



Annual Report Summary 2015

Cambridge & Counties Bank Limited

Registered number 07972522

31 December 2015



**Cambridge &
Counties Bank**

Growing business together

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Company information

Company secretary

John Stobart

Registered office & East Anglia regional office

42 Castle Street, Cambridge, CB3 0AJ

Auditor

KPMG LLP, One Snowhill, Snow Hill
Queensway, Birmingham, B4 6GH

Registered number

07972522

Telephone 0344 225 3939
Fax 0116 254 4637
Email info@ccbank.co.uk
Website www.ccbank.co.uk

Other office locations

Headquarters & East Midlands regional office

Charnwood Court, New Walk,
Leicester, LE1 6TE

South West & Wales regional office

6th floor, Castlemead, Lower Castle Street,
Bristol, BS1 3AG

North regional office

Suite 37, The Quadrant Business Centre,
99 Parkway Avenue, Sheffield, S9 4WG

West Midlands regional office

Colmore Plaza, 20 Colmore Circus,
Queensway, Birmingham, B4 6AT

Board members



Paul ffolkes Davis
Non-Executive Chairman



Mike Kirsopp
Chief Executive Officer



Ian McKenzie
Chief Financial Officer



Ian Smith
Non-Executive Director



Chris Malyon
Non-Executive Director



John McGuire
Non-Executive Director



Rachel Curtis-Bowen
Executive Director Customer Experience



Will German
Chief Risk Officer



Simon Moore
Non-Executive Director

Welcome

May I take this opportunity to thank you for taking an interest in our growing business. Our story is a unique and exciting one and this summary has been designed to share the highlights of our progress with you.

It includes excerpts from our full annual report and accounts, a copy of which is available on request.

I hope you find it helpful.

Paul ffolkes Davis
Non-Executive Chairman

Our business

Cambridge & Counties Bank is a UK bank that specialises in providing lending and deposit products for Small and Medium Enterprises (SMEs).

Unique Ownership

Established in June 2012, Cambridge & Counties Bank has a unique ownership structure being owned jointly by Trinity Hall, a college of the University of Cambridge, and Cambridgeshire Local Government Pension Fund.

The Bank is authorised by the Prudential Regulation Authority, regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is registered under the Financial Services Compensation Scheme.

Our market

Lending

The core of our business is lending. We lend to owner occupied businesses to invest in their own commercial premises, as well as to experienced commercial and residential property investors.

We also provide finance for businesses to acquire essential assets such as equipment, plant, machinery or vehicles using hire purchase or finance lease facilities.

Deposits

Our lending is primarily funded by the acquisition of UK savings balances. We offer a range of business deposit accounts that are available to all types of businesses as well as a number of broader organisations such as charities, clubs, societies and associations.

Our distribution network

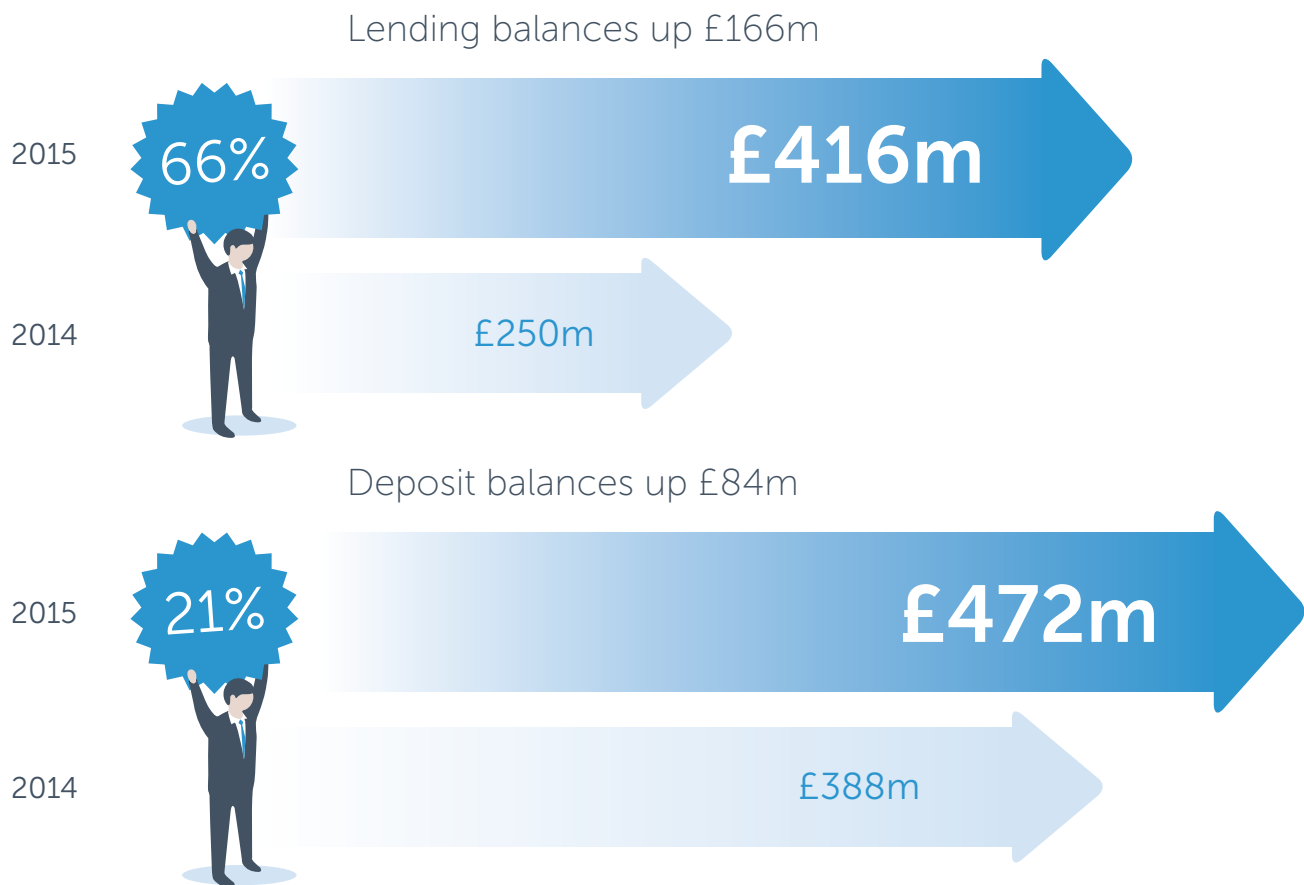
Cambridge & Counties Bank provides lending products via a network of Business Development Managers who deal directly with customers as well as via business introducers such as brokers. We deliver our range of savings accounts via the internet with online and postal application channels.

“
Excellent service!
You show the other
organisations up!
Well done.”

Highlights by the million



Lending & deposit balances



Numbers of customers



Customer satisfaction

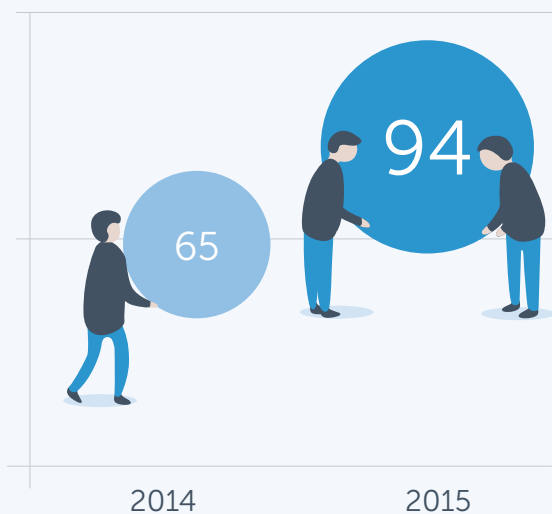
99%

- ✓ Customer satisfaction maintained at 99%
- ✓ 99% of customers would recommend us



Staff numbers up over

45%



Chairman's report

2015 saw all the markets and geographies in which Cambridge & Counties Bank operates continue to improve and maintain the trends of recent years.



Paul ffolkes Davis
Non-Executive Chairman

Demand for both our lending and deposit products has met our expectations and, whilst the year has been marked by a number of new and existing competitors starting to reduce pricing across their loan products, we have been able to maintain our margins further contributing to a strong financial performance. Our balance sheet has grown to over £500m, underpinned by strong growth in our customer deposits.

The development of our national coverage has continued during the year and has seen us open new premises in Bristol as our team in Wales and the South West has expanded to meet client demand. We also established a new office in Birmingham towards the end of the year.

Customer Lending

In the three and a half years since the launch of Cambridge & Counties Bank the property finance loan portfolio has performed well. We have made prudent provisions against our property loan balances reflecting the benign trading conditions across the market, although no write offs have been made during the year, and we have seen the repayment of some accounts where specific provisions had been made. This reflects a buoyant market for both residential and commercial assets across the UK.

The third quarter of the year saw the launch of our new Asset Finance Business. Whilst the early months have concentrated on building a network of broker introducers and recruiting a team of Business Development Managers and Underwriters, I am pleased to be able to say that our offering appears to be welcomed in the market and our expectation remains that we will be able to develop and grow this business further in 2016.

Deposits

During the year a number of new competitors entered the niche banking market, and, as a consequence, the choice and supply of deposit products has continued to expand. Notwithstanding these developments, we have been able to maintain a satisfactory liquidity position, and during the year have introduced a new longer term five-year fixed-rate bond which has performed in line with our expectations of demand.

The changes to the Financial Services Compensation Scheme during the second half of the year, which saw the guaranteed deposit level reduced from £85k to £75k, had the potential to cause some upset in the deposit market with customers seeking to move deposits between financial institutions to maintain full coverage of their assets. Cambridge & Counties Bank saw a much smaller reduction in holdings from this adjustment than could have been the case, and we continued to attract new depositors as our brand successfully drew over 1,600 new customers to us during the year.

Customer Satisfaction

Among the year's most pleasing achievements has been our customer satisfaction scores which remain at market leading levels. Customers who joined us during 2015 rated our service with scores over 99%. Gratifyingly, for those that have been with us for some years there seems little reduction in their assessment of our quality of service with borrowing and depositing customers and our broker intermediaries all scoring us well over 98%. This area of our performance remains one where, not only do we have great pride in the feedback we get from our customers, but we continue to invest in both our people and systems to ensure we are able to maintain a level of service which meets their high expectations of us.

Our return on
investment
stands at 26.0%
for the year.

Financial Performance

The benefits of our investment and development of the business can be seen in our ongoing financial performance. We have declared a profit before tax of £10.2 million for the year ending the 31st December 2015 an increase of over 4 times the £2.5 million (restated) achieved for the previous year and ahead of our forecasts.

Our cost income ratio continues to fall in line with the growth in our existing lending and, notwithstanding significant investment in our risk, compliance, and credit functions, has reduced to a figure of 43% for 2015.

Cambridge & Counties Bank's owners have continued to make investments in its growth and our capital position reflects this with our total capital ratio now standing at 13.7% at the end of the year and our Core Tier 1 ratio is 13.3%. 2016 will see continued investment by the owners in the Bank's growth and development.

Our People

Staff numbers have continued to grow strongly during the year from 65 people at the end of 2014 to 94 now. Notwithstanding the growth of competition and number of new players in the market, we have been able to continue to attract experienced people who recognise and align with our values and culture. They join a team where our staff engagement scores remain very high, and, whilst we have inevitably seen a small number of people leave us as they develop their careers further, staff turnover remains reassuringly low.

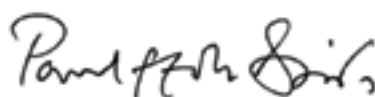
One of the major changes to our management structure during the year has been the transition from a Chief Operating Officer to a Chief Risk Officer. I am pleased to say we have been able to attract Will German to this post. After joining the Board at the beginning of July, Will's first task has been to build out our Risk & Compliance functions which he has done by attracting a number of highly experienced specialist managers, while at the same time adding to the credit team to reflect our growing and maturing asset base.

Additionally, during the year I am pleased to say we have been able to appoint Rachel Curtis-Bowen to the Board as Executive Director of Customer Experience. Rachel has been a key player in our senior team since we started, and she steps up to take on all of the responsibilities for our relationships with customers, including the running of our operations and banking teams.


Everything we have achieved at Cambridge & Counties Bank through the year reflects the efforts of all of our people who have marked themselves out as a winning team. Delivering not only financial performance above our levels of expectation but also continuing to provide a level of customer service that differentiates us from our competitors and keeps our customers coming back and trusting us with their new business. I am delighted to send them my sincere thanks for their commitment, energy, efforts and achievements. As part of that team, I would also like to send my thanks to my fellow Board members who have continued to support me in providing strong governance across the Bank and helping to guide the business through the next phase of its growth.

2016 has started with a changeable outlook. Market volatility has heightened in the face of international developments which include uncertainty about the slowdown of the Chinese economy, the collapse of oil prices and continued European turmoil, not least of which exacerbated locally by the question over Britain's continued membership of the EU.

Through all this Cambridge & Counties Bank aims to continue to expand our business through the winning formula of offering new and existing customers simple, transparent and attractively priced products and services. We will remain steadfast in our dedication to the highest levels of customer satisfaction and to attracting and retaining the exceptional and experienced staff who have so successfully delivered our business strategy to date.



Paul ffolkes Davis
Non-Executive Chairman

A photograph showing several staff members in a meeting room. In the foreground, a man in a light blue shirt and a woman in a white shirt with a pink lanyard are looking towards the left. In the background, other staff members are visible, including a man in a dark blue shirt and a woman in a patterned top. The room has blue walls and a bookshelf in the background.

Some of our team members
at a 'Meet the Board' session in 2015

“ It is so refreshing to see how we do
business and how welcoming and
supportive it is ”

— *Staff member*

CEO's message

If 2014 was the year of increased demand across the market, 2015 was the year of increased supply.

Market & Competition

We have watched a number of revitalised competitors enter into the SME financing space to be joined by a small number of new players following the granting of deposit taking licences by the Bank of England. The inevitable consequence of this is that 2015 has seen the pricing of loan products across the market start to fall, especially in the vanilla buy to let sector where a number of the larger challenger and specialist banks operate. Cambridge & Counties Bank has not been immune from this level of competition and it has seen our portfolio rebalance with the proportion of commercial and residential assets now being in equilibrium. We have however been able to maintain our own margins across the portfolio through this rebalancing of the business mix, and developing our Refurbishment and Bridging capabilities to a market where demand continues to be healthy.

Our strategy of offering high levels of Customer Service and short lines of communication between our Business Development and Underwriting Staff means that we can react quickly to customer requirements and using our manual underwriting expertise demonstrate an understanding of their needs where time to progress a financial transaction is often as important as the rate or term provided by the lender.



Mike Kirsopp
Chief Executive Officer

Our property lending portfolio increased in the year by £166 million to £416 million at the end of 2015. Our new Asset Finance Business only came on stream in the second half of the year, I am however pleased to report that we have started to provide funding through our new broker panel and the response to our levels of customer service and product design gives me confidence that this will grow strongly in 2016.

Asset prices across the property market continue to show good growth with healthy demand for industrial assets, and latterly office accommodation. Retail continues to lag as it did last year reflecting the structural changes taking place on the high street as consumer spending moves towards online providers.

Demand across the UK remains broadly balanced and we continue to invest in our regional footprint to enable us to grow our own business in new geographies. Our new office in Birmingham will enable us to provide products and services in a fast growing area where hitherto we have been unrepresented, and we have been particularly pleased by the growth that our Bristol office has achieved in the South West of England and South Wales.

Credit Quality

There have been no write offs during the year, and our credit quality continues to reflect a relatively benign trading environment, supported by steady if unspectacular asset price growth. Those cases where we have had arrears of more than four months have now all been resolved through either refinancing or asset sales and our balances more than one month in arrears have fluctuated between 1.5% and sub 1% of the loan portfolio over the last few months of the year.

Specific provisions remain muted at £100k at the end of the period and we are confident that our current risk appetite is appropriate for the trading conditions we face. A close eye is kept on developments as market sentiment has retreated from the high levels of forward looking confidence displayed during 2015. Press and political comment supports this and whilst we do not foresee cause for correction in the price of property assets the uncertainty of a positive Brexit vote and the government's latest stance on the buy to let market does call into question the broadly positive trends seen over the past few years.

Funding

The strength of the Cambridge & Counties Brand, together with our attractive pricing of deposit products enables us to fund our lending operations through the SME deposit market, together with utilising the Funding for Lending Scheme.

As SME businesses follow a strategy of increasing investment in their businesses following a fallow period post the 2008/2009 recession, we have seen the market move towards easy access products. Conversely the demand for longer dated fixed term investments may indicate the market's increasingly strengthening view that interest rates will remain subdued for the short and medium term with the expectation of any increase now delayed until the first half of 2017.

Investment

2015 has seen the Bank deliver investment in those areas of the business that underpin the safe growth of the balance sheet and the requirement to ensure that we are managing the risks the business faces. The number of people in our Risk & Compliance team has trebled following the appointment of Will German as Chief Risk Officer in July 2015. There are further plans to invest in our credit quality assurance capabilities, and our compliance team, to make sure we are well placed to deal with the increasing regulation that has become a regular theme of the sector, and where activity sees no sign of reducing over the short and medium term.

We have also during 2015 developed our credit risk rating systems to make sure we can safely grow the portfolio through the coming years and react quickly to changes in the general economy and trading environment. This investment will continue into 2016, as we replicate the work supporting our Property Finance business for the Asset Finance portfolio.

On the IT side we have continued to invest in our anti money laundering and customer due diligence capabilities whilst we have also increased the appropriate investment in data and IT security to support the growing business. 2015 saw the Bank achieve the Cyber Essentials Plus accreditation under the Bank of England's scheme for smaller banks. We have also appointed Ken Munro of Pentest Partners as Special Advisor to the Board on matters of Cyber Threat and Data Security in an effort to ensure that we remain well prepared to face these significant risks.

Community

Our staff have continued to play a very active role in all of the communities in which we are represented and especially at our head office in Leicester. We have seen teams supporting fundraising activities across the region, both as part of the Leicestershire Cares initiative and through independent activities supported by our staff. These have included sending educational games and support material to a special school in Africa, providing lunch for citizens who have no family support around them and donating over 200 items to the Age UK Leicestershire & Rutland appeal for support at Christmas.

Our staff have also brought to a successful completion our application for accreditation under the Investors in the Environment initiative. This follows on from two years of hard work ensuring that we embed the principles of running our business sustainably, especially in relation to energy consumption and travel, where we now monitor closely the effects that we have on our environment. The initiative has come from the staff with the support of all our teams and we remain determined to continue developing this aspect of our business to ensure that as we grow we continue to strive to ensure we make no greater demands on the environment than absolutely necessary.

Recruitment

We have during the year recruited the first two graduates on our accelerated development programme which should see them in our junior management roles within a few years. Additionally, we have supported our local universities with internships.

2016 will see us investigate the opportunities for introducing financial service apprenticeships so that we can play our part in creating employment for school leavers and those yet to achieve a full time work role.

Forward View

There are a number of issues that provide challenges for the next year, especially around increased competition, pricing and our ability to continue attracting a high calibre of staff. Our current offering of simple to understand products, appropriately priced and easily accessed, supported by expert staff and leading levels of service quality makes us believe we are all well placed to deliver another year of strong growth.



Mike Kirsopp
Chief Executive Officer

It has been a pleasure opening a savings account for our charity with your bank. The whole process has been very efficient, straightforward and quick



Some of our team helping in the local community
at Barleycroft Primary School

“ A big, big thank you to the
team – your hard work will
really benefit the pupils,
allowing them to get more out
of their environmental learning ”

— Stefan Thomas,
Barleycroft Primary School



Board report

Portfolio statistics

Lending has grown from £250m as at the 31st December 2014 to £416m as at 31st December 2015.

Customer deposits grew from £388m as at the 31st December 2014 to £472m as at 31st December 2015.

The average loan value was £477k, and the average deposit balance was £98k.

Corporate governance and risk management

The Board views good corporate governance as playing an essential role in discharging their responsibilities to the Bank shareholders, depositors and other stakeholders. The Bank's regulator, the Prudential Regulation Authority (PRA), requires us to have regard to the UK Corporate Code (the 'Code') issued by the Financial Reporting Council in developing our policies, practices and procedures. The Board agrees with and supports the general principles of the Code.

We have developed a risk management process which provides a structured and consistent framework for identifying, assessing and responding to risks. The key identified risks, which are monitored and managed daily, include:

Credit Risk is the risk that counterparties will be unable or unwilling to meet a commitment that they have entered into with the Bank.

Market Risk is the risk that changes in market rates negatively impact the earnings or market value of the Bank's assets and liabilities.

Treasury Counterparty Risk is the lending risk related to wholesale counterparties used by the Bank in the execution of its treasury transactions.

Liquidity Risk is the risk that the Bank will encounter difficulty in realising assets or otherwise raising funds to meet its commitments as and when they fall due.

Operational Risk is the risk that failures in the Bank's operational processes cause monetary loss, service disruption or customer detriment.

Strategic Risk is the risk that the Bank fails to execute its strategic plan or fails to effectively execute elements of its strategic plan due to poor planning or changes in the strategic environment.

Interest Rate Risk in the Banking Book is the risk that arises when there is an imbalance between the re-pricing dates of interest bearing assets, liabilities and off-balance sheet items.

Conduct Risk is the risk that the Bank's customers suffer loss or detriment due to failures in product design, sales and marketing processes or operational delivery.

Regulatory Risk is the risk that the Bank does not comply with changes in the regulatory environment.

“ All excellent, positive organisation,
easy to talk to, efficient ”

Income statement

£'000	2015	2014 restated
Interest Income	24,253	12,856
Interest Expense	(6,727)	(4,366)
Net Interest Income	17,526	8,490
Other Income	1,016	309
Total Operating Income	18,542	8,799
Operating Expenses	(7,668)	(5,516)
Depreciation and Amortisation	(264)	(213)
Operating Profit before Impairment Losses	10,610	3,070
Impairment Losses on Loans & Advances to Customers	(439)	(530)
Profit Before Tax	10,171	2,540
Taxation Charge	(2,085)	(565)
Profit After Tax	8,086	1,975

Our 2015 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Our 2014 financial results have been restated and presented on a comparable basis. The restatement has resulted in our 2014 profit before tax reducing from the £4.1m reported under UK GAAP standards in the 2014 Annual Report to £2.5m.

Statement of financial position

£'000	2015	2014 restated
Assets		
Cash and balances at central banks	62,121	123,500
Loans and advances to banks	10,740	9,796
Debt securities	27,229	32,536
Derivative financial assets	15	39
Loans and advances to customers	416,263	250,224
Other assets and prepayments	365	443
Property plant and equipment	274	138
Intangible assets	681	681
Deferred taxation	261	578
Total Assets	517,949	417,935
Liabilities		
Customers' accounts	471,564	388,199
Derivative financial liabilities	29	21
Other liabilities and accruals	2,982	2,675
Subordinated loan	2,086	2,086
Total Liabilities	476,661	392,981
Equity		
Share capital	22,955	18,455
Convertible loan notes	11,900	-
Preference shares	-	7,500
Available for sale reserve	11	39
Retained earnings	6,422	(1,040)
Total Equity	41,288	24,954
Total Liabilities and Equity	517,949	417,935



The CEO & Chairman at Trinity Hall, Cambridge

Important note

This summary is not intended to contain sufficient information to allow for a full understanding of the results of the Bank or of the state of affairs of the company. For full details, the 2015 Annual Report and Accounts, the Auditor's Report on those accounts and the Directors' Report should be consulted.

A copy of the Report and Accounts can be obtained via the contact details below.

Report of the Auditor

The Auditor's Report on the full accounts for the year ended 31 December 2015 was unqualified.

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Charnwood Court
New Walk
Leicester LE1 6TE

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Web: ccbank.co.uk



Green Award
2015/2016
Setting the standard for
the environment

Registered office: 42 Castle Street, Cambridge, CB3 0AJ United Kingdom, Company Registration No: 07972522

We are authorised by the Prudential Regulation Authority and are regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Our asset finance products are not regulated by either of these authorities. Financial Services Register No: 579415