



Annual Report Summary 2016

Cambridge & Counties Bank Limited
Registered number 07972522



**Cambridge &
Counties Bank**
Growing business together

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Welcome

Thank you for taking an interest in Cambridge & Counties Bank.

Our story continues to be both a unique and exciting one and I am delighted to share with you the key highlights and progress of the year.

This summary includes excerpts from our full annual report and accounts, a copy of which is available upon request.

I hope you find this summary helpful.



Simon Moore

Chairman

Board members



Simon Moore
Chairman



Paul ffolkes Davis
Vice-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
Chief Customer Officer



Will German
Chief Risk Officer

Our business

Cambridge & Counties Bank was uniquely founded by two established and respected institutions - Trinity Hall, Cambridge and Cambridgeshire Local Government Pension Fund. We specialise in helping customers with their savings and lending needs and we know that the success of an organisation is key to making sure our economy as a whole can flourish.

Who we are

At Cambridge & Counties Bank we've created a service that brings back some of the great elements of a traditional bank, combining these with all the speed, efficiency and know-how that's needed in the modern day. We offer a personal service that's straightforward, fast and flexible.

We know that our classic approach works for our customers. We're frequently told by customers that they feel valued; they tell us they feel like a person and not just an account number. We support businesses and they are always at the centre of everything we do. We're dedicated to being responsible lenders and offering customers a safe home for their money. We want businesses to thrive.

Our target markets

Lending

Our commercial loans are secured on property. 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 with business introducers as well as directly with customers. We deliver our range of savings accounts online, through the post and via business introducers.



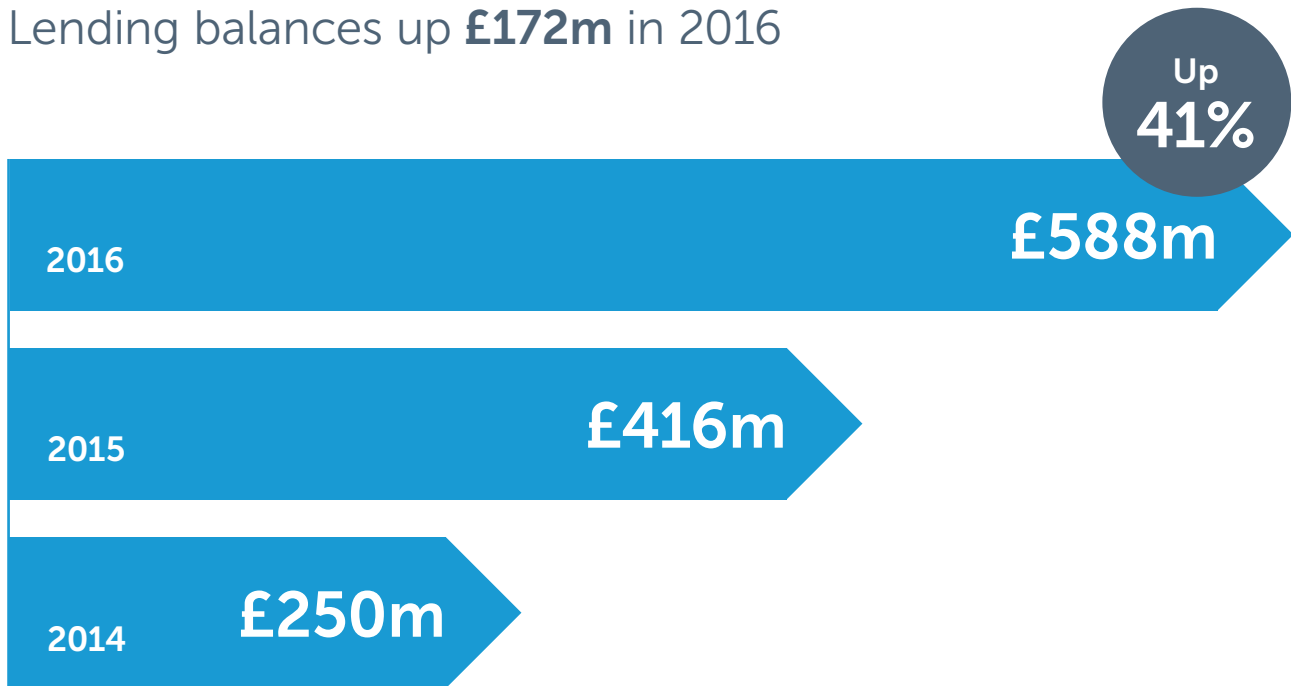
Highlights



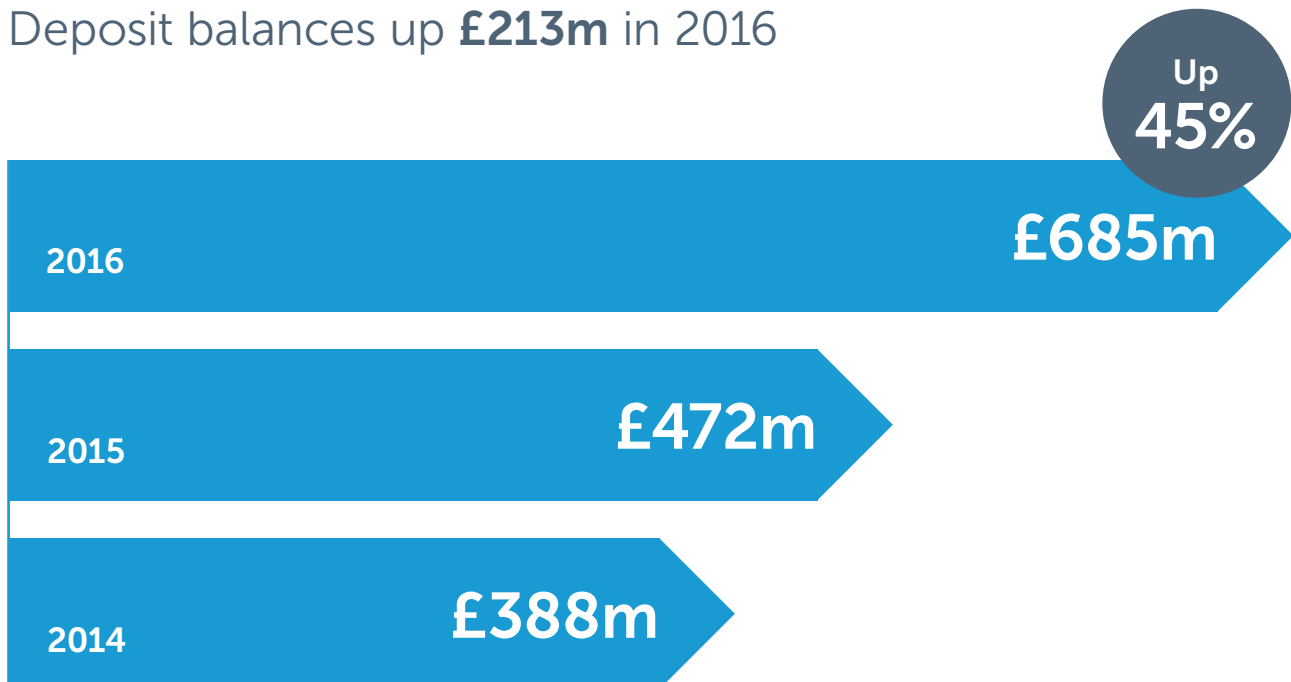
For more details on the company's financial performance please see pages 18 & 19

Lending & deposit balances

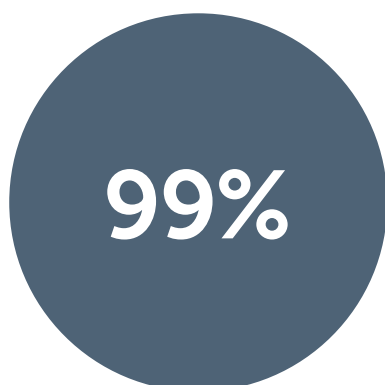
Lending balances up **£172m** in 2016



Deposit balances up **£213m** in 2016

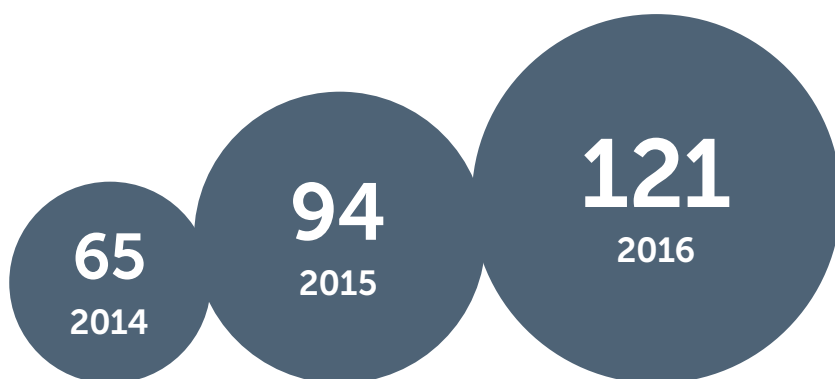


Customer satisfaction in 2016



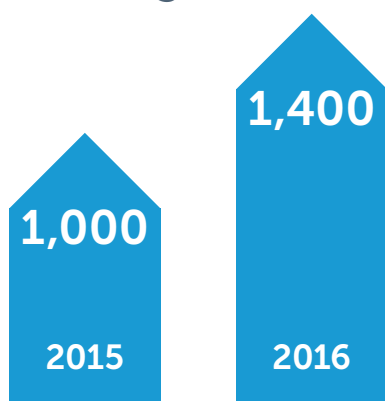
- Customer satisfaction maintained at **99%**
- **99%** of new customers would recommend us

Staff numbers up over **29%** in 2016

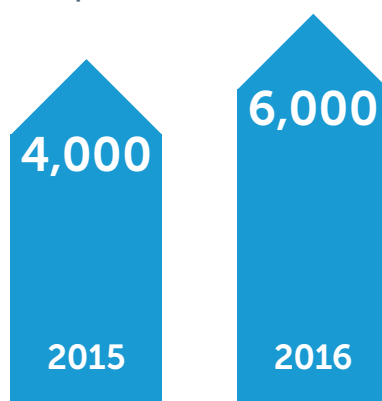


Number of customers

Lending customers



Deposit customers



Chairman's report



Simon Moore
Chairman

Whilst the headlines of 2016 were clearly focused on major political changes, including Brexit and the election of Donald Trump, the markets in which Cambridge & Counties Bank operate in the UK demonstrated that these events had little impact on the flow of business demand over the period. Whilst a small hiatus immediately surrounding the Brexit vote was evident the property markets quickly recovered with demand showing a strong upswing in the last quarter of the year.

Our balance sheet over the year has grown to £746m, underpinned by strong growth in our customer deposits, and the return of existing customers for additional borrowing facilities.

Our footprint across the country has not changed during the year although it is noteworthy that our team in the Sheffield office which covers the North of England and Scotland has doubled in size during 2016.

Customer Lending

The performance of the maturing lending portfolio remains excellent. Whilst we have made some prudent provisions against our property loan balances reflecting the continued benign trading conditions across the market only a small number of write-offs have been made during the year.

There remains a buoyant market for both residential and commercial assets, although recent political changes in terms of fiscal policy means the buy-to-let market is subdued compared to previous years.

Our asset finance business has grown strongly from the start of the year and continues to record month on month growth.

It is pleasing to be able to reflect on our offerings across all our lending markets. Based on manual underwriting, a quick and expert response to customer requests and an efficient and timely process, we can ensure that we lend to our customers within their timescales, meaning that we continue to build a healthy base. We have confidence that demand will continue to meet our growth appetite for the coming years.

Deposits

The deposit market continues to evolve with the arrival of new competitors, including many in the FinTech area. As a consequence customers face an increasing number of suppliers eager to provide deposit products from on demand terms to five year bonds. I am pleased to say that we have continued to ensure that we remain competitive, and through the provision of appropriately priced deposit accounts have strengthened our satisfactory liquidity position with the numbers of depositing customers increasing steadily over the period.

Cambridge & Counties has entered into several partnership arrangements with deposit management businesses and this has continued to expand the sources of liquidity necessary to underpin the growth in our balance sheet.

The reduction in interest rates in August was immediately passed on to our borrowing customers, whilst the reduction of our deposit accounts was timed to match the notice period for each product. Whilst this has cost the Bank in terms of foregone income and higher costs it highlights our relationship with our customers and differentiates us from our competitors. We have received positive comments on these actions from customers across the business.

“Our balance sheet over the year has grown to £746m”

Service Quality

Through 2016 the Bank invested heavily in the people and processes that ensure we meet our customers' expectations of us in terms of service quality, accessibility and providing straightforward and flexible products. For customers who joined us through 2016 our service scores were rated at over 99%. Equally, it was pleasing to note that those customers that had been with us for up to five years have recorded little reduction in their assessment of our quality of service with borrowers and depositors and our broker intermediaries scoring us at over 99% as well. Indeed, our Net Promotor Score continues to strengthen across the business to 60 from 58 in our previous survey.

This performance is one where we take greatest pride as it is our customers' view of the Bank that we believe underpins our success over the long term. For this reason we will continue to invest in both people and systems to ensure that our customer experience remains market leading.



Financial Performance

The continued investment and development of the business is reflected in our financial performance for 2016. We achieved profit before tax of £18.1m in the year, a 77% increase over the £10.2m for the year ended 31 December 2015.

"Our return on investment for 2016 stands at 40.2%"

Our cost:income ratio continues to fall in line with the growth in our existing lending and, notwithstanding significant investment across the business, has reduced to a figure of 32% for 2016 (2015: 43%).

Our return on investment for 2016 stands at 40.2% for the year (2015: 26.0%).

Capital

Our owners have continued to make investments in the Bank's growth and our capital position reflects this with a total capital ratio now standing at 14.0% (2015: 13.7%) at the end of the year. Looking forward, ratios are expected to strengthen through 2017 as increasing profitability is retained to fund further lending over the period.

Our People

Staff numbers continue to tell a strong story of growth with 121 people being in the business at the end of 2016 compared to 94 at the end of the previous year.

We successfully attract and retain experienced and motivated people who recognise and align with the values and cultures that are fostered within the Bank. They join a team where staff engagement scores remain very high, and where additionally in 2016 participation in the Banking Standards Boards Annual Survey reflects this strong customer-centric culture throughout the business.

All that we achieve in Cambridge & Counties Bank through the year reflects the efforts of our people, of whom images feature in all communications, including this summary. They continue to display the characteristics that mark them out as a winning team. Delivering not just financial performance above our levels of expectations but also continuing to improve the level of customer service and customer satisfaction that enables us to differentiate ourselves from our competitors, and ensures that customers return to us again and again and trust us with their new business.

I send them my sincere thanks for their support in achieving all that we have.

The Board

Having taken over as Chair of the Board of Cambridge & Counties Bank in October of this year but having had the benefit of working alongside my fellow Board members since the Bank's inception in 2012, I am also grateful for the support of my fellow Board members in providing the leadership and expertise which has underpinned the growth of the Bank so far.

Chief amongst these colleagues is Paul ffolkes Davis who stepped down from the Chairmanship after guiding the team with his vision and energy since before the bank came into being in June 2012. I would like to take this opportunity on behalf of all my colleagues in saying a big thank you to him and how pleased we are that he remains a key member of the Board going forward as our Vice-Chairman.

I would also like to take this opportunity to thank Mike Kirsopp, Chief Executive Officer, for his leadership of the Bank in 2016. The strong customer-focused culture of the Bank starts at the top and Mike's commitment to our customers, our staff and our relentless focus on professionalism, care and uncomplicated competence is set out and led by him.

The Future

2016 was a tumultuous year in terms of headlines in our newspapers but remained relatively calm in terms of business performance. Markets and asset values remain steady, interest rates changed but not by a huge amount although the direction of travel caught some by surprise. 2017 looks to be a continuation of the theme. Whilst the advent of the Trump Presidency will start to change things in the USA, and the triggering of Article 50 brings Brexit another step closer, neither events are likely to change the real world economy in which Cambridge & Counties Bank operates in the short term.

We remain committed to investing in our ability to continue offering the highest levels of customer service and will ensure that we attract and retain those exceptional and experienced staff who have delivered such a strong result for 2016.



Simon Moore
Chairman



CEO's message



Mike Kirsopp
Chief Executive Officer

Market & Competition

Competition across all the markets and products offered by Cambridge & Counties Bank became more intense during 2016 as players both new and old fought for market share. The Bank through the quality of its service and its customer centric underwriting has been able to stay in the main out of the fray, and unlike many of its competitors has not been drawn into the higher risk second mortgage, development, and amateur buy-to-let markets.

Demand for our existing product range has remained strong across all of our product lines, and we have been able to take an increased exposure to the bridging and refurbishment markets whilst maintaining the level of exposure within prudent bands.

Margins have held up well and the average size of our real estate finance loans has increased as we have continued to concentrate on supporting professional and corporate landlords in both the commercial and residential markets.

“The property lending portfolio increased in the year by £165m to £581m”

On the asset finance side of the business rampant competition continues to destroy margins across the industry and whilst we have settled for lower returns to reflect this, we have continued to concentrate on financing business critical assets for strong borrowers.

The property lending portfolio increased in the year by £165m to £581m, and our new asset finance business continued to show strong growth, increasing by £9m in the year to £10m.

Generally, asset prices have continued to increase albeit very slowly during the period, although demand for industrial property continues to outstrip supply.

The redevelopment of office accommodation under Permitted Development Rights continues apace. Action taken by the government and the Bank of England has seen the velocity of transactions in the buy-to-let market tail off considerably in the latter half of the year.

Whilst the Bank continues to have only a relatively small exposure to London and the South East, demand across the rest of the UK remains balanced and growth in the Midlands and North West, two of our strongest regions, continues to increase. This is especially true around Birmingham and Manchester where both cities are growing at rates appreciatively faster than their regions.

Credit Quality

Credit quality has remained strong throughout the year although the impairment loss charge has increased to £1.4m (2015: £0.4m). The higher impairment charge reflects our growing loan book which totalled £591m at the end of 2016 (2015: £417m).

There is no discernible fall in market sentiment in terms of future prospects, although there is little growth in property returns which would indicate little likelihood of an increase in asset values over the near term. Uncertainty following the Brexit vote has seen a number of larger property deals stall, but take up has eventually happened, and the general UK property business continues to show a measure of resilience in the face of uncertainty and the relatively unattractive returns from other asset classes.

Retail remains the one very large question mark in terms of both performance and asset values where increasing competition from online sales, the draw of out of town shopping developments with free car parking has continued to depress city and town centre retail, especially in the secondary and tertiary markets.

Funding

Liquidity across the SME markets remain strong, both at short dated notice terms through to our five year bond offerings.

The Bank continues to take advantage of the Funding for Lending Scheme, and this together with our entry into the demand deposit markets for solicitors and other professional customers has ensured that we have been able to broaden our funding sources through the year.

We have also increased the value of deposits from individuals during 2016. These balances have been raised through a number of introducer relationships.

Investments

2016 has been a continuation of our previous story of investing in those areas of the business which ensure that we continue to manage the risks we face. 2016 has seen a significant increase in the lending portfolio management teams, our asset finance business, and also our risk and compliance team.

We have further plans to invest across these capabilities and also make a significant investment into our customer experience team to ensure that we can continue to provide levels of customer service which will enable us to attract and retain customers over the longer term as well as compete with new FinTech Banks.

Community

The Bank's staff have been recognised during the year for the work that they have undertaken in terms of community support from our head office in Leicester. We have seen them deliver another year of fun and hard work in supporting various community initiatives. Included within this have been painting and decorating a community centre and collecting items for vulnerable families. The highlight for 2016 was the sponsored bike ride from Lands' End to Leicester of 333 miles over three days by a team of enthusiastic and fit cyclists led by Ian McKenzie, Chief Financial Officer. The efforts raised the sum of £5,633 for the nominated charities of LOROS, Cancer Research UK and MND.

In 2015 I was pleased to report that the Bank had received accreditation under the Investors in the Environment initiative and we have seen development of this culminating in being awarded the National Bronze Award for Banking, Finance & Insurance at the Green Apple Awards as recognition from the Green Organisation for our environmental best practice.

Our staff continue to promote our sustainability footprint and continue to strive to ensure that we make no greater demands on the environment than we have done hitherto.

"2016 has seen significant increase in the lending portfolio management teams, our asset finance business, and also our risk and compliance team"

Forward View

The foundations laid over the last few years have enabled the Bank to grow a franchise with our customers and business introducers that meet all our expectations and appetites for the immediate future. This is expected to be the case in 2017, and with increasing profits providing the capital to fund our balance sheet growth, and an expected relatively stable interest rate environment, we remain confident that the Bank will continue to prosper.



Mike Kirsopp

Chief Executive Officer



Board report



Portfolio statistics

Lending



Lending has grown from **£416m** as at the 31st December 2015 to **£588m** as at 31st December 2016.

Deposits



Customer deposits grew from **£472m** as at the 31st December 2015 to **£685m** as at 31st December 2016.

The average loan value was **£369k**, 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:

Strategic Risk is the risk that it fails to execute its strategic plan due to either internal or external factors.

Capital Risk is the risk that it fails to hold enough capital resources to meet its regulatory capital requirements.

Credit Risk is the risk of a reduction in earnings, and/or value, as a result of a counterparty failing to meet, in a timely manner, a commitment that they have entered into with the Bank.

Funding Risk is the risk that it is unable to raise funds at an acceptable price or to access markets in a timely manner.

Liquidity Risk is the risk that it is unable to meet its short to medium term commitments as they fall due or that they can only be met at an uneconomic price.

Conduct Risk is the risk that its customers suffer loss or detriment due to failures in product design, sales marketing processes and operational delivery or failures in the behaviour or ethics of its staff or its third party distributors/suppliers.

Compliance & Regulatory Risk is the risk that non-compliance with laws or regulation could give rise to fines, litigation, sanctions and the potential for material adverse impact on the Bank.

Operational Risk is the risk that failures arising from inadequate or failed internal processes, people and systems or from external events that may cause monetary loss, service disruption or customer detriment.

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

Treasury Counterparty Risk is the risk of wholesale Treasury counterparties being unable or unwilling to meet a commitment that they have entered into with the Bank.



Income statement

For the year ended 31 December 2016

£'000	2016	2015
Interest Income	35,261	24,253
Interest Expense	(8,579)	(6,727)
Net Interest Income	26,682	17,526
Other Income	1,997	1,016
Total Operating Income	28,679	18,542
Administrative Expenses	(8,873)	(7,668)
Depreciation and Amortisation	(326)	(264)
Operating Profit before Impairment Losses	19,480	10,610
Impairment Losses on Loans & Advances to Customers	(1,361)	(439)
Profit Before Tax	18,119	10,171
Taxation Charge	(3,434)	(2,085)
Profit After Tax	14,685	8,086



Statement of financial position

As at 31 December 2016

£'000	2016	2015
Assets		
Cash and balances at central banks	127,905	62,121
Loans and advances to banks	14,754	10,740
Debt securities	13,249	27,229
Derivative financial assets	-	15
Loans and advances to customers	588,352	416,263
Other assets and prepayments	449	365
Property plant and equipment	329	274
Intangible assets	509	681
Deferred taxation	220	261
Total Assets	745,767	517,949
Liabilities		
Customers' accounts	684,672	471,564
Derivative financial liabilities	183	29
Other liabilities and accruals	3,668	2,982
Subordinated loan		2,086
Total Liabilities	688,523	476,661
Equity		
Share capital	23,955	22,955
Convertible loan notes	12,900	11,900
Available for sale reserve	106	11
Retained earnings	20,283	6,422
Total Equity	57,244	41,288
Total Liabilities and Equity	745,767	517,949

Company information

Company secretary

John Stobart

Registered office

Charnwood Court, 5B New Walk, Leicester LE1 6TE

Auditor

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

Registered number: 07972522

Headquarters & East Midlands regional office

Charnwood Court, 5B New Walk, Leicester, LE1 6TE

East Anglia regional office

Compass House, Chivers Way,
Histon, Cambridge, CB24 9AD

South West & Wales regional office

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

North regional office

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

West Midlands regional office

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

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 2016 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 2016 was unqualified.



Green Award
2016/2017
Setting the standard for
the environment

Cambridge & Counties Bank Limited

Charnwood Court
5B New Walk
Leicester LE1 6TE

Tel: 0344 225 3939

Fax: 0116 254 4637

Email: info@ccbank.co.uk

Web: ccbank.co.uk



Registered office: Charnwood Court, 5B New Walk, Leicester LE1 6TE 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.
Financial Services Register No: 579415