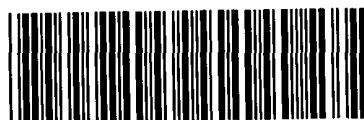


HOGGANT LTD

DIRECTORS' REPORT AND FINANCIAL
STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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HOGGANT LTD
DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2017

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 2017

Hoggant Ltd

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HOGGANT LTD

DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Directors' Report

The Directors present their report and consolidated financial statements for the year ended 31st December 2017.

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 next 12 months. 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 £9.9m (2016: £4.4m), and a profit after tax of £8.0m, (2016: £2.1m). 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 2017 after taxation was £8.0m (2016: £2.1m). The Directors do not recommend the payment of a final dividend.

Political and Charitable Donations

The Group made £100 of charitable donations during the year (2016: £150) and did not make any political donations or incur any political expenditure during the year (2016: £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 2017

Reappointment of Auditors

During the year, following a competitive tender process, the Directors made the decision to reappoint KPMG as external auditors.

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.



Director

By order of the board

Date:

17/04/18

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 finance to SME customers throughout the UK on short-term hire purchase and leasing facilities for the finance of cars and vehicles, plant and machinery and other assets for use in their businesses. Originations in the year increased from £85.1m in 2016 to £99.4m in 2017 and consequently, the asset finance book increased from £112.1m in 2016 to £154.1m in 2017.

There was some deterioration in asset quality above what was expected as the book seasoned, with cost of risk increasing up to 0.8% from 0.3% in 2016. Over 2017, the Bank has strengthened capabilities, people and processes in Asset Finance, including in arrears management.

The Bank also provides wholesale finance in the form of block discounting facilities to other finance businesses secured on their finance receivables. 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 £41.7m to £62.9m in 2017. 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 2,600 residential units since its inception in May 2014. New originations amounted to £258.3m while the loan book grew from £207.5 m in 2016 to £222.5m in 2017.

The Bank's specialist lenders continue to be well received by the market. The Bank has expanded its team of property lending professionals and in 2017 commenced the roll out of a regional expansion strategy, expanding the team's presence and coverage in the North and South West of England.

Repeat business is very important as it demonstrates the strength of relationships the Bank develop with our customers – in 2017, 57% of the Bank's business was with existing customers.

An individual impairment was raised first in 2016 in respect of a single property development exposure. This significantly increased in 2017 to £3.0m (2016: £200k). This aside, the overall book performed well.

- **Specialist 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. The business grew from £101.3m to £192.6m in 2017. There have been no arrears on the loan portfolio since lending commenced.

During the year the intermediary base was broadened to access a wider market and the direct business has also been further developed. The credit experience in this business has been very strong to date. However, the Bank has continued to invest in experienced people to strengthen its underwriting team. In 2018, the Bank plans to invest in new technology to assist with business processing and the sourcing of business from intermediaries. The Bank sees significant further growth potential in this business.

HOGGANT LTD

DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

- **Asset Backed Lending** – the decision was taken during 2016 to discontinue the asset based lending business. The loan book comprising of one loan, stood at £0.2m net of provision at 31 December 2017 (2016: £1.0m).

Funding

The main funding for the loan books is in the form of deposits and the Group's loan to deposit ratio at 31 December 2017 was 106% (2016: 88%). The Group is predominantly funded by longer dated deposits which have been serviced by traditional post and telephone methods and an on-line capability.

	2017 £'000	2016 £'000
Notice deposits	191,792	141,377
Term deposits	404,504	381,938
Total Customer Deposits	596,296	523,315

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 £523.3m in 2016 to £596.3m in 2017. Customer numbers have risen from around 11,000 at the start of the year to over 11,800 at the year end. Deposits with HTB are protected under the terms of the Financial Services Compensation Scheme. At 31st December 2017, 89.7% of deposits with a value of £534.9m were protected under the Scheme.

The Group also utilised the government's Term Funding Scheme (TFS) in 2017 with a drawn balance of £20m at 31 December 2017 (2016: £nil).

Capital

The Group remains strongly capitalised with Common Equity Tier 1 (CET1) Capital of £115.5m as at 31 December 2017 (2016: £80.6m). The CET1 ratio as at 31 December 2017 was 21% (2016: 17%). The CET1 ratio remains above our target minimum.

Ordinary share capital increased by £27m in 2017 as the Group's ultimate principal shareholders, which are funds advised by Alchemy Special Opportunities LLP, provided continued support in the growth of the Bank. In addition, the profitability of the Group is now providing internally generated capital for growth.

Liquidity

The Group had £102.0m (2016: £142.1m) in loans and advances to banks as at 31 December 2017. This represented over 17% of total deposits held (2016: 26%), including high quality liquid assets of £95.6m at 31st December 2017 (2016: £128.8m), all in the form of deposits held with the Bank of England Reserve Account. The liquidity coverage ratio ('LCR') was 467% (2016: 816%), comfortably in excess of the minimum set by the PRA of 80%.

Impairments

Despite prevailing economic uncertainty during the year and a first increase in base rate in 10 years (November 2017), economic growth in the UK economy stayed resilient and the widely anticipated downturn following the UK's decision to leave the EU has yet to materialise. As a result credit conditions remain benign.

The cost of risk on continuing activities in 2017 was 0.79% (2016: 0.34%), representing impairment losses of £4.5m. (2016: £1.0m). The impairments include a higher collective provision charge to reflect increased

HOGGANT LTD

DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

economic uncertainty, coupled with an increased significant individual provision on a single property development exposure. Together these represent 71.5% of the cost of risk.

The Group's credit appetite remains conservative, with care and diligence continuing to be exercised in loan origination and underwriting.

Accounting policy and regulatory changes

IFRS 9 Financial Instruments is effective from 1 January 2018. The Bank commenced preparations for the implementation of IFRS 9 in April 2016. The initial development of the Expected Loss Model (ECL) was completed by 31 December 2017 and ongoing review and refinement of the outputs continues in 2018. Note 1.6(a) describes the likely impact of these changes given current IFRS9 assumptions.

Performance

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

	2017	2016
	£'000	£'000
Group		
Total Profit / (Loss) after tax	8,002	2,140
Net interest income on continuing activities	34,113	20,627
Operating Income on continuing activities	34,492	20,911
Net impairment charge on continuing activities	(4,515)	(1,001)
Profit / (Loss) before tax on continuing activities	9,851	4,396
Loans and advances to Banks	101,993	142,120
Loans and advances to customers	632,273	463,525
Customer deposits	596,296	523,315
Bank		
Risk weighted assets ("RWA")	529,157	430,807
Common Equity Tier 1 capital	112,498	72,227
Common Equity Tier 1 capital to RWA	21%	17%
Leverage ratio	15%	11%
Loan to deposits ratio	106%	88%

The Group recorded a full year's profit before tax of £9.9m (2016: £4.4m). This was achieved through increased levels of activity in all key lending sectors. The Bank withdrew from the asset backed lending market in early 2016, which is shown as discontinued operations.

HOGGANT LTD

DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Operating income

Operating income increased by £13.6m from 2016 to £34.5m reflecting lending growth of 36.4%. Net interest margin (NIM) on continuing activities of 5.06% in 2017 was down from 5.47% in 2016. This was due to:

- a changing lending asset mix from 2016 to 2017, with stronger growth in Specialist Mortgages (by 90%), Asset Finance (by 38%) and Block Discounting (by 51%) relative to Property Finance (by 7%);
- increased competition in some of our markets, lowering front book yields; and
- higher cash balances held during 2017 earning lower rates of interest.

Administrative expenses

The cost income ratio fell from 74% in 2016 to 58% in 2017. Despite an increase in administration and other expenses of £4.6m from £15.5m in 2016, the ratio reflected sturdy income growth leveraging off continued operational efficiencies. The main expense drivers in 2017 were:

- People – representative of the continued expansion of the business and recruitment of expertise to underpin capabilities.
- Premises – the Bank moved into its new premises in February 2017 at 55 Bishopsgate, London.
- Risk and compliance – during the year the Group continued to refine and embed risk management and compliance frameworks across the Group within an effective governance structure, including readiness for IFRS 9 and GDPR, effective from 2018.
- Systems – the Bank benefits from its selection of a single integrated operating platform for 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 the Bank's IT and communications infrastructure.

Further investment in 2018 and beyond will continue to drive enhanced customer propositions, efficiency and risk management.

Operating Environment

In the current uncertain environment, we are prepared for potential macro-economic issues in the year ahead. Following a significant period of growth, the housing market is readying itself for a slowdown, with areas of London and the South East already being impacted. We have anticipated this dip in the housing cycle and have diversified our portfolio accordingly, also strengthening our presence in the North and South West of England. In addition, we have further refined our credit and affordability checks to ensure our book of business continues to perform well in each of our franchises.

While the economic and political environment remains uncertain, with GDP growth slowing, which has impacted on business confidence, there are encouraging signs for the longer term. The Bank of England's TFS has given us access to increased levels of liquidity and the Basel III banking reforms mean smaller banks such as ours will be more able to operate and compete in certain areas of lending when they come into effect from 2022. In addition, continued investment in technology in 2018 will contribute efficiency benefits and positions the Group strongly for future growth.

HOGGANT LTD

DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Outlook

The Group looks forward with optimism into 2018. It has demonstrated its ability to attract customers and business through its current channels. The key for delivery is to create and sustain momentum across all business lines and adapt to competition. The Group sees the coming year as being very important for its intermediary businesses of Asset Finance and Specialist Mortgages as it brings our technology investment online to support the business flow. Similarly, against an uncertain backdrop politically and economically, the Group's risk capabilities will be important to help navigate the future course within its risk appetite.

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;

Capital risk – The risk that the Bank will have insufficient capital to cover unexpected losses, meet regulatory requirements or support growth plans. The Bank operates a Capital Planning Framework which requires the Bank to maintain appropriate levels of capital in a range of stressed scenarios. Further, the Bank monitors current and forecast levels of capital against risk appetite and reports to Asset and Liability Committee ("ALCO") and the Board regularly. The risk is also managed through the Internal Capital Adequacy Assessment Process ("ICAAP");

Liquidity risk – The risk that the Bank is unable to meet its financial obligations as they fall due; smooth out the effect of maturity mismatches; or maintain public confidence. 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 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. Wherever possible the Bank matches the interest rate structure of assets with liabilities or deposits to create a natural hedge. It enters into swap agreements where required to minimise basis and repricing risks within appetite. Market risk is overseen by the ALCO on a monthly basis;

Operational risk – The risk of loss resulting from inadequate or failed processes or controls, weak or failed governance, adverse people related issues, systems failures or from external events including strategy, legal and regulatory risks. The Bank's Operational Risk Management Framework 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;

Compliance - The risk of legal or regulatory sanctions, material financial loss, or loss of reputation as a result of a failure to comply with applicable laws, codes of conduct or standards of good practice. The Bank operates a Conduct and Compliance Risk Management Framework supported by a number of policies and procedures that set out how the Bank will manage these risks and the minimum standards expected;

Financial Crime Risk - The risk that the Bank knowingly or unknowingly leaves itself exposed to the risk of being abused by those seeking 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

HOGGANT LTD

DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

compliance with Anti-Money Laundering (AML) obligations and acts as the focal point for HTB's AML activities.

Conduct risk– The risk that the business strategy, the culture, and the manner in which the business is run, create unfair customer outcomes and detriment to customers and/or undermines market integrity. Conduct Risk is a priority for the Bank and is incorporated in the Bank's Conduct and Compliance Risk Management Framework; and

Information Security and Cyber risk – The risk of financial loss, reputational damage or operational disruption arising from intentional or accidental loss, damage to or unauthorised disclosure of any business or customer information or systems by internal or external agents. The Bank places an emphasis on ensuring that it has an IT infrastructure that meets its security and resilience needs – this need is regularly reviewed. In addition, the Bank operates a series of internal and external tests to confirm the integrity of our systems with robust business continuity plans.



Director

By order of the board

Date: 17/04/18

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 financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (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 of its profit or loss for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOGGANT LIMITED

Opinion

We have audited the financial statements of Hoggant Limited ("the company") for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, Statements of Financial Position, Consolidated and Company Statements of Changes in Equity, Consolidated and Company Statements of Cashflows and related notes, including the accounting policies.

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 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; 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

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 12, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Richard Gabbertas (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill

Snow Hill Queensway

Birmingham

B4 6GH

26 April 2018

HOGGANT LTD

DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Consolidated Statement of Comprehensive Income

	Note	Group 2017 £000	Group 2016 £000
Interest receivable and similar income		43,479	26,697
Interest expense and similar charges		(9,366)	(6,070)
Net Interest Income	3.1	<u>34,113</u>	<u>20,627</u>
Fees and commission income	3.2	373	413
Fees and commissions payable	3.2	(156)	(134)
Net income from derivatives at fair value through profit and loss	4.3	157	5
Other Income	3.3	5	-
Operating income		<u>34,492</u>	<u>20,911</u>
Administrative expenses	3.4	(20,126)	(15,503)
Impairment losses on Loans and Advances to customers		(4,515)	(1,001)
Other Expenses		-	(11)
Operating profit before tax		<u>9,851</u>	<u>4,396</u>
Tax Expense	3.10	(2,038)	(968)
Profit for the year – Continuing activities		<u>7,813</u>	<u>3,428</u>
Profit/ (Loss) for the year – Discontinued Activities		189	(1,288)
Profit after tax for the year		<u>8,002</u>	<u>2,140</u>
Total Comprehensive Profit for the period, net of tax		<u>8,002</u>	<u>2,140</u>

The notes on pages 21 to 57 are an integral part of these financial statements

HOGGANT LTD

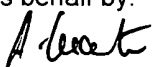
DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

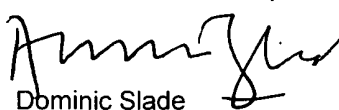
Statements of Financial Position

	Note	Group 2017 £000	Company 2017 £000	Group 2016 £000	Company 2016 £000
Assets					
Loans and Advances to Banks	4.1	101,993	373	142,120	5,802
Loans and Advances to Customers	4.2	632,273	-	463,525	-
Derivative financial instruments	4.3	903	-	622	-
Other Assets	4.4	1,858	-	2,336	-
Investment in subsidiaries	4.5	-	114,380	-	80,831
Property, Plant and Equipment	4.6	2,013	-	1,107	-
Intangible Assets	4.7	5,652	-	4,400	-
Deferred Tax Assets	4.8	498	3	909	3
Total Assets		745,190	114,756	615,019	86,636
Liabilities					
Customer Deposits	4.9	596,296	-	523,315	-
Central Bank Facilities	4.11	20,000	-	-	-
Derivative financial instruments	4.3	292	-	526	-
Other Liabilities	4.10	9,750	21	8,721	10
Provisions for Liabilities	4.12	303	-	36	-
Total Liabilities		626,641	21	532,598	10
Equity					
Share Capital	4.13	114,792	114,792	87,215	87,215
Retained Earnings		3,757	(57)	(4,794)	(589)
Total Equity		118,549	114,735	82,421	86,626
Total Equity and Liabilities		745,190	114,756	615,019	86,636

The notes on pages 21 to 57 are an integral part of these financial statements

These financial statements were approved by the Board of Directors on 17 April 2018 and were signed on its behalf by:


Alexander Leicester
Director


Dominic Slade
Director

Company Number: 08700921

HOGGANT LTD

DIRECTORS' REPORT, STRATEGIC REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Consolidated Statement of Changes in Equity

	Share Capital £000	Retained Earnings £000	Total Equity £000
Balance as at 1 January 2017	87,215	(4,794)	82,421
Total Comprehensive Income for the period:			
Profit after taxation for the period	-	8,002	8,002
Other comprehensive income	-	-	-
Total Comprehensive Income for the year	-	8,002	-
Share based payments	-	549	549
Contributions by and distributions to owners			
Issue of ordinary shares	27,577	-	27,577
Total contributions by and distributions to owners			
Balance at 31 December 2017	114,792	3,757	118,549

	Share Capital £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:			
Loss after taxation for 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

The notes on pages 21 to 57 are an integral part of these financial statements

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Company Statement of Changes in Equity

	Share Capital £000	Retained Earnings £000	Total Equity £000
Balance as at 1 January 2017	87,215	(589)	86,626
Total Comprehensive Income for the period:			
Loss after taxation for the period	-	(17)	(17)
Other comprehensive income			
Total Comprehensive Income for the year	-	(17)	(17)
Share based payments	-	549	549
Contributions by and distributions to owners			
Issue of ordinary shares	27,577	-	27,577
Total contributions by and distributions to owners	27,577	-	27,577
Balance at 31 December 2017	114,792	(57)	114,735

	Share Capital £000	Retained Earnings £000	Total Equity £000
Balance as at 1 January 2016	61,495	(916)	60,579
Total Comprehensive Income for the period:			
Loss after taxation for 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

The notes on pages 21 to 57 are an integral part of these financial statements

HOGGANT LTD

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Consolidated Statement of Cashflows

	Note	Group 2017 £000	Group 2016 £000
Cashflows from operating activities			
Profit for the year ¹		10,087	2,786
Adjustments for:			
Depreciation and amortisation		990	676
(Increase) in fair value of derivatives		(157)	(5)
Foreign Exchange (Gains)/Losses		5	(34)
Increase in impairment of Loans and Advances		4,078	2,607
(Decrease)/Increase in provisions		267	(9)
Equity-settled share based payment transactions		549	341
Corporation Tax Paid		(1,070)	-
Changes in:			
(Increase) in Loans and Advances to Customers		(173,034)	(288,484)
(Increase) in Other Assets		41	(1,093)
Increase in Central Bank Facilities		20,000	-
Increase in Customer Deposits		72,981	336,143
(Increase) in Encumbered Cash		(2,750)	-
Increase/(Decrease) in Other Liabilities		706	4,607
Net cash flow from changes in operating activities		(67,307)	57,535
Cash flows from Investing Activities			
Purchase of Property, Plant and Equipment		(1,329)	(761)
Purchase of Intangible Assets		(1,819)	(1,150)
Net cash flow from Investing Activities		(3,148)	(1,911)
Cash flows from Financing Activities			
Proceeds from the issue of share capital		27,577	25,720
Net increase/ (decrease) in Cash and Cash Equivalents		(42,878)	81,344
Cash and cash equivalents at 1 January		141,508	60,164
Cash and Cash Equivalents at 31 December		98,630	141,508
Loans and advances to Banks	4.1	98,630	141,508
Cash and Cash Equivalents at 31 December		98,630	141,508

1. Profit before tax includes profit before tax on continuing activities £9,851k and discontinued activities £236k. See note 4.14 for further details on discontinued operations

The notes on pages 21 to 57 are an integral part of these financial statements

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Company Statement of Cashflows

	Note	Company 2017 £000	Company 2016 £000
Cashflows from operating activities			
Loss for the year		(17)	(10)
Changes in:			
Increase in Other Liabilities		11	2
Net cash flow from changes in operating activities		<u>(6)</u>	<u>(8)</u>
Cash flows from Investing Activities			
Net disposal/(purchase) of investment securities		-	-
Increase in Investment in Subsidiaries		(33,000)	(20,000)
Purchase of Property, Plant and Equipment		-	-
Purchase of Intangible Assets		-	-
Disposal of Property, Plant and Equipment		-	-
Net cash flow from Investing Activities		<u>(33,000)</u>	<u>(20,000)</u>
Cash flows from Financing Activities			
Proceeds from the issue of share capital		<u>27,577</u>	<u>25,720</u>
Net increase/(decrease) in Cash and Cash Equivalents		(5,429)	5,712
Cash and cash equivalents at 1 January		<u>5,802</u>	<u>90</u>
Cash and Cash Equivalents at 31 December		<u>373</u>	<u>5,802</u>
Loans and advances to Banks	4.1	373	5,802
Cash and Cash Equivalents at 31 December		373	5,802

The notes on pages 21 to 57 are an integral part of these financial statements

HOGGANT LTD
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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 2017 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 4.16 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 4.22 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 next 12 months. 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 next 12 months and have therefore continued to adopt the going concern basis in preparing the financial statements.

1.4. Functional and presentation currency

These financial statement are presented in Pounds Sterling (GBP), which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, except when otherwise stated.

1.5. 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.

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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 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.

1.6. 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:

a. IFRS 9 'Financial Instruments'

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

It addresses the areas of recognition, bases of valuation, income recognition methods, impairment and hedging for financial instruments and will become the standard governing the Group's accounting for Loans to Customers, Borrowings and Derivative Financial Assets and Liabilities. Only the rules relating to hedging will remain subject to IAS 39.

This standard will come into force with effect from the Group's financial statements for the year ending 31 December 2018 and work is well progressed to assess its impact and develop new procedures. In particular, the amortised cost basis of valuation and the related EIR method of income recognition remain largely unchanged. The greatest impact from the new standard is likely to be on impairment provisions.

i) Impairment of financial assets

IFRS 9 changes the basis of recognition of impairment of financial assets from an incurred loss to an expected credit loss ('ECL') approach for financial assets held at amortised cost. This introduces a number of new concepts and changes to the approach to provisioning set out in IAS 39.

ECLs are based on an assessment of the probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD'), discounted to give a net present value. The estimation of ECL should be unbiased and probability weighted, considering all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. This has the effect of recognising losses on loans earlier than at present, as IAS 39 requires provisions to be made only at the point where there is objective evidence of credit impairment.

IFRS 9 divides loans into three classes: those where there has been no significant increase in credit risk since advance; those where there has been a significant increase in credit risk; and loans which are impaired. It is an important feature of the standard that 'increase in credit risk' is not defined solely by the performance of the account, but also by other information available about the customer, such as credit bureau information.

- On initial recognition, and for assets where there has not been a significant increase in credit risk since the date of advance, provisions will be made to reflect the level of expected credit default events within the next year. These accounts would be largely unprovided for under IAS 39, although collective provisions reflect losses incurred but not reported in a portfolio.

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- Where a loan has experienced a significant increase in credit risk since initial recognition, even though this may not lead to a conclusion that the loan is credit impaired, provisions will be made based on the expected credit losses over the full life of the loan. This is likely to lead to an increase in provision in general.
- For credit impaired assets, provisions will be made on the basis of lifetime expected credit losses, taking account of forward looking economic assumptions and a range of possible outcomes. Under IAS 39 provisions are based on the asset's carrying value and the present value of the estimated future cash flows. IAS 39 does not explicitly take account of a range of possible economic outcomes including forecasts of any downturn in the economic cycle. However, it is likely that, subject to conditions at the time of implementation, provisions for loans in this condition will be broadly similar to their existing values.
- For assets which were credit impaired at origination or acquisition, the required treatment is largely identical under IAS 39.

Overall, the introduction of IFRS 9 is likely to result in companies carrying a larger provision balance and recognising losses earlier.

Impairment implementation

During the year, the Group has continued its project to ensure it will be able to comply with the new requirements. The project includes finance, analysis and credit risk personnel, and is sponsored jointly by the Chief Financial Officer and the Chief Risk Officer, reporting regularly to the Audit Committee. Model builds are subject to the oversight of the Model Governance Committee.

Project workflows have included analysis of historic internal and external credit performance metrics, prototype model design, internal expert judgements and consideration of how external economic factors should affect IFRS 9 impairments. External consultants and the Group's auditors have been engaged with as appropriate. Base models have been completed for the Group's asset classes and have been run in parallel with IAS 39 during 2017.

Impact assessment:

The Group will apply IFRS 9 on 1 January 2018 and is not obliged to restate comparatives on the initial adoption of IFRS 9. Based on the assessments undertaken to date, the total estimate adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of the Group's equity at 1 January 2018 is approximately £0.5m, representing an increase related to impairment requirements. The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions. This includes how changes in economic factors affect Expected Credit Losses (ECLs).

This assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Group to revise its accounting processes and internal controls and these are still in transition;
- although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period;
- the Group has not finalised the testing and assessment of controls over the new ECL model and changes to the governance framework;
- the Group is refining and finalising its models for ECL calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its first financial statements that include the date of initial application.

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ii) Classification and measurement

Financial Assets

The classification of financial assets under IFRS 9 is based on the objectives of a company's business model and the contractual cash flow characteristics of the instruments. Financial assets are classified as held at amortised cost, at fair value through other comprehensive income ("FVTOCI"), or at fair value through profit or loss ("FVTPL"). Compared to IAS 39, the FVTOCI and amortised cost categories are added and held-to-maturity, loans and receivables and available-for-sale classification categories have been removed.

In determining the business model, all relevant evidence that is available at the date of the assessment is used including:

- i. how the performance of the business model and the financial assets held within that business model are evaluated and reported; and
- ii. the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed.

The Group will apply the following policies for the newly adopted classification categories under IFRS 9.

Amortised cost

A financial asset will be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

FVTOCI

A financial asset will be measured at FVTOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVTPL

All financial assets that are not measured at amortised cost or FVTOCI will be measured at FVTPL.

Impact assessment:

The standard will affect the classification and measurement of the Group's financial assets held at 1 January 2018 as follows:

- Loans and advances to Banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured as amortised cost under IFRS 9.

The Group has estimated that, on adoption of IFRS 9 at 1 January 2018, there will be no impact of these changes.

Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The Group has assessed no impact on adoption of IFRS 9.

iii) Hedge accounting

The hedge accounting requirements of the new standard are designed to create a stronger link with financial risk management, however this does not cover macro hedge accounting. A separate financial reporting

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standard is to be developed in this area. IFRS 9 allows the option to continue to apply the existing hedge accounting requirements of IAS 39 until this is implemented.

The Group has not implemented hedge accounting. The Group will review the requirements of the new standard on adoption of hedge accounting and the expanded disclosures on hedge accounting introduced by IFRS 9's amendments to IFRS 7 *Financial instruments Disclosures*.

iv) Impact on capital planning

The European Banking Authority has issued guidelines on transition requirements for the implementation of IFRS 9. The guidelines allow a choice of two approaches to the recognition of the impact of adoption of the standard on regulatory capital:

1. Phasing in the full impact over a five year period; or
2. Recognising the full impact on the day of adoption.

The Group has decided to adopt the first approach. The Group uses the standardised approach for capital which is calculated on the gross exposures net of specific provisions – the net exposure. IFRS 9 is expected to increase the loss allowances associated with individual assets, and therefore the net exposure and the capital requirement will fall. The Group's assessment indicated that the impact on capital resources of the implementation of IFRS 9 will be a reduction in CET1 of £0.5m before adjustments for phasing in, and a negligible reduction in CET1 as at 1 January 2018 after adjustments of phasing in.

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b. **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.

c. **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 ratios).

During 2017 the Group only had one operating lease, the future liabilities of which are set out in note 3.9.

1.7. 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.

1.8. 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.

1.9. 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.

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1.9.1. 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.

1.9.2. 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.

1.9.3. 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.

1.9.4. 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 rate method.

1.9.5. 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 include, 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.

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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 Group include:

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

1.10. 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.

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.

1.11. Intangible assets

1.11.1 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.

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1.11.2 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 seven 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.

1.12. 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%

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

1.13. 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.

1.14. 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.

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1.15. 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.

1.16. 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.

1.17. 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.

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.

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 2017 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 2017 £000	Group 2016 £000
Interest and similar income on Loans and Advances to Customers	43,206	26,403
Interest on Loans and Advances to Banks and Building Societies	273	294
Total Interest receivable and similar income	43,479	26,697
Interest on Derivative Financial Instruments	(6)	(15)
Interest on Deposits from customers	(9,360)	(6,055)
Total Interest expense and similar charges	(9,366)	(6,070)
Net Interest Income	34,113	20,627

3.2. Fees and commission income and expense

	2017 £000	2016 £000
Facility Fees	156	340
Early Settlement Fees	143	54
Other	74	19
Fees and Commission Income	373	413
Bank Charges	(2)	(11)
Credit and Identity Searches	(154)	(123)
Fees and Commission Expense	(156)	(134)

3.3. Other income

	Group 2017 £000	Group 2016 £000
Foreign exchange gains	5	-
Other income	5	-

3.4. Administration Expenses

	Note	Group 2017 £000	Group 2016 £000
Staff Costs	3.6	13,486	10,918
Share-based payments	3.7	549	341
Depreciation and amortisation	4.6/4.7	991	676
Operating Lease rentals		1,031	634
FSCS costs		81	12
Other Administrative Expenses		3,988	2,922
Administrative Expenses		20,126	15,503

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3.5. Auditor's remuneration

	Group 2017 £000	Group 2016 £000
Audit of these financial statements	8	6
Audit of financial statements of subsidiary of the Company	147	65
Non-audit taxation compliance services	-	3
Other non-audit services	64	29
Auditor's remuneration	219	103

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3.6. Staff numbers and costs

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

	Group 2017	Group 2016
Directors	2	2
Loan Officers	37	28
Administrators	83	64
	<u>122</u>	<u>94</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 2017 £000	Group 2016 £000
Wages and Salaries	9,278	8,081
Social Security costs	1,243	1,005
Pension costs	802	566
Other staff costs	2,163	1,266
	<u>13,486</u>	<u>10,918</u>

Remuneration for non-executive directors consisted of salary payments of £162k (2016: £177k).

3.7. 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:

	2017 No. of shares	2016 No. of shares
At 1 January	1,036	846
Granted	235	350
Forfeited	(258)	(160)
At 31 December	<u>1,013</u>	<u>1,036</u>

The average fair value of shares issued was £3,146 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:

	2017	2016	2015
Expected volatility	30.4% to 31.2%	31.4% to 32.3%	31.7% to 32.1%
Risk free rate	0.5% to 0.8%	0.2% to 1.0%	1.3% to 1.5%
Dividend yield	0.0%	0.0%	0.0%
Expected life	5 years	5 years	5 years

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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.

The charge to the Consolidated Income Statement was £549k (2016: £341k).

3.8. Directors' remuneration

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

3.9. Operating leases

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

	Group 2017 £000	Group 2016 £000
Less than 1 year	1,291	192
Between 1 and 5 years	5,165	3,877
Over 5 Years	5,041	7,472
	11,497	11,541

3.10. Tax

3.10.1. Recognised in the Statement of Comprehensive Income

	2017 Continuing operations £000	2017 Discontinued operations £000	2017 Total £000	2016 Continuing operations £000	2016 Discontinued operations £000	2016 Total £000
<i>Current tax</i>						
Current tax on profits for the year	1,627	47	1,674	537	(322)	215
<i>Deferred tax:</i>						
Origination and reversal of temporary differences	414	-	414	455	-	455
Adjustments in respect of prior periods	(13)	-	(13)	66	-	66
Effect of tax rate change on opening balance	10	-	10	(90)	-	(90)
Total deferred tax charge	411	-	411	431	-	431
Tax on profit/(loss) on ordinary activities	2,038	47	2,085	968	(322)	646

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3.10.2.Tax reconciliation

	Group 2017 £000	Group 2016 £000
Profit for the year	10,105	2,786
Tax using the UK corporation tax rate of 19.25/20.00%	1,945	557
<i>Effects of:</i>		
Permanent non-deductible expenses	157	111
Impact of rate differences	10	(90)
Adjustment for prior year tax differences	(24)	66
Group Relief	(3)	2
	2,085	646

4. Statement of Financial Position Analyses**4.1. Loans and Advances to Banks and Building Societies**

	Group 2017 £000	Company 2017 £000	Group 2016 £000	Company 2016 £000
Placements with other Banks and Building Societies included in Cash and Cash Equivalents				
Repayable on demand	98,630	373	141,508	5,802
Remaining maturity of twelve months or less but over three months*	3,363	-	612	-
As at 31 December	<u>101,993</u>	<u>373</u>	<u>142,120</u>	<u>5,802</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 £95.6m (2016: £128.8m).

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 2017 £000	Company 2017 £000	Group 2016 £000	Company 2016 £000
Aa3	704	373	-	-
A1	5,585	-	13,186	5,802
A3	102	-	102	-
	<u>6,391</u>	<u>373</u>	<u>13,288</u>	<u>5,802</u>

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4.2. Loans and Advances to Customers

	2017 £000	2017 £000	2016 £000
<i>Loans and advances to customers at amortised cost:</i>			
Property Finance	225,701		207,709
Less: allowance for impairment	(3,217)		(200)
		222,484	207,509
Commercial Mortgages	192,785		101,428
Less: allowance for impairment	(222)		(127)
		192,563	101,301
Asset Finance			
Hire Purchase	128,318		91,397
Finance Leases	27,396		21,048
Less: allowance for impairment	(1,588)		(359)
	154,126		112,086
<i>Block Discounting</i>	62,899		41,718
Less: allowance for impairment	-		(62)
	62,899		41,656
		217,025	153,742
Asset backed lending	1,601		2,573
Less: allowance for impairment	(1,400)		(1,600)
		201	973
		632,273	463,525

4.2.1. Hire Purchase

The table below provides an analysis of Hire Purchase receivables.

	2017 £000	2016 £000
Gross investment in hire purchase, receivable:		
Less than one year	44,404	32,166
Between one and five years	84,283	59,924
Between five and ten years	79	-
	128,766	92,090
Unearned finance income	(448)	(693)
Net investments	128,318	91,397
Less impairment allowance	(886)	(227)
	127,432	91,170
Net investment in hire purchase, receivable:		
Less than one year	44,250	31,924
Between one and five years	83,989	59,473
	79	-
	128,318	91,397

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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.

	2017 £000	2016 £000
Gross investment in finance leases, receivable:		
Less than one year	9,535	6,402
Between one and five years	18,038	14,800
	<u>27,573</u>	<u>21,202</u>
Unearned finance income	(177)	(154)
Net investment in finance leases	27,396	21,048
Less impairment allowance	(702)	(132)
	<u>26,694</u>	<u>20,916</u>
Net investment in finance leases, receivable:		
Less than one year	9,477	6,356
Between one and five years	17,919	14,692
	<u>27,396</u>	<u>21,048</u>

4.2.3. Allowance for impairment

	2017 £000	2016 £000
<i>Individual allowance for impairment</i>		
Balance at 1 January	1,885	4
Charge for the year	3,856	2,244
Write offs	(207)	(363)
Balance at 31 December	<u>5,534</u>	<u>1,885</u>
<i>Collective allowance for impairment</i>		
Balance at 1 January	463	101
Charge for the year	429	362
Balance at 31 December	<u>892</u>	<u>463</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 2017	<u>530,700</u>	<u>903</u>	<u>(292)</u>
Interest rate swaps:			
At 31 December 2016	<u>303,400</u>	<u>622</u>	<u>(526)</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.

Gains and losses from derivatives are as follows:

	Group 2017 £000	Group 2016 £000
Gains on derivative financial instrument	909	397
Losses on derivative financial instrument	(752)	(392)
Fair value gains on derivative financial instruments	157	5

4.4. Other Assets

	Group 2017 £000	Group 2016 £000
Other debtors	1,309	1,851
Prepayments	549	485
Other Assets	1,858	2,336

4.5. Investment in subsidiaries

	Company 2017 £000	Company 2016 £000
Share capital in Hampshire Trust Bank plc ('HTB')	112,882	79,882
Equity settled share based payments	1,498	949
As at 31 December	114,380	80,831

The investment in Hampshire Trust Bank plc constitutes 100% of the A class share capital issued by HTB.

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

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4.6. Property, Plant and Equipment

Group	Equipment £000	Fixtures and fittings £000	Total £000
<i>Cost</i>			
At 1 January 2017	679	929	1,608
Additions	334	995	1,329
At 31 December 2017	1,013	1,924	2,937
<i>Depreciation</i>			
At 1 January 2017	328	173	501
Charge for year	191	232	423
At 31 December 2017	519	405	924
<i>Net book value</i>			
At 31 December 2017	494	1,519	2,013
At 31 December 2016	351	756	1,107

4.7. Intangible Assets

Group	Software £000	Goodwill £000	Total £000
<i>Cost</i>			
At 1 January 2017	2,609	2,555	5,164
Additions	1,819	-	1,819
At 31 December 2017	4,428	2,555	6,983
<i>Amortisation</i>			
At 1 January 2017	764	-	764
Charge for period	567	-	567
At 31 December 2017	1,331	-	1,331
<i>Net book value</i>			
At 31 December 2017	3,097	2,555	5,652
<i>Net book value</i>			
At 31 December 2016	1,845	2,555	4,400

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.

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For the purposes of impairment testing, goodwill of £2,555k (2016: £2,555k) is therefore allocated to the Group as a whole.

The recoverable amounts of the CGU have 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 2017 because the recoverable amounts of the CGU are determined to be higher than its carrying value.

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

Group	HTB
Discount rate (post-tax)	15.0%
Discount rate (pre-tax)	19.1%
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. Management applies post-tax discount rates to post-tax cash flows when testing the CGU for impairment. The Pre-tax discount rate is disclosed in accordance with IAS 36.

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.

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 2017 £000	Company 2017 £000	Group 2016 £000	Company 2016 £000
Tax value of loss carry-forwards	338	3	882	3
Short term timing differences	30	-	12	-
Accelerated capital allowances	130	-	15	-
Deferred Tax Asset	498	3	909	3

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

	Group 2017 £000	Group 2016 £000
Deferred Tax Asset at 1 January	909	1,340
Charge to the income statement	(411)	(431)
Deferred Tax Asset at 31 December	498	909

The deferred tax asset is recognised based on the Group's corporate plan which projects sufficient profits to utilise these losses. The deferred tax asset at 31 December 2017 has been calculated based on the rate of 19% at the reporting date.

4.9. Customer Deposits

	2017 £000	2016 £000
With agreed maturity dates or periods of notice by remaining maturity:		
On demand	13,507	2,880
Not more than three months	33,575	79,816
More than three months but not more than one year	426,303	228,243
More than one year but not more than five years	122,911	212,376
Customer Deposits	596,296	523,315

4.10. Other Liabilities

	Group 2017 £000	Company 2017 £000	Group 2016 £000	Company 2016 £000
Other taxation and social security	1,342	-	707	-
Other creditors	1,039	-	1,423	-
Accruals	7,369	21	6,591	10
Other Liabilities	9,750	21	8,721	10

4.11. Central Bank Facilities

The balances arising from central bank facilities carried in the Group's accounts are shown below.

	2017 £000	2016 £000
TFS	20,000	-
Central Bank Facilities	20,000	-

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4.12. Provisions

	2017 £000	2016 £000
Remediation Costs	224	-
FSCS Levy	79	36
Provisions for Liabilities	303	36

FSCS Levy

	2017 £000	2016 £000
At 1 January	36	45
Adjustment to provision	105	12
Paid during the year	(62)	(21)
At 31 December	79	36

Remediation costs represent amounts set aside for redress payments to customers and related outsourced administrative costs in respect of Consumer Credit Act breaches.

The levy represents the estimated amount payable under the FSCS for the 2017/2018 scheme year, which runs from March 2017 to March 2018, and is calculated with reference to the protected deposits held at 31 December 2016. 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.

4.13. Capital and reserves

4.13.1. Share Capital

Authorised, issued and fully paid

	Ordinary shares of £1 each
	Class A
In issue at 1 January 2017	87,215,114
Issued during the period	27,577,004
In issue at 31 December 2017	114,792,118

During the year the Company issued 27,577,004 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

	No. of shares
At 1 January	1,036
Granted	235
Forfeited	(258)
At 31 December	1,013

The Company also issued 235 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.

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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 2017:

Director	Class A Shares		Class B Shares	
	Number	£ Value	Number	£ Value
Robert East	100,000	100,000	20	0.20
Mark Sismey-Durrant	275,000	275,000	175	1.75
Tim Blackwell	200,000	200,000	100	1.00
James Drummond-Smith	25,000	25,000	20	0.20

4.14. Financial instruments

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.

4.14.1. 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.

4.14.2. 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.

4.14.3. Deposits

Fair value is calculated based on the present value of future principal and interest cash flows, discounted

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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 2017		£000	£000	£000
Assets				
Loan and advances to Banks	Level 1	101,993	101,993	101,993
Loans and advances to customers	Level 3	632,273	632,273	629,653
Total		734,266	734,266	731,646
Liabilities				
Customer Deposits	Level 3	596,296	596,296	596,092
Central Bank Facilities	Level 3	20,000	20,000	20,000
Total Liabilities		616,296	616,296	616,092
At 31 December 2016				
Assets				
Loan and advances to Banks	Level 1	142,120	142,120	142,120
Loans and advances to customers	Level 3	463,525	463,525	464,926
Total		605,645	605,645	607,046
Liabilities				
Customer Deposits	Level 3	523,315	523,315	525,597
Total Liabilities		523,315	523,315	525,597

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4.15. Discontinued operations

In early 2016, the Group ceased asset backed lending activities. Further, as part of the withdrawal from this lending, the Group 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.

	2017 £'000	2016 £'000
Interest receivable and similar income	90	375
Net interest income	42	234
Operating Income	72	492
Impairment losses	200	(1,606)
Administration and other expenses	(36)	(496)
Profit before Tax	236	(1,610)
Tax	(47)	322
Profit for the year – Discontinued operations	189	(1,288)
Net cash flow from operating activities	1,008	6,883

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Other Analyses

4.16. 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;

4.17. 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 2017 £000	Company 2017 £000	Group 2016 £000	Company 2016 £000
Loans and Advances to Banks	101,993	373	142,120	5,802
Loans and Advances to Customers	632,273	-	463,525	-
	734,266	373	605,645	5,802
Contractual loan commitments	154,915	-	189,838	-
Total Credit Risk	889,181	373	795,483	5,802

Collateral held by the bank includes land, residential and commercial property, and receivables, in the form of finance lease and hire purchase agreements. This collateral exceeds the carrying amount of loans and advances to customers

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 2017. However, loan facilities of £130.3m 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:

- Individual impairment is assessed where specific circumstances indicate that a loss is likely to be incurred.

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- Collective impairment allowances are calculated for each portfolio given the homogenous nature of the assets in the portfolio.

At 31 December 2017 the total value of arrears amounted to £1.8m (2016: £0.8m), representing 28bps of the total book (2016: 17bps). Of this total value, £507k was over three months in arrears at 31 December 2017 (2016: £453k).

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 Group. The total value of forborne loans amounted to £5.0m as at 31 December 2017 (2016: £10.8m).

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	Company	Group	Company	Group	Group	Group	Group
	2017	2017	2016	2016	2017	2016	2017	2016
	£000	£000	£000	£000	£000	£000	£000	£000
Carrying amount	101,993	373	142,120	5,802	632,273	463,525	154,915	162,268
Concentration by sector								
Corporate	-	-	-	-	396,560	309,783	136,018	162,268
Government	95,975	373	128,831	-	-	-	-	-
Banks and Building Societies	6,018	-	13,289	5,802	-	-	-	-
Retail	-	-	-	-	235,713	153,742	18,897	-
	101,993	373	142,120	5,802	632,273	463,525	154,915	162,268
Concentration by location								
UK	101,993	373	142,120	5,802	632,273	463,525	154,915	162,268

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4.18. 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.

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	Over 5 Years £000
At 31 December 2017							
Assets							
Loan and advances to Banks	101,993	101,993	98,631	-	3,362	-	-
Loans and advances to customers	632,273	766,120	33,617	50,585	215,458	245,598	220,862
Contractual loan commitments	154,915	163,669	14,954	20,256	82,522	41,633	4,304
Total	889,181	1,031,782	147,202	70,841	301,342	287,231	225,166
Liabilities							
Deposits	(596,296)	(604,209)	(13,761)	(130,949)	(336,425)	(123,074)	-
Central Bank Facilities	(20,000)	(20,000)	-	-	-	(20,000)	-
Contractual loan commitments	(154,915)	(154,915)	(154,915)	-	-	-	-
Total	(771,211)	(779,124)	(168,676)	(130,949)	(336,425)	(143,074)	-
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)	-

The company's Loans and Advances to Banks of £373k (2016 £5,802k) has a contractual maturity within the up to 1 month category.

4.19 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.

4.19.1 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 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.

4.19.2 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 2017 £000	Group 2016 £000
+200 basis points	<u>(243)</u>	<u>4,502</u>
-200 basis points	<u>355</u>	<u>(1,570)</u>

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.

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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 2017	£000	£000	£000	£000	£000	£000
Assets						
Loan and advances to Banks	101,993	-	-	-	-	101,993
Loans and advances to customers	277,008	102,606	69,073	183,376	210	632,273
Other assets	-	-	-	-	10,924	10,924
Total Assets	379,001	102,606	69,073	183,376	11,134	745,190
Liabilities	48,222	97,905	331,962	118,207	-	596,296
Customer Deposits	-	20,000	-	-	-	20,000
Non-interest bearing liabilities	-	-	-	-	10,345	10,345
Equity	-	-	-	-	118,549	118,549
Total Liabilities	48,222	117,905	331,962	118,207	128,894	745,190
Notional value of derivatives	-	239,700	218,000	73,000	-	530,700
Interest rate sensitivity gap	330,779	(15,299)	(262,889)	65,169	(117,760)	-
Cumulative gap	330,779	315,480	52,591	117,760	-	-

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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Company	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Non-interest bearing	TOTAL
At 31 December 2017	£000	£000	£000	£000	£000	£000
Assets						
Loan and advances to Banks	373	-	-	-	-	373
Other assets	-	-	-	-	114,383	114,383
Total Assets	373	-	-	-	114,383	114,756
Liabilities						
Non-interest bearing liabilities	-	-	-	-	21	21
Equity	-	-	-	-	114,735	114,735
Total Liabilities	-	-	-	-	114,756	114,756
Interest rate sensitivity gap	373	-	-	-	(373)	
Cumulative gap	373	373	373	373	-	

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	-	

4.20. 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.

4.21. 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.

4.22. 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").
- 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 2017 £000	Group 2016 £000
Share Capital	114,792	87,215
Retained Earnings	3,757	(4,794)
Intangible Assets	(3,097)	(1,845)
Common Equity Tier 1 Capital	115,452	80,576
Tier 2 Capital – Collective Provision	892	463
Regulatory Capital	116,344	81,039

4.23. 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 3.6.

The following Directors of HTB directly and indirectly held A and B ordinary shares in Hoggant Limited as at 31 December 2017:

Director	Class A Shares		Class B Shares	
	Number	£ Value	Number	£ Value
Robert East	100,000	100,000	20	0.20
Mark Sismey-Durrant	275,000	275,000	175	1.75
Tim Blackwell	200,000	200,000	100	1.00
James Drummond Smith	25,000	25,000	20	0.20

Two directors held deposits with the Group as at 31 December 2017 amounting to £101k (2016: 3 Directors, £100k).

4.24. 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 incorporated in Guernsey.

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4.25. Country-by-country reporting (CBCR)

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 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 40 of the Annual Report and Accounts.

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

	2017	2017	2016	2016
	Continuing	Discontinued	Continuing	Discontinued
	Operations	Operations	Operations	Operations
	£'000	£'000	£'000	£'000
Operating Income	34,492	72	20,911	492
Profit / (Loss) before tax	9,851	236	4,396	(1,610)
	2017	2016		
Average number of employees on a full time equivalent basis	122	94		
Income Tax Paid	866	-		

The Group did not receive any public subsidies.

Glossary

Average principal employed	Calculated as the average of monthly loans and advances to customers.
Common Equity Tier 1 Ratio (CET1 Ratio)	The Common Equity Tier 1 ratio is calculated as common equity tier 1 capital divided by risk-weighted assets.
Cost:income ratio	Cost to Income Ratio is calculated as administrative expenses divided by net operating income.
Cost of funds (after hedging)	Rate of interest payable on Customer Deposits adjusted for interest on interest rate swap liabilities.
Cost of Risk on continuing activities	Cost of risk is calculated as impairment losses on financial assets divided by average principal employed (excluding asset backed lending).
Customer Satisfaction Index	This is a measure of customer satisfaction and the quality of customer service. The index is independently compiled by the Institute of Customer Services.
Gross income margin	Calculated as interest income, fees receivable, net income from derivatives at fair value through profit or loss and other income, divided by average loans to banks and principal employed.
JAWs ratio	A measure used to demonstrate the extent to which an entity's income growth rate exceeds its expenses growth rate.
Leverage ratio	The leverage ratio is calculated as Common Equity Tier 1 capital divided by the sum of total assets (excluding intangible assets and including adjustments for certain off balance sheet items such as pipeline and undrawn collateral).
Loan to Deposit ratio	Calculated as loans and advances to customers divided by customer deposits.
Liquidity Coverage Ratio ('LCR')	The ratio of the stock of high-quality liquid assets to expected net cash outflows over the following 30 days. High-quality liquid assets should be unencumbered, liquid in markets during a time of stress, and ideally, central bank eligible.
Net Interest Margin (NIM)	Calculated as net interest income divided by average cash and principal employed.
Net Promoter Score	This is an index ranging from -100 to 100 that measures the willingness of customers to recommend a company's products or services to others. It is used as a proxy for gauging the customer's overall satisfaction with a company's product or service and the customer's loyalty to the brand.
Return on equity (post-tax)	Return on equity (pre-tax) is calculated as profit post tax for the year divided by average equity.
Risk-weighted asset (RWA)	A measure of a bank's assets adjusted for their associated risk. Risk weightings are established in accordance with the Basel rules as implemented by CRD IV and local regulators.