,929	36,730	62,718	40,720
Total	767,913	855,880	206,924	93,107	199,471	356,378
Liabilities						
Deposits	(523,315)	(534,640)	(12,644)	(70,203)	(230,219)	(221,574)
Contractual loan commitments	(162,268)	(162,258)	(160,555)	(1,703)	-	-
Total	(685,583)	(696,898)	(173,199)	(71,906)	(230,219)	(221,574)

Group	Carrying value £000	Net Inflow /(outflow) £000	Up to 1 month £000	1 to 3 months £000	3 to 12 months £000	1 to 5 years £000
At 31 December 2015						
Assets						
Loan and advances to Banks	60,774	60,774	60,163	-	611	-
Treasury Bills	-	-	-	-	-	-
Loans and advances to customers	177,612	192,200	13,630	7,331	74,435	96,804
Contractual loan commitments	116,405	129,871	23,205	1,219	36,621	68,826
Total	354,791	382,845	96,998	8,550	111,667	165,630
Liabilities						
Deposits	(187,172)	(193,587)	(2)	(17,491)	(77,341)	(98,753)
Contractual loan commitments	(116,405)	(116,405)	(23,205)	(1,200)	(35,368)	(56,632)
Total	(303,577)	(309,992)	(23,207)	(18,691)	(112,709)	(155,385)

The company's Loans and Advances to bank of £5,802k (2015 £90k) has a contractual maturity within the up to 1 month category.

5.4. Market risk

Market risk is the risk that changes in market prices will affect the Group's income or the value of its holdings of financial instruments. The Group does not engage in any trading operations. The Group's exposure to foreign currency risk is limited and managed by the Bank's ALCO on a monthly basis.

5.4.1. Interest rate risk

Interest rate risk is the potential adverse impact on the Group's future cash flows from changes in interest rates and arises from the differing interest rate risk characteristics of the Group's assets and liabilities. In particular, fixed rate products expose the Group to the risk that a change in interest rates could cause either

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a reduction in interest income or an increase in interest expense relative to variable rate interest flows. The Group manages and controls interest rate risk through its hedging strategy. Interest rate exposure is managed by the Bank's ALCO on a monthly basis and it operates within pre-agreed limits.

5.4.2. Interest rate sensitivity gap

The Group considers a parallel 200 basis points movement to be appropriate for scenario testing given the current economic outlook and industry expectations. The change in equity as a result, based on the present value of future cash flows discounted using the London Interbank Offered Rate ("LIBOR"), would be as follows:

	Group 2016 £000	Group 2015 £000
+200 basis points	4,502	1,486
-200 basis points	(1,570)	(1,570)

The table below gives an analysis of the re-pricing periods of the Group's and Company's assets and liabilities. Mismatches in the re-pricing timing of assets and liabilities creates interest rate risk. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and the residual maturity date.

Group	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Non-interest bearing	TOTAL
At 31 December 2016	£000	£000	£000	£000	£000	£000
Assets						
Loan and advances to Banks	142,120	-	-	-	-	142,120
Loans and advances to customers	286,511	10,908	58,139	104,527	3,439	463,524
Other assets	-	-	-	-	9,382	9,382
Total Assets	428,631	10,908	58,139	104,527	12,821	615,026
Liabilities						
Customer Deposits	12,215	69,994	228,547	212,559	-	523,315
Non-interest bearing liabilities	-	-	-	-	9,283	9,283
Equity	-	-	-	-	82,428	82,428
Total Liabilities	12,215	69,994	228,547	212,559	91,711	615,026
Notional value of derivatives	(5,500)	(5,200)	(8,700)	19,400	-	
Interest rate sensitivity gap	416,416	(59,086)	(170,408)	(108,032)	(78,890)	
Cumulative gap	416,416	357,330	186,922	78,890	-	

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Group	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Non-interest bearing	TOTAL
At 31 December 2015	£000	£000	£000	£000	£000	£000
Assets						
Loan and advances to Banks	60,774	-	-	-	-	60,774
Treasury Bills	-	-	-	-	-	-
Loans and advances to customers	11,309	102,981	15,398	46,530	1,414	177,612
Other assets	-	-	-	-	6,997	6,997
Total Assets	72,083	102,981	15,398	46,530	8,411	245,383
Liabilities						
Customer Deposits	1,179	16,080	75,046	94,867	-	187,172
Non-interest bearing liabilities	-	-	-	-	3,991	3,991
Equity	-	-	-	-	54,220	54,220
Total Liabilities	1,179	16,080	75,046	94,867	58,211	245,383
 Notional value of derivatives	 12,800	 (15,000)	 (15,400)	 17,600		
 Interest rate sensitivity gap	 83,704	 71,881	 (75,048)	 (30,737)	 (49,800)	
Cumulative gap	83,704	155,585	80,537	49,800	-	

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Company	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Non-interest bearing	TOTAL
At 31 December 2016	£000	£000	£000	£000	£000	£000
Assets						
Loan and advances to Banks	5,802	-	-	-	-	5,802
Other assets	-	-	-	-	80,805	80,805
Total Assets	5,802	-	-	-	80,805	86,607
Liabilities						
Non-interest bearing liabilities	-	-	-	-	10	10
Equity	-	-	-	-	86,597	86,597
Total Liabilities	-	-	-	-	86,607	86,607
Interest rate sensitivity gap	5,802	-	-	-	(5,802)	
Cumulative gap	5,802	5,802	5,802	5,802	-	
Company	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Non-Interest bearing	TOTAL
At 31 December 2015	£000	£000	£000	£000	£000	£000
Assets						
Loan and advances to Banks	90	-	-	-	-	90
Other assets	-	-	-	-	60,497	60,497
Total Assets	90	-	-	-	60,497	60,587
Liabilities						
Non-interest bearing liabilities	-	-	-	-	8	8
Equity	-	-	-	-	60,579	60,579
Total Liabilities	-	-	-	-	60,587	60,587
Interest rate sensitivity gap	90	-	-	-	(90)	
Cumulative gap	90	90	90	90	-	

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5.5. Operational risk (unaudited)

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. Operational risk also encompasses the management of changes to operating systems or processes in the business.

The Bank's management team ensures that risk policies and procedures have been developed to prevent operational risks occurring or restrict their adverse impact where full prevention would be uneconomic. The effectiveness of these policies and procedures is validated through the Bank's Internal Audit process and the Bank's Operational Risk Committee. The Operational Risk Committee reviews at least quarterly the adequacy of the Bank's control framework to operate within the low operational risk appetite set by the Bank's Board for the Group.

The Bank's Internal Audit function ensures that there is comprehensive coverage of the risk landscape inherent in the business model and functional capabilities of the Group, with the frequency of the review informed by the perceived risk in the underlying processes. In addition, the Group makes use of a number of insurance policies to manage its operational risk.

5.6. Strategic risk (unaudited)

Strategic risk is the risk to earnings or capital arising from changes to the business environment, from adverse business decisions, from improper implementation of business decisions, or from lack of responsiveness to changes in the business environment. Furthermore, the risk that the Bank may need to raise additional capital due to changes in business cycles or deteriorating economic conditions, or business conditions caught by competition, is managed through the ICAAP.

5.7. Capital Management

The Bank's Board is ultimately responsible for capital management. The Bank's Board and Executive Committee monitor the capital position of the Group on a monthly basis. The ICAAP is central to the capital management framework and is used to inform the Board of the ongoing assessment and quantification of the Bank's risks, how the Bank mitigates those risks and the capital adequacy of the Bank.

The ICAAP is embedded in the risk management framework for the Bank and is subject to ongoing updates and revisions when necessary. However, at a minimum, the ICAAP is updated annually as part of the business planning process. The ICAAP is a process that brings together the management framework (i.e. the policies, procedures, strategies and systems that the Bank has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management.

Not all material risks can be mitigated by capital, but where capital is appropriate the Bank's Board has adopted a "Pillar I plus" approach to determine the level of capital the Bank needs to hold. This method takes the Pillar I capital formula calculations as a starting point, and then considers whether each of the calculations deliver a sufficient capital sum adequate to cover management's anticipated risks. Where the Board considered that the Pillar I calculations did not reflect the risk, an additional capital add-on in Pillar II is applied, as per the Individual Capital Guidance (ICG) issued by the PRA.

At all times the Bank's capital position must be aligned with the capital adequacy limits approved by the Bank's Board in the risk appetite statement, which aims to maintain a robust capital and liquidity management under "normal" and "stressed" conditions. With regard to capital management this means:

- Maintaining a level of capital equal to the minimum that is set by the PRA in the Individual Capital Guidance ("ICG").
- All capital will mainly comprise Core tier 1 capital. Any change to this policy must be agreed by the Bank's Board.

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Throughout the year the Bank has complied with ICG requirements.

The following shows the regulatory capital resources managed by the Group:

	Group 2016 £000	Group 2015 £000
Share Capital	87,215	61,495
Retained Earnings	(4,794)	(7,275)
Core Tier 1 – Total Equity	82,421	54,220
Deferred Tax	(909)	(1,340)
Intangible Assets	(1,845)	(1,137)
Regulatory Capital	79,667	51,743

5.8. Related party transactions

Related parties of the Group include subsidiaries, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members. Key Management Personnel are defined as the Directors.

The compensation of the directors is given in note 3.7.

The following Directors of HTB directly and indirectly held A and B ordinary shares in Hoggant Limited as at 31 December 2016:

Director	Class A Shares		Class B Shares	
	Number	£ Value	Number	£ Value
Robert East	100,000	100,000	20	0.20
Mark Sismey-Durrant	250,000	250,000	175	1.75
Ketan Malde	200,000	200,000	125	1.25
James Drummond Smith	25,000	25,000	20	0.20

Three HTB directors held deposits with the Bank as at 31 December 2016 amounting to £100k (2015: £nil).

5.9. Ultimate parent company

The largest group in which the results of the group are consolidated is that headed by Hoggant Limited incorporated in England and Wales. No other financial statements include the results of the Group. The majority of Hoggant Limited's equity is owned by a private equity fund under the ultimate control of Alchemy Partners GP Limited.

5.10. Country-by-country reporting (CBCR)

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of the EU Capital Requirements Directive IV (CRD IV).

The objective of the CBCR requirements is to provide increased transparency regarding the source of the financial institution's income and locations of its operations. Hoggant Ltd and its subsidiaries are all UK registered entities, the activities of which are disclosed on page 38 of the Annual Report and Accounts.

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The Group's net operating income, profit before taxation, income tax charge and number of full time equivalent employees were:

	2016 Continued Operations £'000	2016 Discontinued Operations £'000	2015 Continued Operations £'000	2015 Discontinued Operations £'000
Operating Income	20,911	492	6,065	709
Profit / (Loss) before tax	4,396	(1,610)	(3,112)	(260)
Income Tax Paid		0		0
	2016	2015		
Average number of employees on a full time equivalent basis	94	71		

The Group did not receive any public subsidies.