Cambridge & Counties Bank Limited

Annual report and financial statements
Registered number 07972522
31 December 2019

Cambridge &
Counties Bank
Growing business together

Contents

The 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 County Council as Administering Authority of the 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.

Target Markets

Lending

The Bank's commercial loans are secured on property. It lends to experienced commercial and residential property investors as well as to owner occupied businesses to invest in their own commercial premises.

The Bank provides finance for businesses to acquire essential assets such as equipment, plant, machinery or vehicles using hire purchase and finance lease facilities. The Bank also provides finance for the purchase of classic cars using hire purchase and finance lease products.

Deposits

The Bank's lending is primarily funded by the acquisition of UK savings balances. It offers a range of deposit accounts that are available to business customers. These accounts are also available to retail customers through a network of Deposit Intermediaries. Business customers include a number of broader organisations such as charities, clubs, societies and associations.

Distribution Network

Cambridge & Counties Bank provides lending products through a network of Relationship Managers who deal via business introducers as well as directly with customers. The Bank delivers a range of savings accounts via the internet, post and Savings Intermediaries.

Strategic Report

Chairman's Review

This time last year I commented that 2018 had been a challenging year, and with the benefit of another year's experience I would say that 2019 was probably the most challenging since the Bank's inception in June 2012.

The political uncertainty, together with a general economic slowdown, and a lack of confidence in international markets, meant that Cambridge & Counties Bank maintained a stance of careful growth across all its business lines. This resulted in the balance sheet being kept at around £1 billion throughout the year. Whilst the lack of growth had an effect on our financial performance, it also enabled us to continue supporting our existing customers as well as new businesses without the need to weaken our credit quality or chase growth at inappropriate margins, driven by competitors who do not enjoy the strength of income we do.

A full review of Cambridge & Counties' responses to these factors is contained within the Strategic Report. I am pleased to say that, notwithstanding the change in business climate, the Board remains pleased with how the Bank has continued to perform, protecting its income by the provision of focused high quality service offering together with a close control of costs, and at the same time maintaining an appropriate investment profile in both people and technology.

The Bank delivered a good financial performance in 2019 with pre-tax profit of £22.5m. Loans and Advances in the Real Estate Finance book remain stable at £707.0m with both our Asset Finance and Classic Car business showing good growth with books of £44.8m and £17.9m respectively. The Bank's balance sheet at the year-end continues to exceed £1 billion with strong liquidity and a cost of funding well within our expectations.

The Board had planned the 2019 profit to be less than that achieved in 2018, and this reflected our stance on prevailing credit risk in the market, and our investment appetite. The Bank's returns continue to be sound and sustainable with losses attributable to bad debts at £1.6m well within expectations.

Capital

Following the 2018 injection of capital by our owners, retained profitability has continued to increase. The Bank delivered Common Equity Tier 1 (including IFRS9 transitional relief) of 19.4% with our total capital at the year-end reaching 23.0% providing a strong base for the growth planned for 2020.

Dividends

No dividends are proposed for payment.

The Board

As part of our existing Board succession programme John McGuire, the Bank's Independent Chair of Risk & Compliance Committee, retired from Cambridge & Counties Bank having been with us since the Bank came into being in 2012. John's guidance and wisdom has been key in setting the tone, culture and growth of the organisation over the past 7 years and I would like to take the opportunity to thank him for all of his efforts over the time he has been on the Board, and for his support of our team where he has shared his experience willingly.

I am pleased to say that Nick Treble has joined the Bank as our Independent Chair of Risk & Compliance Committee bringing with him a long and broad career in financial services and experience in our markets in particular.

2019 also saw Mike Hudson our new Chief Risk Officer agree to join the bank, with his first day with us on 2 January 2020. Mike has been Chief Risk Officer at several financial services businesses, most recently having spent the last 7 years as Chief Risk Officer at Brown Shipley.

Strategic Report

Our Chief Executive Officer, Mike Kirsopp, also advised the Board in 2019 that it was his intention to retire from his full-time career in 2020. I am pleased to say that he has agreed to stay on until the end of the year enabling a thorough search to take place to identify and bring on board his successor. Mike joined the Bank on its formation in 2012 and assumed the CEO responsibilities in 2014. His five years as chief executive have been an unmatched success and he will hand over a business in immeasurably better shape than the one he inherited. The selection of his successor will be one of the most critical and challenging decisions that the board will take in 2020.

On behalf of my Non-Executive Board colleagues I would, as ever, like to take the opportunity of thanking Mike and his Executive team for the way that they have delivered for Cambridge & Counties during this year of significant challenge, delivering not just a strong financial performance but continued high levels of customer and staff engagement and satisfaction.

We continue to monitor the coronavirus outbreak and the impact across the UK very closely. Our priority is always the well-being of our customers and staff, and we will continue to do all we can to ensure their safety and support them through this difficult time. The macroeconomic environment remains uncertain, however, the strength of our capital, liquidity, and the quality of our products and services leads me to believe that the bank is well placed to face the macroeconomic climate expected in 2020. Overall, we expect the UK economy to stabilise over the course of 2020, albeit at a lower growth rate than in recent years or previously expected. There is the added possibility that there may not be any growth in the economy as a result of the coronavirus outbreak. Cambridge & Counties will continue to support its customers assisting them in resuming business activity as market sentiment improves and this underlines the need to make the most of the opportunities ahead. In the meantime, the Board has elevated its oversight of the businesses performance and continues to provide regular and timely support to the Executive team as they lead the Bank through uncertain times.

Simon A. Moore

Simon Moore
Chairman

Strategic Report

Chief Executive Officers Review

Summary

The Strategic Report forms a major part of our commentary on 2019 and gives a full picture of the risks the Bank faces in a climate which remains challenging with continued areas of significant uncertainty.

I believe that we fully recognise these risks, mitigate them where possible, and have built a strong business which is well placed to deal with the increasing competitive and uncertain business environment.

A major part of this is the development of our Operational Resilience capabilities, designed to enable the Bank to withstand a number of threats over and above the financial, where we continually develop our thinking and ability to respond to a huge number of possible scenarios. The best defence against many of these non-financial threats is ensuring that we have a team of capable, well trained and developed people who recognise the importance of protecting our customers and whose culture is the major defence against the threats we face.

Similarly, 2019 saw the Bank address the issue of climate change and sustainability in earnest. Considerable work has been started on understanding the risks this subject poses to our customers, their business models and the value of the collateral that underpins the Bank's property lending book. We continue to work with the University of Leicester in developing our thoughts, and action plans, whilst at the same time addressing our own carbon footprint. Decisions taken in 2019 will see the Bank's core operations become carbon neutral in 2020 through our investment in tree planting and supporting Brazilian rainforest sustainability.

We are closely monitoring the situation with respect to the corona virus (COVID19) outbreak and adhering to guidance set out by UK Government, Public Health England and our regulators. The risk management section further identifies the ongoing monitoring of this key emerging risk. We are well prepared to maintain our services in adverse circumstances. The Bank has a robust operational resilience program in place which is tested regularly and covers all the Bank's teams and offices. The Bank's crisis management response was successfully invoked ahead of the Government mandated UK lockdown with the Bank fully enabling remote working. The Bank is maintaining full operational and customer facing services. We are prioritising the health and safety of our employees, customers and business partners and committed to supporting our customers who experience difficulties as a result of the current situation. The outlook for the finance sector and the UK economy could change rapidly, and whilst strongly capitalised and liquid, the Bank's senior management are actively performing scenario planning and financial modelling that builds on its capital and liquidity adequacy processes. We will continue to monitor the situation closely and assess and manage the potential impacts.

The team at Cambridge & Counties Bank are recognised by our customers, and our business partners, as being one of the most approachable, professional, and whilst demanding, easy to deal with. My thanks go out to each and every team member for the way that, through our culture, they embody the values and beliefs which our customers tell us make us different from the vast majority of other Banks.

Business Model

Cambridge & Counties Bank (the Bank) has maintained its existing business model during the year using a small panel of brokers with whom we work closely in the lending and deposit markets, although we are seeing continued growth in new business from our existing customers.

We have expanded our geographical representation through development of our plans for increasing the number of regional offices through the recruitment of new Relationship Managers in Scotland, Manchester and Cardiff.

The Bank now has a head office in Leicester and regional offices in Sheffield, Birmingham and Bristol with satellite representation in Manchester, Cardiff and Glasgow.

The Classic Car business which operates from the head office in Leicester, is building a panel of introducers servicing brokers, high-end dealers, auction houses, private banking firms, and business introduced from the existing lending operations.

Strategic Report

Key to the relationships with our brokers is the Bank's continued ability to provide a seamless operation in onboarding new customers, and subsequently managing their accounts, in a way that continues to meet their needs.

Our comprehensive customer contact programme was further developed during 2019 such that our long-term Relationship Managers are delivering, as a minimum, annual reviews for the majority of customers which enables both the Bank and the borrowers to ensure that they enjoy appropriate facilities and quality service. This has been positively received by customers and has led to new business opportunities.

The key to the Bank's business success is the relationship between the frontline teams and the broker partners who understand our market. This is supported by a programme of broker research which enables the Bank to manage the ongoing relationship with the confidence that it is meeting our broker partners expectations in terms of the technology which underpins our communication, balanced with the ability for personal intervention.

During 2019 repeat business from existing borrowers was in line with our previous experience reducing our cost of acquisition and providing a stream of credit worthy opportunities. The Bank's deposit business re-investment rates for fixed term bonds have been comfortably above expected levels.

Strategy

The Bank's strategic objectives are to maintain the growth of the business, to bring our products and services to a wider geographical footprint and expand our lending activities into new asset classes where the existing capacity and capability of the firm can be brought to bear. The aim is to realise niche opportunities in markets that offer earnings at a level accretive to those achieved in our core businesses. For 2019 this was delivered through the new Relationship Managers outlined above, and the launch of our term funding loan for holiday lets in the 3rd quarter of the year.

Underpinning this activity, is our strategy of ensuring that the business avoids conflicts in its relationships with its major suppliers and customers. The policy of clear and open communication and the absence of cross selling of ancillary products to borrowing customers has been met with positive customer responses in terms of their satisfaction with products and services, and customers willingness to recommend the Bank to their contacts.

In the short term, our strategy will see us investing heavily in our IT capabilities both in terms of Customer Experience, and capitalising on the migration of our IT architecture to a cloud-based environment achieved in 2018.

Our medium-term strategy will see growth across new areas of the country, together with a controlled expansion of our broker introducer panel for all three of our core lending markets.

The Bank continues to keep the opportunities for development finance under scrutiny, although current levels of competition, macro-economics and heightened risk profiles means we have no plans to enter this market.

The Bank has maintained high levels of liquidity during the second half of 2019, driven by the uncertainty surrounding market sentiment relating to Brexit in the first half of 2019, and to provide the balances which will enable us to continue unwinding our current Funding for Lending Scheme facility, avoiding the need to compete in the market at a time when rates may become inflated.

2019 has also seen significant investment in our Risk & Compliance, Finance and Lending capabilities. Development of our second-generation Credit Grading Model is now complete and the Board continues to ensure that lending portfolio management develops alongside the size and complexity of the business. We have taken the opportunity to widen the remit of the Risk & Compliance team, to build out our Credit Risk Management Framework and Models Management investing in the skills and capability to protect the Bank's lending base in the event of market stress or downturn.

Strategic Report

Trends and Factors

The major trends that continue to influence business and its forward prospects can be summarised as follows:

- Fundamental change in competition
- Long term trends in technology investment driving disintermediation across financial services
- The increased focus on climate change risk and the general acceptance that it will influence all areas of business for the foreseeable future.

Looking at these each in turn:

Fundamental changes in competition

The fiscal changes to the Buy to Let investment market introduced some three years ago have caused significant change to the level of demand for Buy to Let mortgages, the sale of existing Buy to Let stock back into the first and second time buyer market and the emergence of a demand for Build to Rent investments.

The advent of ring-fencing has also seen significant capital applied by major high street players to the mortgage and SME markets. Activity levels, at lower margins, from this source is now a major factor in market pricing to risk. Coupled with the number of new players seeking to achieve fast growth as a way to profitability means trading conditions are tough and risk-based pricing in the market appears to be is stretched to the limits.

Technological Changes

The market adoption of FinTech services continues, although perhaps not at a pace or depth hitherto expected. Competition in terms of lending markets remains subdued, and the SME lending market in particular has faced little direct competition from FinTech banks, although increased market penetration by peer to peer lenders has grown. For the Bank we maintain our operating model based on the people led relationships with brokers and customers, although we continue to scrutinise opportunities to use technology to support.

In the deposit market the use of brokers to disintermediate the bank/customer relationship has seen dramatic growth where the vast majority of new to market banks, through to some of the largest building societies, are using these services as a source of funding. This has enabled the Bank to tap into the retail deposit market without the attendant cost of acquisition and infrastructure which would be required if targeted directly at the retail market.

For 2019, IT investment has been focused on ensuring our cyber security capabilities are kept to a high level, developing our data management capabilities, and designing our new online deposit acquisition and management capability which is expected to deliver mid-2020.

Climate Change

2019 was the year when the challenges of climate change were fully recognised across society, not least within the financial services industry. Cambridge & Counties Bank has undertaken a review of all its customers businesses, the collateral that supports the Bank's lending book, and the threat to business models caused by the need to achieve carbon neutrality in the medium term. The risks of climate change including flood, rising sea levels, and water runoff have all been reviewed and 2020 will start to see conversations with our customers as to how they plan to mitigate those risks and protect the value in their investments in the short and medium terms. We are working closely with the University of Leicester to ensure we keep abreast of latest thinking in terms of climate change threats to the built environment.

The Bank is now starting to embed climate change risk across all its operations, especially with regard to credit risk management and our Credit Grading Model. What is becoming apparent is that climate change also offers many opportunities for the Bank to differentiate its product offering, as a result there will be significant demand for our loan products to upgrade many assets within the property sector which currently do not meet minimum EPC gradings.

Strategic Report

During the year we have also been investigating how we can best achieve carbon neutrality for our core operations and have invested in a tree planting and into a Brazilian rain forest protection scheme which has been independently judged as giving us a carbon neutral footprint from the start of 2020. It is the Board's intention that we will continue to invest in this way through future years with tree planting investment progressively being focused on the UK.

For the 5th year in a row we have achieved our Investors in the Environment Green Award and for 2019 we are proud to have achieved 94% in the independently assessed performance review. This initiative is driven by our staff who have self organised a Green Team to oversee our consumption of power, travel, office consumables, and recycling. As a result of these initiatives and the upgrade of the Bank's head office premises which completed in Quarter 1 2019, there has been a major reduction in the Bank's carbon footprint.

Key Risks

The themes outlined above will pose a risk to the Bank's operating model although, we remain confident that most of these risks are mitigated through the provision of a value-based offer to the market that remains relevant and of a quality worthy of our pricing.

The Bank's approach to Risk Management is set out in pages 24 to 32 below. Some of the key risks to the implementation of its strategy include:

- Macro-economic and geopolitical headwinds, including the emerging threats of COVID19, the post Brexit trade negotiations, and the effects on business confidence;
- The credit cycle which is closely aligned to the above;
- Competition and its effects on pricing in our targeted market sectors;
- IT data security and cyber security threats;
- Operational Resilience including the impact of Supplier/Outsourcing Risks;
- Funding Risks and Liquidity costs, and continued disintermediation through the rise of deposit brokers in both the retail and SME markets;
- Regulatory Requirements within the evolving regulatory environment.

Macroeconomic and geopolitical influences on Business Confidence

The late 2019 general election result and the subsequent passing of the act to enable Brexit to take place in January 2020, brought a measure of stability to financial markets at the turn of the year for real estate and business assets. However, business confidence whilst returning, remains subdued in comparison to historic levels. Our customer base has little dependence on international supply chains, although they do face challenges in the residential market where there has been reliance on immigration labour.

Whilst in the early months of 2020 we have seen an increase in the number of property transactions flowing through the market where significant liquidity is being unlocked for investment now that the future course of our relationship with Europe is defined, it is doubtful we will see a 'bounce' in business confidence until such time as there is greater clarity on the terms of trade, not only with the EU, but also through the new agreements that will be required with other major trading partners including the USA.

The corona virus outbreak also creates significant disruption for staff, suppliers and customers. We understand the difficulties this poses and have put measures in place to support them through this challenging time. It is also possible that we may see revenue reductions from lower lending and transaction volumes in 2020, and some credit losses stemming from disruption to customer businesses, and we continue to monitor the situation closely. Our immediate aims are to protect our staff, support our customers and continue with the investment in creating the capabilities and capacity to develop the business.

Strategic Report

Pricing and Competition

The number of newly launched niche challenger banks, together with an increase in the non-banking participation in the asset finance market, has had significant effect on lending margins. This has inevitably driven a reduction in the Bank's gross lending margins although, this has in part been mitigated through the repricing of the liabilities which has protected our net interest margin. We continue to ensure that our customers enjoy rates that compare well with those that are currently on offer in the market and loss of balances has been muted.

Margin compression is expected to feature throughout 2020 and we remain confident that following the expansion of our geographic footprint around the country, and investment in relationships with our brokers introducers, we will be able to meet our growth appetite and at acceptable margins for credit risk.

IT and Data Security

Along with many other players in the industry, Cambridge & Counties continues to face increased threats to IT security and cyber-attacks including cloning of websites.

Our programme of investment in our IT security has featured heavily during the year. All incidents have been managed without loss of data, or service to customers, and our investment programme has been enhanced to ensure that we can maintain our vigilance and our ability to respond to similar attacks in the future. The Bank has appointed PWC to act as our virtual CISO providing the Board with up to the minute insight into developments across industry and emerging threats.

Liquidity

The Bank has maintained high levels of liquidity during the year reflecting the uncertainty in deposit markets given the political instability caused by Brexit and a deteriorating world economy and reflecting the withdrawal of the funding for lending Scheme in the short term.

The Bank has had no problem in attracting and retaining the balances it seeks both through providing product direct to our target markets via best buy tables and augmented by our relationships with deposit brokers.

Liquidity costs have eased over the year although there remains the emerging risk that the consolidation of balances into the hands of a relatively few but dominant brokers, will distort market operations and pricing. To mitigate this risk, the Bank will continue to deliver deposit products direct to the market via the best buy tables introduced through the new online deposit acquisition targeted for mid-year.

Viability

The past year has seen the Bank produce good financial results, notwithstanding the Board have chosen to reduce its appetite for customer assets over the period, reflecting the current stage of the credit cycle and the uncertainty that surrounded Brexit. The quality of lending opportunities during the year was not strong, and the Bank has chosen to grow its assets cautiously to maintain the balance sheet throughout the period. The strongly performing back book, together with the management of liquidity pricing, means that profitability has enabled us to further enhance our capital levels and cover the significant increase in operating costs and investment required over the period, yet delivering a return on capital of 13.6%.

The Board remains confident that the offering to the market remains relevant and attractive, and that 2020 will give us the opportunity to continue growing the customer assets without strain on our capital or liquidity measures. The Bank prepares a 3-year strategic plan on an annual basis to demonstrate that it will be able to continue in operation and meet its liabilities as they fall due over this period and that the Bank continues to operate as a going concern with a viable business model. The 3-year plan is updated on a quarterly basis. With the evolving macroeconomic environment and change in interest rate outlook, we have tempered our revenue growth expectations for 2020 and continue to monitor the impact on our business plan forecasts accordingly.

Strategic Report

Whilst historically the number of non-performing loans has remained very low, with credit losses well below budgeted expectations, it is also possible that notwithstanding Government business supporting initiatives we may see some credit losses stemming from disruption to customer business as a consequence of COVID19. We will continue to monitor the situation closely.

The Board have continued to run a number of internal capital adequacy and internal liquidity adequacy stress tests on the operating model, most particularly those effecting our property lending concentrations to provide insights into the Bank's financial stability. As result, we remain confident that the Bank holds sufficient capital to withstand severe contractions in both the number of transactions in the market and a significant fall in capital values across both residential and commercial property, as well as the capacity to absorb a material increase in impairment provision. The stress testing analysis helps management understand the nature and extent of vulnerabilities to which the Bank is exposed. At the close of year, the Bank's total capital ratio was 23.0%.

Key to our confidence is the viability of the business in terms of operational resilience in the face of total or partial loss or our core operations and in ensuring that the Bank meets its regulatory expectations around operational resilience for the future. The Bank has demonstrated it has a robust operational resilience program in place which it tests regularly and has successfully implemented to enable full remote working across all the Bank's teams and offices. It is envisaged a full suite of products and services will be maintained. This is an area where the Board is also committed to continuing to invest.

The ratio of customers to members of our Relationship Management team has enabled us to respond quickly to the uncertainty in the market and new requests from customers for support. We remain confident that this low ratio will ensure we can maintain close links through the coming period with those customers experiencing stresses in their business due to the COVID19 pandemic.

Access to required talent remains a challenge, although during the year we have been able to attract the services of specialist skills in Risk, Compliance and Finance. The Board continues to review its organisational structure and succession plans for both non-executive and executive posts and is confident that it has the skills and capabilities to support the business through 2020 and beyond.

It is with this consideration that the Board believes that the business can withstand the macroeconomic challenges that COVID19 presents in 2020 and supported by its strong culture, values and beliefs which remain the foundation of risk aware business, positions the Bank well to respond when the market picks up.

Environmental, Social & Governance

The ESG agenda maintains Board's focus, with regular debate and reports received from the Executive relating to environmental, community, and wider industry issues. The Bank's governance policies and process are set out in detail on pages 19 to 23.

The Board recognises the importance of culture to the Bank's health and creates the tone from the top so that the Board delivers on its responsibilities to all of its various stakeholders, especially our customers.

Sustainability

As already outlined, climate change and sustainability has received a significant increase in management time during the year. The usage of utilities has fallen materially, despite our head count increasing. This is largely due to the energy efficiencies we introduced during the refurbishment of our Leicester head office building, resulting in the saving of over 23 tonnes of CO_2 in 2019, compared to 2018. In addition, at the beginning of 2020 we have invested in tree planting and a Brazilian rain forest protection scheme which gives us a carbon neutral footprint.

Strategic Report

Social

2019 was another year when our colleagues supported many fantastic initiatives and a wide variety of charities.

Charitable giving:

The charities team expanded to 8 members of staff, covering most areas of the bank. In 2019 we donated close to £35k to charity, which included:

Donations to the Leicestershire and Rutland Community Foundation supporting:

- Turtle Dove – providing the opportunity and confidence building needed to get vulnerable women back/into the working environment.
- Soft Touch Arts – via their Stars programme that takes young people's passion for art and design and providing pathways into higher education or a potential career.

Support to Leicestershire Cares, via:

- Number Partners – a regular commitment working with young people to build their confidence through number-based games.
- Interview Techniques –providing 14/15-year olds with interview practice that can help shape their careers.
- Collect for Christmas – staff collection of over 100 new toys, as well as secondhand clothes to Help the Homeless and Making Moves.

Matched Funding for staff's own charitable efforts, and other worthy initiatives:

- The 100-mile Leicestershire round walk that 8 staff were involved in.
- The London Marathon.
- A 100m charity bike ride.
- Fundraising for a premature baby unit.
- Fund raising evenings for the Shepshed food bank.
- White collar boxing.
- Warning Zone Road Crew taking educational programmes into schools.
- National Space Centre Ignite initiative – developing pathways to introduce young people to the concept of space, right through to further education and employment in space related areas.

Colleague Matters

The Bank has maintained its association with the Banking Standards Board (BSB) and for the third year undertook an assessment of our colleagues' views on the Bank's culture, where results remain positive and reflect well in comparison to other organisations. We have also recorded consistently high participation rates and strong scores in the Bank's employee engagement survey, the latest conducted in January 2019.

The Board pays close attention to our staff turnover rate, which remains subdued for an organisation that is now seven and a half years old, and also the time taken to fill vacancies through recruitment. Here the performance is considered very good for general staff, although attracting talent into sectors such as Risk, Compliance and Finance is taking longer than we would wish given high levels of current demand for these specialisms.

There has been no change to our pay and bonus schemes during the year where the vast majority of staff benefit from the Bank's discretionary profit-sharing scheme capped at 10% of basic salary.

Strategic Report

Flexible working patterns are expanding across the Bank with job sharing, compressed hours working and working from home all featuring heavily.

A new Staff Forum was formed during the year which has improved communication across the Bank and already influenced our Staff Meetings, our Maternity and Paternity benefits and introduced a holiday purchase/sell scheme.

Operational Performance

Customer Satisfaction

Our customer satisfaction metric continues to perform outstandingly and compares well across the industry and other service sector businesses. 99% of new customers, both borrowing and depositing, report that we dealt with their enquiry and application effectively, with a similar score given for their willingness to recommend Cambridge & Counties Bank. Longer term customers also remain positive regarding their relationships with us and continue to highly rate our service and recommend us.

Several initiatives during the year, including the repricing of our existing customer deposit accounts and the implementation of a relationship model for borrowers, including regular reviews of business, drive this level of satisfaction and high performance. The outcome of these achievements continues to be reflected in the '*stickiness*' of balances in the deposit book, and the increasing ratio of new business generated from existing lending customers.

On the lending side it also supports our brokers in placing business with us, notwithstanding the competitive market. This is based on the customer satisfaction with our loan manufacturing and relatively frictionless onboarding, including the time between agreeing a facility and advancing funds. Both broker and client feedback confirm that quality of service is more than just fast response times and is based on end to end delivery.

Operations

The cost:income ratio at 43.9% has risen in response to the investments outlined throughout this report. This level continues to compare well with similar operating models.

Operational losses remain low, and an annual total of 76 complaints, represents a penetration of less than 1% of accounts. Developing on our investment in Customer Experience in 2018 has seen fundamental reviews of our processes and customer journeys which have provided greater insight into service improvement to further reduce the causes of friction and improve customer satisfaction.

The Board is committed to improving general staff performance through significant investment in training and development. A total of 1,096 days has been provided for both individual and general staff development during 2019.

This investment has enabled us to ensure that we develop our talent pool, which means we can promote internally as the need arises, rather than depend only on external recruitment.

Strategic Report

Financial Review

The 2019 financial statements have been prepared under International Financial Reporting Standards. The Bank applied IFRS 16 leases from 1 January 2019. The impact of this change in policy is set out below and in Note 29 to the financial statements.

The Bank's primary financial statements are reported on pages 49 to 52, with a summary of these shown below.

The Bank delivered a good financial performance in 2019, with pre-tax profit of £22.5m (2018: £27.9m). The lower profit reflects the Bank's ongoing investment in specialist resource and IT system development. Total assets were £1bn at the end of 2019 with loans and advances to customers totalling £762m (2018: £769m). The Bank increased its capital strength during the year with Shareholders' Funds increasing by 14% from £125.2m to £142.2m and its total capital ratio increasing from 20.5% to 23.0% (including IFRS 9 transitional relief).

Summary Income Statement £'000	2019	2018	% change
Interest income	57,045	57,514	(1)
Interest expense	(14,137)	(13,089)	8
Net interest income	42,908	44,425	(3)
Other income	50	310	(84)
Total Operating Income	**42,958**	**44,735**	**(4)**
Operating expenses (including depreciation)	(18,856)	(15,093)	25
Impairment charge	(1,566)	(1,716)	(9)
Profit Before Tax	**22,536**	**27,926**	**(19)**
Taxation charge	(4,035)	(5,518)	(27)
Profit After Tax	**18,501**	**22,408**	**(17)**

Summary Balance Sheet £'000	2019	2018	% change
Liquid assets	236,667	260,020	(9)
Loans and advances to customers	761,503	769,016	(1)
Other assets	5,898	3,052	93
Total Assets	**1,004,068**	**1,032,088**	**(3)**
Customer deposits	854,449	901,398	(5)
Other liabilities	7,466	5,510	35
Shareholders' funds	142,153	125,180	14
Total Liabilities and Equity	**1,004,068**	**1,032,088**	**(3)**

Key Performance Metrics	2019	2018
Gross new lending	£158m	£266m
Net interest margin	4.2%	4.6%
Cost to income ratio	43.9%	33.7%
Common Equity Tier 1 capital ratio	19.4%	16.8%
Total capital ratio	23.0%	20.5%
Liquidity Coverage Ratio	463%	331%
ROCE	13.8%	27.7%

Strategic Report

Definitions:

Gross new lending – new loans drawndown during the period
Net interest income – net interest income / average interest earning assets (at the start and end of the period)
Common equity tier 1 capital ratio – ordinary shares and reserves (common equity) /risk weighted assets (at the reporting date)
Total capital ratio – all forms of capital (CET 1 and AT1) / risk weighted assets (at the reporting date)

Total operating income for 2019 was £43.0m (2018: £44.7m). The reduction in operating income is a result of increased interest payable on the Bank's customer deposit balances.

The Bank's real estate and asset finance gross lending balances reduced by £7m to £770m as the Bank maintained its risk appetite and did not target additional business growth at the expense of asset quality. Despite the reduction in lending balances interest income was £57.0m, in line with the previous year.

The interest paid on the Bank's deposit balances increased by around £1.0m to £14.1m during the year, reflecting the competitive nature of the market, the interest rates offered by the Bank and the mix of the Bank's deposit balances.

The Bank's deposit balances reduced during the year from £901m to £854m, as the Bank reduced the level of excess liquidity held at the end of 2018.

In total, net interest income reduced by £1.5m to £42.9m in 2019. The Bank's net interest margin reduced from 4.6% to 4.2% in 2019, reflecting pricing in both the lending and deposit markets, as well as the Bank's mix of assets and liabilities.

We continue to invest in the business, with total operating expenses increasing from £15.1m in 2018 to £18.9m. Average staff numbers increased from 143 in 2018 to 149 in 2019, increasing staff and staff related costs by £1.6m to £10.9m. In addition, during the year, the Bank continued its investment in its IT systems increasing its resilience and security as well as improving the connectivity between platforms and accessibility of management information.

The Bank's continued investment in people and systems has resulted in the cost: income ratio increasing from 33.7% in 2018 to 43.9% in 2019, which still compares favourably to many of its peers.

Impairment

	2019	2018
No. of loans in arrears*	66	61
Value of arrears	£1,400k	£900k
Total value of loans in arrears	£26.3m	£35.1m
Provisions held	£8.2m	£8.1m

*1 or more days in arrears

The Bank's asset quality remains strong with the Income statement loan loss impairment charge of £1.6m, £100k lower than in 2018. The Bank's total loan loss provision increased from £8.1m to £8.2m. the Bank successfully resolved a number of its defaulted loan cases in 2019. The number of real estate accounts over 90 days in arrears at the end of 2019 were 30, 1 higher than at the end of 2018.

The Bank's loan loss provision continues to represent c. 1% of its total loan balances.

Taxation

The taxation charge in 2019 is £4.0m (2018: £5.5m), an effective corporation tax rate of 19% (2018: 19.00%). The taxation charge includes a £156k debit (2018: £21k credit) in respect of deferred tax and a credit of £314k in respect of the Bank's convertible loan note interest payment (2018: nil - this item was taken straight to reserves in 2018). In 2018 the Bank's profits exceeded the annual bank corporation tax surcharge allowance resulting in an additional tax charge which was not repeated in 2019 as a result of the Bank's profit being lower than the £25m surcharge allowance.

Strategic Report

IFRS 16

The Bank's head office lease was previously reported as an operating lease under IAS 17. Following the application of IFRS 16 from 1 January 2019 the Bank recognises this lease on balance sheet using a value for the lease and lease liability calculated as the present value of the remaining lease payments discounted at the Bank's incremental borrowing rate. This right-of-use asset has been measured at an amount equal to the lease liability, adjusted by the amount of any pre-paid or accrued lease payments. The Bank already recognised the value of its leases in relation to its IT printers on its balance sheet prior to IFRS 16 being applied. The head office lease is recorded within the Bank's property, plant and equipment category on its balance sheet at £1.973m at 31 December 2019 with a corresponding lease creditor liability of £2.06m.

Shareholders' Funds

£'000	2019	2018	Change %
Share capital	44,955	44,955	-
Convertible loan notes	22,900	22,900	-
Reserves	74,298	57,325	30
Total Shareholder Funds	**142,153**	**125,180**	**14**

The Bank has a strong, high quality capital base. All of the Bank's shareholder funds qualify as Tier 1 capital, with its share capital and reserves qualifying as Common Equity Tier capital.

Total shareholders' funds increased during the year from £125.2m to £142.2m as a result of the growth in the Bank's retained earnings.

The Bank elected to adopt the capital transitional arrangements in respect of IFRS 9 from 1 January 2018. The transitional arrangement in 2019 allows the Bank to increase its Tier 1 capital by an amount equal to 85% (2018: 95%) of the reduction in Tier 1 capital on 1 January 2018 as a result of adopting IFRS 9, and the expected credit loss method of calculating provisions. In total the Bank's reported Tier 1 capital increased by £2.6m in 2019 as a result of these transitional arrangements.

The British Business Bank's Enable Guarantee, which the Bank entered into in June 2019, provides the Bank with additional capital capacity for its Real Estate Relationship Managers and helps to implement Government policy to improve funding access for SME borrowers. The Enable Guarantee provided the Bank with a facility to guarantee up to £50m of commercial loans. The guarantee, which for regulatory reporting purposes is treated as a synthetic securitisation enables the Bank to risk weight the loans within the guarantee at 0%, This benefit is partially offset by the cost of the first loss tranche which is reported as a capital deduction of £1.69m.

The Bank's capital ratios exceeded its regulatory requirements throughout the year.

The Bank's Common Equity Tier 1 capital ratio (including the impact of the transitional arrangement) at the 31 December 2019 was 19.4%, (2018: 16.8%). The Bank's total capital ratio (including the impact of the transitional arrangement) at 31 December 2019 was 23.0% (2018: 20.5%). The Bank's Common Equity Tier 1 capital ratio and total capital excluding the transitional arrangement were 18.9% and 22.6% at 31 December 2019 respectively.

Dividends and Convertible Note Payments

On 29 September 2019 the Bank paid a £1.5m interest payment on its convertible loan notes to Cambridgeshire County Council Pension Fund, the holder of these loan notes.

The Board did not pay an ordinary share dividend in 2019 and does not propose an ordinary share dividend in 2020 as it continues to focus on maintaining a strong, well capitalised balance sheet.

Strategic Report

Liquidity

The Bank monitors liquidity on a daily basis to ensure it has sufficient funds available to meet maturing liabilities and uses a range of metrics to monitor this. The Bank maintains a highly liquid balance sheet with its regulatory Liquidity Coverage Ratio (LCR) at 463% at 31 December 2019, compared to 331% for 2018, significantly higher than the regulatory minimum of 100%.

The Liquidity Coverage Ratio (LCR), assesses 30-day net cash outflows as a proportion of High-Quality Liquid Assets (HQLA). HQLA comprise cash balances held at the Bank of England and its off-balance sheet T-bills, while net 30-day outflows are calculated based on regulatory guidance.

The Bank's on balance sheet liquid assets totalled £237m at the end of the year (2018: £260m), £229m of which was in the form of a cash balance held at the Bank of England. At the 31 December 2019, the Bank held off-balance sheet T-bills drawn through the Bank of England's Funding for Lending Scheme (FLS) totalling £77m (2018: £106m). The T-bills are due to be repaid by January 2022 at the latest.

LIBOR reform

In July 2017, the UK Financial Conduct Authority, the regulator of the London Interbank Offered Rate (LIBOR), announced that all currency and term variants of LIBOR (IBORs) will be phased out after 2021.

The Bank does not have any material exposure to Libor related instruments. The Bank's exposure is limited to two interest rate swaps and the Bank's AT1 convertible loan notes. As set out in the paragraphs below the Bank is well prepared for the withdrawal of LIBOR rates.

The Bank has two interest rate swaps linked to 3-month LIBOR. The Swaps mature in April and July 2021 (before the benchmark ceases). The Bank's AT1 capital Instrument interest rate is linked to 6 Month LIBOR. Whilst the instrument's terms and conditions already enable the Bank to realign the interest rate when LIBOR ceases, the Bank will begin this process during 2020 when the pricing is already scheduled to be reviewed.

All of the Bank's customer loans and advances are linked to bank base rate.

The Bank is confident that its plans will enable it to have no LIBOR linked exposures post December 2021.

Outlook

The Bank is expecting the rate of growth in lending balances in 2020 to be lower than that recorded in previous years. With the evolving macroeconomic environment and change in interest rate outlook, we have tempered our revenue growth expectations for 2020 and continue to monitor the impact on our business plan forecasts accordingly. It is also possible that we may see some credit losses stemming from disruption to customer business as a consequence of COVID19 and we will continue to monitor the situation closely.

Our immediate aims are to protect our staff and support our customers. We are committed to investing in the reliability and resilience of our IT systems and critical services that support all parts of the business. We do so to protect our customers, affiliates and counterparties, and ensure that we minimise any disruption to the Bank's services that could result in reputational or regulatory damage. We continue to invest in the Bank's IT systems and cyber security controls. 2020 will see the full year impact of the additional resources recruited during 2019 creating the capabilities and capacity to continue to support and develop the business.

Strategic Report

S172 Companies Act 2006 statement

The Bank's annual report is required to indicate *"a statement which describes how the directors have had regard to the matters set out in section 172(1) (a) to (f) when performing their duty under section 172."*

Section 172 of the Companies Act states the following:

> *A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to —*
>
> *a. the likely consequences of any decision in the long term,*
> *b. the interests of the company's employees,*
> *c. the need to foster the company's business relationships with suppliers, customers and others,*
> *d. the impact of the company's operations on the community and the environment,*
> *e. the desirability of the company maintaining a reputation for high standards of business conduct, and*
> *f. the need to act fairly as between members of the company.*

Statement by the directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Board of directors of Cambridge & Counties Bank Limited consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 December 2019.

- Stakeholder engagement

The Bank has maintained regular dialogue with all its key stakeholders throughout the year. The table below sets out the Bank's key stakeholders and the main method by which the Board and Management engage.

Stakeholder	Description	Engagement
Shareholders	The Bank has two shareholders each holding 50% of the Bank's ordinary share capital	Both shareholders are represented on the Board and Board sub-committees by Non-Executive Directors and are therefore fully involved in the decision making of the company enabling compliance with matter (f) above.
Customers	The Bank has around 6,000 deposit customers and 1,000 lending customers	The Bank undertakes regular customer feedback surveys and customer focus groups. The results of which are shared with all staff. The Bank incorporates the findings of these surveys into its future business development plans. The Bank engages with lending and deposit intermediaries who introduce business to the Bank as well as having regular dialogue with the borrower and deposit customer.
Employees	The average number of people employed by the Bank during the year was 149	The Bank undertakes an annual internal staff survey as well as participating in industry wide culture surveys undertaken by the Banking Standards Board. The results remain positive and reflect well in comparison to other organisations. We have also recorded consistently high participation rates in our employee engagement survey conducted in January 2019, recording strong scores. The Bank has established a staff forum which meets monthly and is chaired by the Bank's Chief Executive. The forum has already influenced the format and content of Staff Meetings, Maternity and Paternity benefits and enabled the introduction of a holiday purchase/sell scheme.

Strategic Report

Stakeholder	Description	Engagement
Suppliers	Business and individuals who provide services and goods which the Bank uses to deliver its products to its end customers	Management regularly meet the Bank's key suppliers particularly those providing important business services and information technology systems.
Regulators	The Bank has two regulators the PRA and FCA	The Banks management has regular meetings with its PRA Supervisory teams to discuss the Bank's development and performance.
Communities	The geographic locations in which the Bank has offices, employees and customers	The Bank is a member of a number of local trade bodies such as Chamber of Commerce and Business Networking groups in the regions in which it operates. The Bank also supports its staff in working with community charities such as Leicestershire Cares.

- Decisions made during the year

The Board reaffirmed the Bank's current strategy, business structure, dividend policy and capital structure during 2019. The Bank's strategy has remained broadly unchanged since it started trading in 2012 and it now has a balance sheet with assets in excess of £1bn with pre-tax profits in excess of £20m p.a.

The Board has assessed the future operating environment for the business and whilst it expects lower growth rates in profits over the next few years as a result of a less favourable economic environment and the ongoing investment in people and systems, its strategic objectives remain unchanged. The Bank plans to continue to grow and bring its products and services to a wider geographical footprint and expand its lending activities into new asset classes where the existing capacity and capability of the Bank can be brought to bear and realise niche opportunities in markets that offer earnings at a level accretive to those achieved in the core businesses.

The Bank's future plans have been influenced by the following trends and risks:

- Macro-economic and geopolitical headwinds, including the emerging threats of COVID19, the post Brexit trade negotiations, and the effects on business confidence;
- Changes in competition and market demand;
- The credit cycle which is closely aligned to the above;
- Long term trends in technology investment including IT data security and cyber security threats;
- Liquidity costs, and continued disintermediation through the rise of deposit brokers in both the retail and SME markets;
- Operational Resilience including the impact of Supplier/Outsourcing Risks;
- The increased focus on climate change risk;
- Post Brexit trade negotiations, and its effects on business confidence and macroeconomics;

The fiscal changes to the Buy to Let investment market introduced some three years ago have caused significant change in the level of demand for Buy to Let mortgages, the sale of existing Buy to Let stock back into the first and second time buyer market and the emergence of a demand for Build to Rent investments. The number of newly launched niche challenger banks, together with an increase in the non-banking participation in the asset finance market, has also had significant effect on lending margins. This has inevitably driven a reduction in the Bank's gross lending margins although, this has in part been mitigated through the repricing of the liabilities which has to an extent protected our net interest margin. We continue to ensure that our customers enjoy rates that compare well with those that are currently on offer in the market. Margin compression is expected to feature throughout 2020 although we remain confident that following the expansion of our geographic footprint around the country, and investing in our relationships with our broker introducers, we will be able to meet our growth appetite at acceptable margins for credit risk.

Strategic Report

The market adoption of FinTech services continues although the Bank maintains its operating model based on the people led relationships with brokers and customers. The Bank will continue to scrutinise opportunities to use technology to support these relationships.

The late 2019 general election result and the subsequent passing of the act to enable Brexit to take place in January 2020, has brought a measure of stability to financial markets, and also that for real estate and business assets. Our customer base has little dependence on international supply chains, although they do face challenges in the residential market where there has been reliance on immigration labour. There is no emerging theme that this part of the customer base is being adversely affected.

The Bank has maintained high levels of liquidity during the year reflecting the uncertainty in deposit markets. Liquidity costs have eased over the year although there remains the emerging risk that the consolidation of balances into the hands of a relatively few, but dominant brokers, will distort market operations and pricing. To mitigate this risk, the Bank will continue to deliver deposit products direct to the market via the best buy tables using the new online deposit acquisition and management systems being developed.

Underpinning the Bank's business plan is our strategy of ensuring that the business avoids conflicts in its relationships with its major suppliers and its customers. The policy of clear and open communication, and the absence of cross selling of ancillary products to borrowing customers has been met with positive customer responses in terms of their satisfaction with products and services, and their willingness to recommend the Bank to their contacts.

The Board have also looked at the Bank's access to the required talent pools to ensure that it has viable succession plans for both Non-Executive and Executive Directors as well as senior management who are key to the execution of the Boards strategy. The Board have reviewed the costs of ensuring it can attract and retain the appropriate talent, and believes it offers competitive employment packages at all levels of the business.

The Bank takes its responsibilities under the environmental, social & governance agenda very seriously. The Board debates the issues on a regular basis and receives reports from the executive team on environmental matters relating to the business, regular updates on the company employee structure, the participation of the Bank in charitable and support work, the respect agenda across the Bank, and upholding the highest levels of defence against corruption and bribery. Climate change, and society's response to it, present a number of risks to the banking sector. During 2019 the Bank started to develop and implement its plans for embedding climate change into its financial decision making and macroeconomic analysis. The Bank completed its refurbishment of its head office premises at Charnwood Court, New Walk, Leicester in 2019. The accommodation has been completely renovated into a modern and environmentally sustainable open plan office including electric car charging points.

The Bank annually prepares a 3-year strategic plan which is updated quarterly producing a forward-looking assessment to enable a reasonable assessment of going concern and business viability. The Bank's 2020-2022 strategic plan, which was approved by the Board in November 2019, addresses all of the above issues. The development of the plan included discussions with the Bank's shareholders as well as incorporating feedback from customers, suppliers, staff and regulators. The Plan has been shared with both the Bank's shareholders and regulators.

The Bank is focused on maintaining its reputation for high standards of business conduct. It's customer satisfaction metric continues to perform outstandingly and compares well across the industry and other service sector businesses. 99% of new customers, both borrowing and depositing, report that we dealt with their enquiry and application effectively, with a similar score given for their willingness to recommend Cambridge & Counties Bank. Longer term customers also remain positive regarding their relationships with us and continue to highly rate our service and recommend us.

Mike Kirsopp
Chief Executive Officer

Corporate Governance

The Bank has a well-established corporate governance structure. The Board supports the principles of good corporate governance as set out in the UK Corporate Governance Code. The Board believe that its existing governance processes are appropriate for the current size and structure of the Bank.

The Bank has reviewed the 2018 UK Corporate Governance Code that applies to all accounting periods beginning on or after 1 January 2019. Whilst the Bank is exempt from a number of the provisions due to it not being a listed entity, and its overall size in terms of employee numbers, it has reviewed the requirements and will ensure that its governance processes continue to follow best practice.

Structure of Board and Board Committees

The Board has overall responsibility for the operations of the Bank, and is comprised of four independent non-executive directors, two non-executive directors (NED) representing the interests of the owners, one of whom acts as vice-chair. The non-executives are currently complemented by four executive directors (ED) – the Chief Executive Officer, the Chief Financial Officer, Chief Customer Officer and Chief Development Officer. The Bank has appointed a permanent Chief Risk Officer who attends the Board meetings but is not a member of the Board presently (membership of the Board is subject to regulatory approval).

The Board has its own Terms of Reference and has specific committees appointed by it for the purposes of Performance & Remuneration, Nominations & Governance, Audit, Risk & Compliance, and Executive Management. Each of these has its own Terms of Reference.

To ensure independence, and reduce the potential for conflict of interest, the sub-committees (excluding the Executive Committee) are each comprised entirely of NEDs, although individual EDs and others attend either as a matter of course or when requested to provide advice and guidance. A NED chairs each of the Board Committees except the Executive Committee.

During the first quarter of 2019, the Bank conducted a review of the composition of the membership of its Board and the Board Committees to reflect the increasing complexity and demands of the Bank. This resulted in the reduction of the number of NEDs attending the Audit, Nominations & Governance and Performance & Remuneration Committees to allow for greater focus to be given by the NEDs to the responsibilities allotted to each Board Committee.

Primary Responsibilities of the Board

While the day-to-day operation of the Bank is delegated to specific individual executives as managers, the Board, appointed by the shareholders to monitor and govern the Bank's operations, is legally responsible for safeguarding the interests of depositors and shareholders' investments. Although the Board does not manage the Bank, one of its foremost duties is to recruit and retain suitable management. The Chief Executive Officer is the key position and the Board appraises him and provides oversight and agreement to the appointment of other EDs and senior managers. In conjunction with the Bank's senior management team, the Board is responsible for formulating broad priorities, goals and strategies for the Bank. The formulation of clear objectives and policies supplies a framework for the Chief Executive Officer to work within.

The Board both lays out the Bank's goals and monitors the progress against these. One of its main duties in this capacity is to limit the Bank's exposure to excessive risk of all kinds, including legal, reputational and financial. By managing risk judiciously, the Board tries to maintain a balance between enterprise and caution. The Board also ensure that the Bank complies with all applicable statutes and regulations. This is achieved by monitoring compliance with regulatory and policy requirements via the Bank’s compliance and audit functions, which inform the Board of how the Bank is being run. The audit operations are not limited to financial purposes and encompass the Bank’s structure and operations. The Board is also responsible for commissioning audits, to provide independent assessment and assurance of the Bank.

The Board is responsible for monitoring conflicts of interests, both in the Bank's executives and on the Board itself. If a person in a position of leadership has compromised motives, the Board must step in and resolve the conflict.

John McGuire was the Bank’s director nominated as the Whistleblowing Champion for Whistleblowing disclosures until his retirement on 30 September 2019, after which Simon Moore has fulfilled this role. The Bank has subsequently appointed Nick Treble to the role of Chair of the Risk Committee and is a director of the Bank with effect from 17 January 2020.

Corporate Governance

Responsibilities and Requirements of Non-Executive Directors

The essential role of the NEDs is to provide independent assurance to the Bank's shareholders that the business is being conducted in such a manner as to protect the interests of the Bank's depositors, and to comply with the Principles for Business of the Regulator. This responsibility is discharged via oversight of, and appropriate challenge to, the Bank's senior management via the structure of the Bank's sub-committees. Part of the process for selection and training of NEDs is to ensure they are familiar with the regulatory principles and practices, and to maintain their knowledge of them.

Responsibilities and Requirements of Executive Directors

The EDs are responsible for the day-to-day operation of the Bank, supported by the senior management team. This is in part effected via policies and procedures developed with the approval of the Board (directly or indirectly through committees and sub-committees), partly through the Executive Committee and partly by the discharge of duties as specified within individual job descriptions.

Chairman and Chief Executive

The offices of Chairman and Chief Executive Officer are distinct and held by different people. The main role of the Chairman is to lead the Board and to ensure that it operates effectively. The Chief Executive's role is to put into effect the strategies agreed by the Board and the general operational management of the Bank.

Compliance with the Senior Managers Regime

The PRA define a set of Prescribed Responsibilities and Overall Responsibilities, which must be allocated to a senior manager performing a Senior Management Function. The following tables show the composition of the Bank's Board, the management organisation and the PRA defined Senior Management Functions allocated across the Bank. The table below shows those individuals covered by the Senior Management Function regime and the Bank's governance structure as at 1 January 2020.

Senior Manager Function	Description	Role	Person
1	Chief Executive Function	CEO	Mike Kirsopp
2	Chief Finance Function	CFO	Andrea Hodgson
3	Executive Director Function	CCO/CDO	Rachel Curtis Bowen / Simon Lindley
4	Chief Risk Function	CRO	Mike Hudson*
9	Chair of Board	Chairman & Independent NED	Simon Moore
10	Chair of Risk & Compliance Committee	Independent NED	Nick Treble
11	Chair of Audit Committee	Independent NED	Ian Smith
12	Chair of Remuneration Committee	Independent NED	Caroline Fawcett
13	Chair of Nomination Committee	NED	Paul ffolkes Davis
16	Compliance Oversight	MLO	Elizabeth Mullins
17	Money Laundering reporting function	MLO	Elizabeth Mullins

*Transfer to Mike Hudson currently in progress as part of appointment. Responsibility currently allocated to Andrew Shields Interim CRO.

NB: SMF 5, 6, 7, 8, 14 and 18 are not currently applicable to the Bank. SMF 15, 19-23 have not been set by the PRA or FCA.

Corporate Governance

Board and Committee attendance

The following table sets out individual director's attendance at Board, Risk & Compliance, Audit, Performance & Remuneration and Nominations & Governance Committees meetings during 2019 (attendance is shown only where a director is a member of the committee).

Director	Board	Risk & Compliance Committee	Audit Committee	Performance & Remuneration Committee	Nominations & Governance Committee
No. of meetings in 2019	12	8	4	3	5
Rachel Curtis-Bowen	11				
Caroline Fawcett	10	7	1†	2	4
Paul ffolkes Davis	10	8	3	2	5
Andrea Hodgson	12				
Michael Kirsopp	12				
Simon Lindley	10				
John McGuire*	8	5	2	2	1†
Simon Moore	12	8	4	3	5
Richard Perry **	9	6	4	2	4
Ian Smith	11	7	4	2†	5

* Resigned on 30 September 2019
** Appointed on 18 February 2019
† Ceased to be a member with effect from March 2019
The Bank's Interim Chief Risk Officer, Andrew Shiels, attends all Board meetings but is not a member of the Board.
Nick Treble, appointed as the new Chair of the Risk Committee following the retirement of John McGuire and a director of the Bank from 17 January 2020, attended all Board and Board Committee meetings from September 2019.

Performance Evaluation and Professional Development

Each year all of the Directors are subject to a formal appraisal. The Chief Executive Officer carries out appraisals of the Chief Financial Officer, Chief Risk Officer, Chief Development Officer and the Chief Customer Officer based on a range of agreed personal and business objectives. The Chairman of the Board completes the Chief Executive Officer's appraisal, performance also being assessed against a range of agreed personal and business objectives.

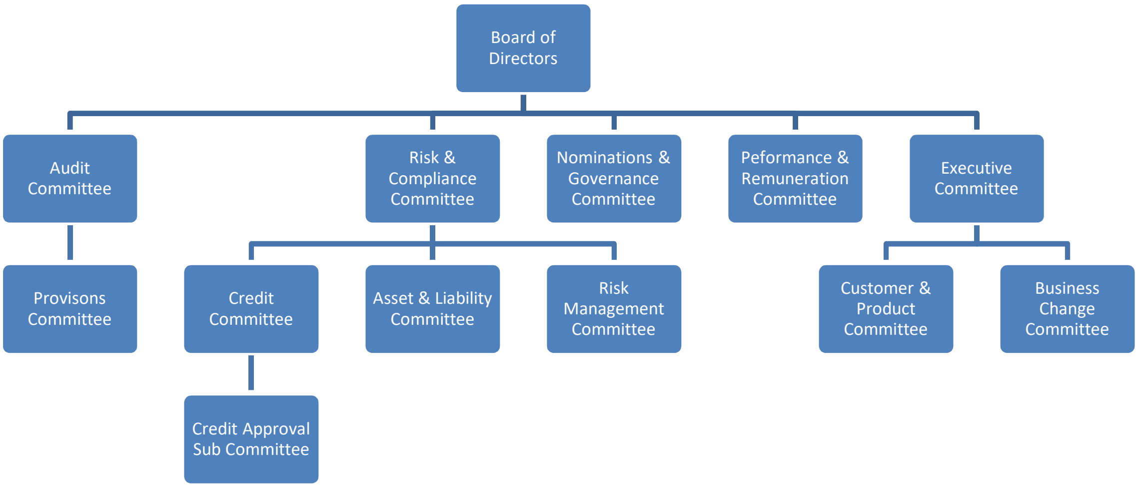
The Chairman and Chief Executive Officer conduct appraisals of the independent non-executive directors, basing their assessment of each director's contribution to the Board's performance using criteria such as attendance, performance at meetings and additional training and development.

The Board conducts an annual review of its effectiveness, as do the Board Committees.

Corporate Governance

Board Committee Structure – responsibilities and key issues

The diagram below sets out the Bank's Committee structure.



Audit Committee – chaired by Ian Smith; Independent Non-Executive Director

The Audit Committee met four times during 2019. The Committee's principal responsibility is to assist the Board in carrying out its responsibilities relating to accounting policies, financial governance & control framework and also financial reporting functions.

The Committee reviews the effectiveness of the Bank's internal controls, approves the internal audit programme and examines internal and external audit reports. The Committee receives and considers the recommendations of the internal and external audit function and ensures, via management, that recommendations are implemented where necessary. Annually, the Committee receives a conclusion as to the governance, risk and control framework from the Bank's internal auditors.

The Committee ensures the financial statements give a true and fair view, as well as provide the reader with sufficient information to assess the Bank's performance. Any significant judgements in relation to financial reporting are reviewed and challenged by Committee. During 2019, the Committee recommended approval to the Board of the 2018 statutory accounts and the supporting management judgement papers including the going concern, effective interest rate, IFRS 9 and intangible & tangible assets.

The Audit Committee appraises the performance of the internal audit function. The Committee has assessed internal audit resources and is satisfied that these are appropriate to fulfil their responsibilities. The Committee reviews the Bank's external audit strategy including the appointment of the external auditors and approval of the audit fees.

Performance & Remuneration Committee – chaired by Caroline Fawcett; Independent Non-Executive Director

The Performance & Remuneration Committee met three times during 2019. In these meetings, the Committee, carried out its responsibility for overseeing the performance and remuneration arrangements of the Bank, and the performance of all Executive Directors and the Chairman.

The Committee is responsible for reviewing and approving the remuneration and performance arrangements at the Bank, including reviewing the Bank's remuneration policy to ensure that it remains up to date and consistent with the relevant requirements of the Financial Conduct Authority (FCA) remuneration code (SYSC 19D) and the Prudential Regulation Authority (PRA) rulebook.

During the year, the Committee reviewed and, where felt appropriate, approved the Bank's profit share scheme, sales and executive bonus schemes and annual pay review based upon agreed metrics and performance criteria as well as upon advice from the Bank's auditors and risk function. The Committee has also considered the role of the Bank's LTIP scheme and whether this continues to remain a suitable scheme for the Bank. The Bank has enhanced its employee benefit package and the Committee has maintained oversight of those changes to ensure the remuneration policy principles are adhered to.

Corporate Governance

Nominations & Governance Committee – chaired by Paul ffolkes Davis; Vice Chair of the Board

The Nominations & Governance Committee met five times in 2019.

The principal responsibilities of the Committee are to consider and make recommendations in respect of appointments to the Board as well as the membership and chairmanship of Board Committees. The Committee also monitor the governance arrangements of the Bank making recommendations to ensure that such arrangements are consistent with corporate governance standards and developing best practice.

During the year, the Committee have considered and revised the Bank's NED succession plan to ensure a controlled and gradual succession of the NEDs, including oversight of the recruitment of a new Chair of the Risk & Compliance Committee, following the retirement of John McGuire on 30 September 2019. The Committee has also reviewed the 2018 UK Corporate Governance Code during the year to ensure its governance processes continue to follow best practice. This review coupled with the increasing complexity and demands of the Bank led to a revision to the Board Committee composition to better align members to the responsibilities of each Board Committee. The Committee has also reviewed the Bank's certification and senior management function regime (including the responsibilities map) to ensure this remains fit for purpose.

Risk & Compliance Committee – chaired by John McGuire (until his retirement in September 2019), Nick Treble*; Independent Non-Executive Director (from October 2019)

The Risk & Compliance Committee met eight times during 2019.

The Committee's key responsibilities are the provision of oversight and advice to the Board in relation to current and potential future risk exposures of the Bank and future risk strategy, including determination of risk appetite and tolerance and to promote a risk awareness culture within the Bank.

The Committee has provided review and challenge to the ICAAP and ILAAP processes as well as the Bank's risk appetite. This review and challenge have been to both the Board in the setting of its strategic plan and ensuring this is calibrated to these elements as well as to the business in the review and recommendation for approval of the ICAAP and ILAAP documents to the Board. In addition to the above, the Committee has been integral in the Bank's enhancement of its credit risk management, providing support and challenge to the revisions to the Bank's credit risk management framework and credit grading models.

The regulatory obligations of the Bank in relation to GDPR and Financial Crime have also been under close scrutiny, with the Committee monitoring compliance and embedding of these regulatory regimes at the Bank and the outcome of assurance activities in these areas. In addition, the Committee has continued its regular oversight of the lending protocols and authorities setting out the parameters in which the Bank's lending is undertaken within risk appetite.

**Nick Treble chaired the Risk & Compliance Committee with support and oversight from the Chairman, pending his approval as SMF10 in January 2020.*

Risk Management

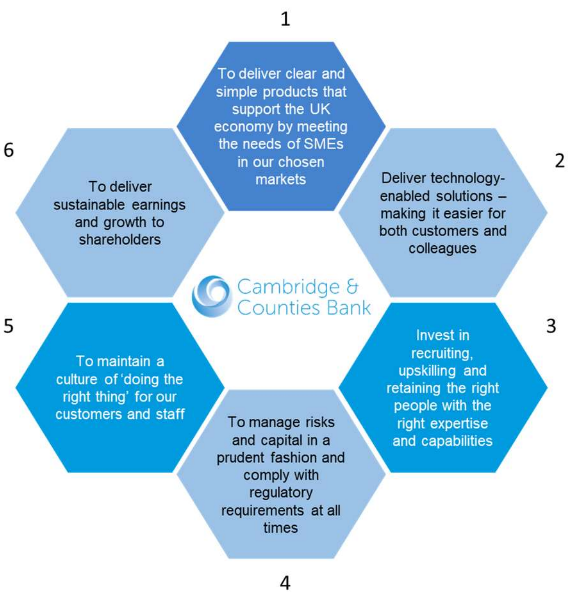
Risk management within the Bank is ultimately owned by the Board of Directors although, on a day to day basis, is delegated to the Chief Risk Officer and the wider Executive Management team.

During 2019 and as part of a continuous improvement programme, further enhancements were made to the Enterprise Risk Management Framework, which covers the key risk categories and details the approach towards: identification, controls, reporting, appetite, governance etc., of the risks the Bank faces. These improvements included upgraded Risk Appetite Statements, enhancements to Credit Risk Management and the Financial Crime Frameworks, as well as the recruitment of additional experienced resources.

The philosophy of the Bank is that all members of staff have a responsibility for risk, supported by a dedicated Risk Function. A three lines of defence model is used to support Risk Management along with a range of Board and Management governance committees, including the Board Risk & Compliance Committee, Risk Management Committee, Credit Committee and the Asset & Liability Committee (see the diagram in the Corporate Governance section on page 22 for details).

Risk Culture

Risk is inherent in every aspect of the Bank's business and the Bank has a strong risk culture, ensuring that the key risks to which it is exposed are identified, assessed, controlled, monitored, reported upon and where appropriate mitigated on a continual basis. The strength of the Bank's risk culture is embedded within its Strategic Priorities:

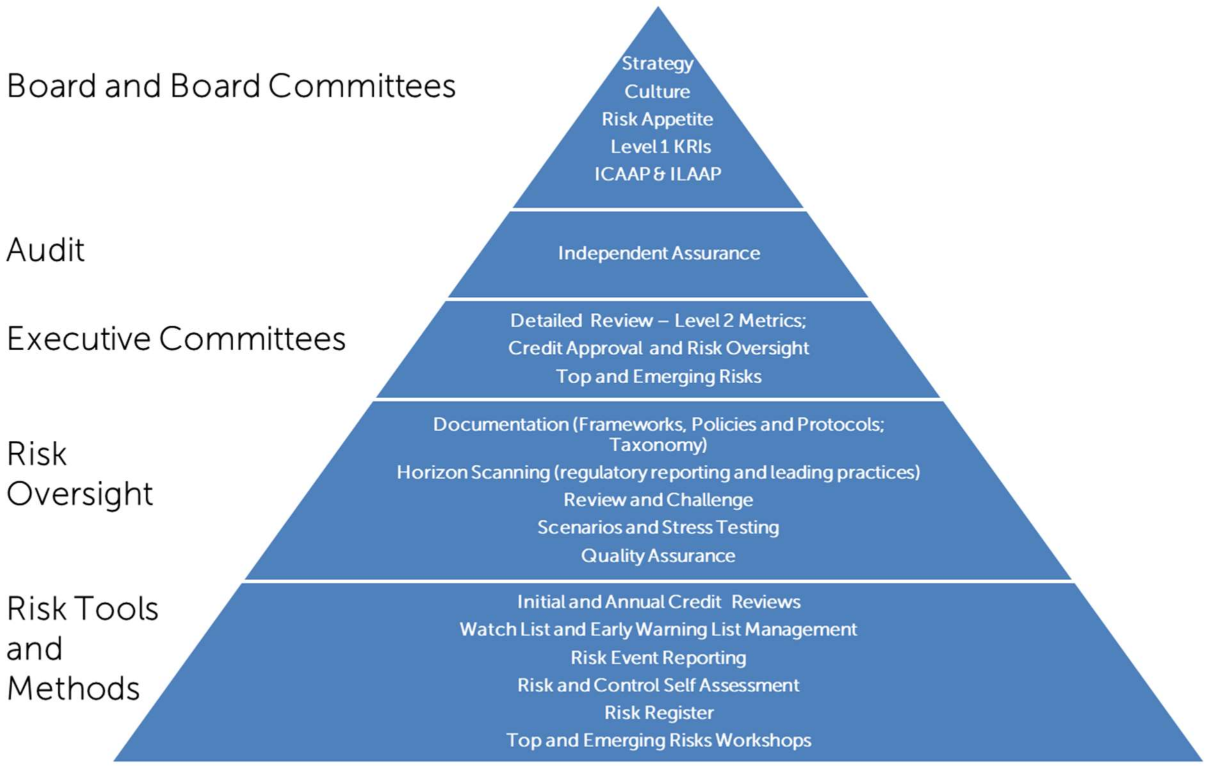


Priorities 1, 2, 3 and 5 emphasise good customer outcomes and hence a robust approach to Conduct Risk. Priority 4 sets out the Bank's stated aim to ensure that risks are managed prudently and within all regulatory requirements and 6 requires sustainable earnings via profitable operations, necessitating strong management of risk. Priority 5, in particular, emphasises the importance of 'doing the right thing' via a culture of openness, honesty and high standards of ethics in line with the Bank's Code of Conduct, reinforced by regular "tone from the top" staff meetings during which the CEO outlines strategy and Risk and Compliance requirements to all staff. This promotes a clear and inclusive culture that is risk-aware and focussed on a customer outcome, backed by regular staff opinion surveys. The Bank operates within a Conduct Risk Management Framework, including the Financial Conduct Authority's Individual Conduct Rules and the Senior Manager Conduct Rules applicable to the executives and non-executive directors who fulfil Senior Management Functions within the Senior Managers and Certification Regime.

Risk Management

Enterprise Risk Management Framework

The Enterprise Risk Management Framework is the structure which underpins the Bank's robust approach to risk management, founded on the effective identification, control and management of risk, and strong risk management culture. It sets out the key principles, key tools, governance structure and roles and responsibilities in relation to risk management, across all risk categories.



The Enterprise Risk Management Framework describes the risks the Bank is willing to take in pursuit of, and the risks inherent within, its strategy, its governance of risk management and the methodologies used to measure and monitor those risks within its 'Risk Management Cycle':

A Risk Register is maintained in order to show a full list of the risks the Bank is exposed to, which is regularly refreshed as part of the Risk and Control Self-Assessment programme to ensure that it provides an up to date record of its overall risk profile. A forward-looking approach is ensured by the use of stress testing and scenario analysis, feeding into the annual Internal Capital and Liquidity Adequacy Assessment processes (ICAAP and ILAAP) through which the Bank ensures that it has sufficient capital and liquidity in place to cover the risks it faces.

Risk Management

Governance of Risk Management

Risk management is governed within the corporate governance structure detailed on pages 19 to 23, with ultimate ownership at Board level via the Risk & Compliance Committee. In addition, also at Board level, the Audit Committee facilitates third line review of all aspects of risk management and the Nominations & Governance and Performance & Remuneration Committees have a role in the management of Conduct Risk, including Risk Culture. The following executive risk committees report into the Risk & Compliance Committee, having specific delegated responsibilities:

Credit Committee (chaired by the Chief Lending Officer)

Responsible for reviewing and managing all aspects of the Bank's exposure to Credit Risk.

Credit Approval Sub Committee (chaired by the Chief Lending Officer)

Reporting to the Credit Committee, responsible for the review, challenge and approval of loan terms (at origination and subsequent amendment), including pricing, within limits delegated by Risk & Compliance Committee.

Asset & Liabilities Committee (chaired by the Chief Financial Officer)

Responsible for reviewing and managing all aspects of the Bank's exposure to other financial risks, including the financial aspects of Strategic Risk, Capital Adequacy, Liquidity and Funding, Tax and Market Risks.

Risk Management Committee (chaired by the Chief Risk Officer)

Responsible for reviewing and managing all aspects of the Bank's exposure to non-financial risks, including Legal, Compliance and Regulatory, Financial Crime, Operational, Conduct and Operational Resilience Risks.

Provisions Committee (chaired by the Chief Financial Officer)

Reporting to the Executive Committee, the Provisions Committee is responsible for monitoring current and potential non-performing lending on an ongoing basis, for the purposes of identifying and agreeing appropriate provisions for under recoveries on those loans.

Model Risk Governance Committee (chaired by the Chief Risk Officer – put in place as at 23 January 2020)

Reporting to the Risk Management Committee, responsible for the management of Model Risk.

The following executive-level committee also has specific responsibilities in relation to risk management:

Customer and Product Committee (chaired by the Chief Customer Officer)

Reporting to the Executive Committee, the Customer and Product Committee is responsible for ensuring that customer outcomes and customer experience are key considerations, as well as the associated Conduct Risks for both newly approved and existing policies and the approval of new products, pricing and new intermediary relationships (and regular review of existing relationships), including Conduct Risk considerations.

Risk Management

Three Lines of Defence Model

The Bank manages risk using the 'three lines of defence' model, via clear responsibilities established for all staff in relation to risk management including executive and non-executive responsibilities documented where applicable under the Senior Managers and Certification Regime. It operates as follows:

First line of defence

The Chief Executive Officer, executives and their teams are responsible for managing risk on a day to day basis, including identification of risks as they emerge, evaluating and reporting them and ensuring that the Bank operates within risk appetite. This includes producing Key Risk Indicators and other metrics, committee and Board reporting, making sure that staff are adequately trained and the executives and senior managers providing leadership of the governance of risk as members of the relevant risk committees as summarised above.

Second line of defence

The Chief Risk Officer and team operate as the second line of defence, working closely with the Chief Financial Officer and Director of HR and respective teams. They are independently responsible for managing, designing and continually updating the Enterprise Risk Management Framework and risk assessment and evaluation tools and systems, providing training, review and challenge to the first line and ensuring that the Bank operates within all applicable regulatory guidelines and in line with emerging industry good practices related to risk management, also providing an independent view to the Board of the risks within the Bank.

Third line of defence

The third line of defence is comprised of Internal Audit, outsourced to Deloitte under the administrative supervision of the Chief Risk Officer and Chief Financial Officer, reporting to the Bank's Audit Committee. Internal Audit is responsible for providing independent assurance that the Enterprise Risk Management Framework, including its operation by the first and second lines, is operating effectively.

Risk Appetite

Risk Appetite is the amount and type of risks the Bank is willing to take in pursuit of its strategy and objectives. The overall objective is to protect the Bank from unacceptable levels of risk while supporting and enabling overall business strategy (including the assessment of new business opportunities). The Bank's Risk Appetite Statement outlines a mixture of qualitative and quantitative measures (statements and Key Risk Indicators). The regular review of the Bank's appetite for risk is facilitated and challenged by the Risk Management function, driven by the recommendations of the appropriate executives and subject matter experts. This process includes ensuring that the key risks identified remain appropriate against the strategic plan, current business, macroeconomic, geopolitical, regulatory and legal environment and experience of risk throughout the preceding year. On at least an annual basis, the Risk Management function provides review and challenge before presentation to the relevant executive committee (Risk Management Committee, Credit Committee or Asset & Liabilities Committee) for further review and challenge and recommendation to Risk & Compliance Committee for approval. The Risk Appetite Statement was refreshed and updated via this process during 2019.

The Bank's performance against Risk Appetite is monitored via reporting to the executive risk committees. This is summarised within the Chief Risk Officer Risk Management Report, which is presented to Risk Management Committee and Risk & Compliance Committee on a monthly basis and Board Risk & Compliance Committee on a quarterly basis. This shows status against each Key Risk Indicator and overall rating, based on parameters set within the Enterprise Risk Management Framework, using a Red/Amber/Yellow/Green scale and the expert judgement of the first and second lines. The Risk Appetite is reviewed and updated in the event of a major change to the Bank's strategy and/or environment within which it operates.

Risk Management

The Bank's Principal Risks and Uncertainties

The Bank's principal risks and uncertainties are defined in the table below. This includes the applicable governance framework, risk appetite and mitigants in place.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Total Risk	Enterprise Risk Management Framework Strategic Plan Risk Management Committee Risk & Compliance Committee	The Bank takes a conservative approach to risk management, having a low risk appetite for all risk types, apart from Credit Risk, for which its appetite is moderate, operating within strict parameters. The Bank recognises that there are certain types of risk to which it does not want any exposure (e.g. fraud), but that instances can and do occur. The Bank therefore takes active steps to minimise the possibilities of such incidents arising and strives to mitigate the impact when they happen, learning from any mistakes made.	Monthly assessment by the Chief Risk Officer of the Bank's overall risk profile, based on performance against appetite in all risk categories.	The Bank monitors its overall risk profile closely via its governance structure to ensure the it always remains within Risk Appetite, in alignment with its strategy.
Strategic The risk of having an insufficiently defined or flawed strategy that does not adapt to market and business developments and/or meet the requirements and stakeholder expectations.	Enterprise Risk Management Framework Strategic Plan Risk Management Committee Risk & Compliance Committee Executive Committee Board	The Bank maintains a low appetite for Strategic Risk. The Bank aims to deliver a satisfactory return on capital to its shareholders, generating profitable returns and building gross lending balances, whilst retaining stable asset quality and maintaining a satisfactory cost of risk. This will be achieved within stated Risk Appetite and regulatory guidelines, with market leading customer service delivered, demonstrated by above average new business margins and positive customer experience. The Bank aims to be an employer of choice, ensuring that it has the right mix of skills and experience to grow the bank. The Bank works hard to protect its brand, minimising reputational risk and plays an active and responsible role in the community.	- Strategy debated at Board level Strategy Day, including 2nd line challenge - Ongoing discussion at risk committees and Board - Regular surveys of staff and customers - Ongoing review of Financial performance against budget - Media monitoring/ engagement - Demonstrations of corporate social responsibility	The Bank has a clear strategy, which is monitored effectively.
Capital Adequacy The risk that the Bank fails to hold sufficient capital to meet its regulatory obligations, support its growth plans or to absorb shocks.	Capital Management Policy Asset & Liabilities Committee Risk & Compliance Committee Executive Committee Board	The Bank maintains a low appetite for Capital Adequacy Risk. Its priority is to maintain (via retained earnings) a capital surplus above CET1 and total capital requirements sufficient to absorb any unexpected losses and costs without using regulatory buffers and ensure that its capital base can support a growing and maturing book across the economic cycle, allowing for potential downturns.	- Maintaining a capital surplus buffer over minimum regulatory requirements - Ongoing forecasting of capital requirements reported to risk committees - Annual ICAAP process, incorporating regular stress testing of the capital base in 'severe yet plausible' scenarios - Horizon scanning to ensure continued compliance with regulatory requirements	The Bank maintains and monitors a robust capital base, including a management buffer in excess of regulatory requirements.
Liquidity & Funding The risk of being unable to fund assets and meet obligations as they fall due without incurring unacceptable losses.	Asset-Liability Management Policy Savings Protocols	The Bank maintains a low risk appetite for Liquidity & Funding Risk. It holds sufficient liquid assets to meet liabilities as they fall due and that these are maintained in a stressed scenario at all times, including satisfactory liquidity coverage and loan to deposit ratios. The Bank will	- Measuring, managing and monitoring the risk over an appropriate set of time horizons, including intra-day - Regular re-forecasting of the liquidity positions	The Bank maintains and monitors its liquidity and funding requirements on a regular basis, including intra-day risk and maintaining a management

Risk Management

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
	Asset & Liabilities Committee Risk & Compliance Committee	ensure that it is not overly reliant upon any single savings intermediary to raise deposits.	- Monitoring strict criteria over the use of High-Quality Liquid Assets - Annual ILAAP process, including stress testing of the liquidity base in 'severe yet plausible' scenarios - Horizon scanning to ensure continued compliance with regulatory requirements	buffer in excess of regulatory requirements.
Tax The risk of loss resulting from the Bank entering into any arrangements outside risk appetite including failure in any process or control for the management of tax risk which leads to any incorrect or late filing of any tax return and any tax outcome of any business activity or project which is significantly different from the expected or planned outcome.	Tax Policy Asset & Liabilities Committee Risk & Compliance Committee	The Bank maintains a low risk appetite for Tax Risk whilst acknowledging that certain factors will mean that some may need to be assumed, tax risk as a result of the increasing complexity and growth in the Bank's operations, organisational structure and product profile and changes in tax law. Nevertheless, the Bank has zero appetite for breaches of tax laws or the HMRC Code of Practice for Banks. The Bank undertakes tax planning and assumes tax risk only where it is consistent with the aims and purposes of its business operations. The Bank is transparent and open in its dealings with all tax authorities and considers any tax position or arrangement with full regard to its corporate social responsibility.	- Use of expert external advisors to minimise tax risks and provide ad hoc advice where needed - Monitoring compliance with policy and transparency of transactional activities.	The Bank has a limited exposure to Tax Risk, and it is measured closely with metrics presented to the risk committees in accordance with the applicable policy.
Market The risk that changes in market rates negatively impact the earnings or market value of the Bank's assets or liabilities	Interest Rate Risk in the Bank Book Policy Asset & Liabilities Committee Risk & Compliance Committee	The Bank has no appetite for foreign currency and a low appetite for interest rate and basis risk by keeping all assets, liabilities and off-balance sheet exposures in sterling and carefully managing mismatches between tenors of loans and deposits, hedging exposures where necessary within pre-determined limits.	- Scenario analysis - Use of natural balance sheet hedges and derivatives when needed - Monitoring of pipeline, repayment profiles and product maturities. - Modelling a variety of different yield curves/interest rate paths.	Market Risk is limited to Interest Rate Risk in the Bank Book, which is monitored via Key Risk Indicators and scenario analysis.
Credit The risk that counterparties fail to meet, in a timely manner, the commitments into which they have entered.	Credit Risk Management Framework Lending Protocols Credit Committee Risk & Compliance Committee	The Bank has a moderate appetite for Credit Risk overall, maintaining conservative parameters, including a maximum LTV of 70%, focusing on relationship management, including performance of annual reviews. It maintains lending distribution and product offerings within parameters agreed by the Board, diversified by sector and UK region, with a minimal appetite for 'speculative' lending. The Bank concentrates its lending on areas where it has experienced subject matter experts in both the first and second line of defence, supported with the necessary operational capacity, systems and infrastructure to manage and monitor the loans through their life cycle in an effective manner. It will operate within protocols, underwriting guidelines, exception limits and regulatory guidelines and manage the Early Warning Report and Watch List	- Regular modelling of funding requirements and interest rate risk analysis compliance with detailed Risk Appetite and Lending Protocol parameters - Segregation of responsibility for the management of loans and a program of underwriting from business development and sales - Use of seasoned professionals with deep subject matter expertise and experience and ongoing training - Quality Assurance checks to ensure adherence to policies and procedures - Use of credit grading models as part of the approval process, ongoing	Credit Risk is one of the principal risks the Bank faces, given the nature of its business. The lending portfolio is closely monitored via a number of detailed metrics, including Concentration, Breaches and Exceptions, Asset Quality and Treasury Counterparty Indicators and via the use of credit grading models. Stress testing is employed to ensure that sufficient capital is maintained.

Risk Management

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
		proactively to ensure that asset quality remains satisfactory. The Bank will not chase growth at the expense of credit and asset quality. Although the Bank recognises that through the full range of the economic cycle, some credit losses are inevitable, its robust underwriting standards aim to minimise them, with close monitoring of risk appetite on a monthly basis via a comprehensive suite of Key Risk Indicators.	monitoring and portfolio analysis - Conducting annual reviews to ensure monitoring throughout the facility lifecycle - Close monitoring of non-performing loans, including Watch List, Early Warning Report, Forbearance and management of arrears - Detailed provisioning requirements and procedures	
Legal, Compliance & Regulatory The risk that non-compliance with laws or regulations could give rise to fines, litigation, sanctions, reputational damage or financial loss	Compliance Framework Compliance Monitoring Framework Risk Management Committee Risk & Compliance Committee	The Bank maintains a low appetite for Legal, Compliance and Regulatory Risk. Whilst it recognises that operational errors can occur, the Bank maintains zero tolerance for reportable breaches of regulations, regulatory policy breaches, breaches of applicable laws, late responses to regulatory requests or gifts/hospitality policy breaches. The Bank strives to ensure that this always remains within the law and regulation. All material breaches are investigated and reported to the Risk & Compliance Committee in a timely manner, rule changes are implemented within the applicable regulatory timelines and staff operate within the Bank's documented policies and controls and, where applicable, industry guidelines. Whilst the Bank recognises that operational errors can occur, it has no appetite for regulatory breaches or reporting failures	- Compliance monitoring of the Bank's activities - Undertaking detailed and regular reviews of key activities and processes - Provision of advice in relation to business, product and change management requests - Ensuring appropriate registrations under the Senior Management and Certification Regime - Maintaining logs of compliance breaches and conflicts of interest - Horizon scanning to ensure continued adherence to regulatory requirements - Regular training and development of staff to ensure up to date knowledge base	Ensuring compliance with all applicable regulatory requirements in a fast-changing landscape is a challenge to which the Bank devotes considerable resources and the Compliance Framework is continually under review to ensure that it meets all requirements and is in line with leading industry practices.
Financial Crime The risk that inadequate controls relating to financial crime could give rise to fines, litigation, sanctions, reputational damage or financial loss	Financial Crime Framework Risk Management Committee Risk & Compliance Committee	The Bank maintains a low appetite for Financial Crime risk, aiming to maintain a low level of residual risk, striving to ensure that it remains within the law and regulation at all times. Whilst the Bank recognises that operational errors can occur, it maintains zero tolerance for breaches of compliance with applicable financial crime laws and regulations, deliberate facilitation of tax evasion, bribery and facilitation payments and internal fraud. All material breaches are investigated and reported to the Risk & Compliance Committee in a timely manner, rule changes are implemented within the applicable regulatory timelines and staff operate within the Bank's documented policies and controls and, where applicable, industry guidelines.	- Obtaining and using intelligence and national and international findings - Receiving reports of suspicious activity from any employee in the business - Evaluating any suspicions of money laundering/ terrorist financing - Undertaking business wide risk assessments - Customer and third-party due diligence, screening and transaction monitoring - Horizon scanning to ensure continued adherence to regulatory requirements - Regular training and development of staff to ensure up to date knowledge base	Ensuring compliance with all applicable regulatory requirements in a fast-changing landscape is a challenge to which the Bank devotes considerable resources. The Financial Crime Framework is continually under review and maintained in line with leading industry practices.
Operational The risk that events arising from inadequate or failed internal processes, people and systems or from external	Operational Risk Management Framework Risk Management Committee	The Bank maintains a low appetite for Operational Risk. It aims to minimise incidents and losses arising from operational risk issues by maintaining a resilient infrastructure, including robust systems, employing and training the right people, minimising the impact of external events and	- Risk and Control Self Assessments and Risk Registers - Scenario Analysis - Monitoring of Operational Risk Events	Operational Risk is one of the key risks the Bank faces. Although Operational Risk related losses have historically been low, the framework has

Risk Management

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
events cause regulatory censure, reputational damage, financial loss, service disruption and/or customer detriment.	Risk & Compliance Committee	having a framework in place to ensure operational risks are captured, monitored and mitigated, with lessons learned from mistakes. This includes clear first line ownership of operational risks, review and challenge by the second line and assurance from the third line. Focus is maintained on key risks, including outsourcing, operational resilience, model, people, cyber and technology risks. A suite of Key Risk Indicators is in place to escalate issues to senior management and the Board, regular reviews are undertaken via Risk and Control Self Assessments and Operational Risk Events are captured, recorded and reviewed with actions taken to avoid recurrence.	- Reviewing projects and change management requests - Monitoring of the risk posed by the use of critical and outsourced suppliers - Horizon scanning to ensure continued adherence to regulatory requirements and leading practices - Regular training and development of staff to ensure up to date knowledge base	been strengthened following an external review and ongoing enhancements are being undertaken under a new Head of Operational Risk to ensure that the Bank's Operational Risk Framework is in line with all regulatory requirements and leading practices.
Conduct The risk that customers suffer loss or detriment due to failures at any stage of the customer journey, including inadequate product design, sales/marketing processes and operational delivery, data management and record keeping or the failure of its staff or key providers of services to act with integrity and treat the customers' best interests as the highest priority.	Conduct Risk Framework Customer & Product Committee Risk Management Committee Risk & Compliance Committee	The Bank maintains a low appetite for Conduct Risk, employing a strategy that is customer-centric, transparent and built on integrity, professionalism and fairness, ensuring that all its employees understand and fully operate within regulatory requirements (including the FCA Conduct Rules), The Bank's Strategic Priorities include maintaining a culture of 'doing the right thing for its customers and staff' and 'delivering clear and simple products' and are responsible for proactively managing Conduct Risk, maintaining customer interests as the highest priority	- Risk and Control Self-Assessments - Complaints monitoring and analysis - Customer surveys - Independent review of customer calls - Annual product reviews - Analysis of the 'customer journey' - Annual report from the Chief Risk Officer on Conduct issues, feeding into the remuneration policy and practice - The staff profit-sharing scheme linked to customer satisfaction	The Bank prides itself on its strong risk culture and focus on customer outcomes. A new Conduct Risk Framework is currently being implemented to ensure continued compliance with all requirements in this regard, including detailed reporting to the risk committees.
Operational Resilience Operational Resilience is the Bank's ability to prevent, respond to, recover and learn from operational disruptions.	Operational Resilience Framework & Policy Risk Management Committee Risk & Compliance Committee	The Bank maintains a low appetite for Operational Resilience Risk. It will ensure that its systems and operational capabilities are stable and resilient, and it has sufficient preventative measures in place to reduce the risk of a service failure and that it has the capabilities, in terms of people, processes and organisational culture, to adapt and recover when things go wrong. This includes having effective business continuity and disaster recovery plans in place and ensuring rapid and effective communications with the people most affected by a business disruption, especially its customer base.	- Business continuity management/disaster recovery procedures in place - Crisis Management Plan, including threat analysis - Impact tolerances set for critical services and suppliers - Communication plans and templates facilitate a rapid incident response if required - Testing of systems and processes in a range of scenarios	The Bank's Operational Resilience Framework is a key focus of management and the Board and is being continually enhanced for developments in regulatory requirements.

Risk Management

Emerging Risks and Uncertainties

On a regular basis, the Bank will reassess the key risks to which it is exposed and add any which are emerging via the environment in which it operates. Its Emerging Risks during the year and at the time of the preparation of this document are assessed to be:

Emerging Risk	Definition	The Bank's Response
Global pandemic	The Coronavirus (COVID19) started at the very end of 2019 and, in addition to the threat to human life, threatens major economic disruption across the globe.	The Bank's is following the advice and guidance provided by UK Government and NHS Advice and tracking this on a daily basis. The Bank is also a member of UK Finance and actively tracking developments with its peers. The Banks has successfully invoked full remote working ensuring that all its core operations and services are fully functioning. The Bank's Crisis Management Team (CMT) continues to convene bi-weekly to monitor developments, assess the operational and people impacts, and closely monitors costs. The Board receives enhanced Management Information at regular intervals to augment the formal Governance structures. The Bank have seen a number of initial enquiries from customers, particularly in the high impacted sectors such as hospitality and leisure, beginning to feel the impacts of changing customer behaviour on their business model and seeking support to help them manage their cash flow. The Bank wishes to support customers in need of assistance, and it will consider all reasonable requests for Forbearance.
Brexit and UK Political Environment (part of Macroeconomic Risk)	The constant uncertainty during 2019 made strategic planning difficult and posed a risk to business growth. This uncertainty is likely to continue throughout 2020 until there is more clarity as to the impact of Brexit.	The situation was monitored throughout the year and taken into consideration during the process of developing the Bank's 3-year strategic plan and updating its Risk Appetite Statements. Post Brexit trade negotiations will continue to affect business confidence and macro-economics, and this will continue to be monitored closely.
Cyber	A cyber-attack, due to insufficient defences and/or training of staff, could lead to a prolonged technology outage, loss or theft of data and/or a ransom demand, resulting in financial loss and/or reputational damage to the Bank.	The Bank employs penetration testing and regular monitoring of defences as part of the measures taken to ensure Operational Resilience. The Bank has also engaged PWC to deliver its Virtual CISO function and achieved reaccreditation under the NIST Cyber Essentials program during 2019.
Climate Change	Climate change, if left unchecked, will lead to a medium/long term risk to the credit quality of the book as a result of flood risk and poor preparedness and lack of attention given to this risk by the property industry (which continues to tolerate low EPC grades) and impact on the Asset Finance and CV&S books. Both physical and transitional risks will need to be factored into risk appetite, Key Risk Indicators and the credit grading model calculation.	This is a topic that the Bank takes very seriously indeed. It provided a report to the PRA on its response to Climate Change Risk during the year, including metrics and targets. A Climate Change Steering Committee has been put in place, chaired by the Chief Executive Officer and attended by the Chief Risk Officer, reporting into the Risk & Compliance Committee. An ongoing programme of responses across the Bank is currently under development.
The lack of Operational Resilience, including failure of a critical supplier	Securing Operational Resilience is a key regulatory and operational consideration such that the Bank can prevent, respond to, recover and learn from operational disruptions. As several key IT requirements are outsourced, including the Bank's core platform satisfactory performance of its service providers is an essential part of ensuring Operational Resilience.	New Operational Resilience and Supplier Risk Management Frameworks were introduced during 2019 and continual enhancements are part of its high priority Operational Resilience and Supplier Risk Management workstreams.
Pace and complexity of regulatory change	The Bank is affected by a wide range of regulatory requirements, each of which is constantly evolving. The risks are that changes are not detected, and breaches occur and/or the magnitude of changes causes a drain on staff resources such that business growth is affected.	The Bank has a Regulatory Horizon Scanning process via which necessary changes are identified and tracked at the appropriate executive and Board committees.

Remuneration Policy

The Bank's remuneration policy is to ensure that we attract and retain key talent in order to create sustainable long-term value for shareholders.

The Bank's remuneration policy is to:

1. Attract, develop and retain high performing people with the ability, experience and skill to deliver the business strategy and objectives;
2. Offer competitive and market aligned remuneration packages in which fixed salaries are the significant component and that people, regardless of their gender, are paid the same rate for the same job;
3. Encourage and incentivise employees to create sustainable results, which are consistent with strategic goals and appropriate risk management, and align the interests of the Bank's shareholders, customers and employees;
4. Drive behaviour consistent with the Bank's values and the FCA Code of Conduct, so that employees do what is right for the customer, for colleagues and the Bank.

The policy and structure are consistent with the Bank's long-term strategy, including the overall business strategy, the risk strategy, and the risk appetite across all types of risk such as credit, market, operational, liquidity, reputational and other risks identified by the Bank.

This is achieved through the application of the following 6 principles which are adhered to when designing and implementing any aspect of remuneration:

i. We offer a competitive total reward package that is designed to be motivating and compelling and is regularly reviewed against market rates;
ii. Reward is linked to employees' behaviours and values as well as achievement: the 'how' as well as the 'what';
iii. Our remuneration structures are straightforward, as such they are transparent, communicated and understood by all employees and all our stakeholders;
iv. There is a clear link between business, team and individual performance and reward, and people can explain when and why adjustments for performance have been applied;
v. Our remuneration practices are consistent with and promote sound and effective risk management and are fully compliant with all appropriate governance, regulatory requirements and codes of practice;
vi. Our remuneration policies, packages and processes are designed to be affordable, consistent and efficient and do not limit the Bank's ability to strengthen its capital base.

Remuneration for executive directors

The table below summarises the executive directors' remuneration policy for 2019:

Element of Remuneration	Purpose and Link to Strategy	Operation	Maximum	Performance Targets
Salary	– The Performance & Remuneration Committee is committed to adhering to the Financial Services Remuneration Code, thus ensuring that the Bank has risk-focused remuneration policies – Reflects skills and experience over time – Reflects the value of the individual and their role	– Reviewed annually – Takes periodic account of practices of financial institutions of similar size, characteristics and sector comparators	– There is no prescribed maximum annual increase The Performance & Remuneration Committee is guided by the general increase for the broader employee population but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of a role.	– An element of performance-related pay applies

Remuneration Policy

Element of Remuneration	Purpose and Link to Strategy	Operation	Maximum	Performance Targets
	– Provides an appropriate level of basic fixed income – Avoids excessive risk taking from over reliance on variable income			
Benefits	– To aid retention and recruitment	– Company car allowance, provision of private medical insurance, life assurance and permanent health insurance	– Not applicable	– Not applicable
Bonus	– Incentivises annual delivery of financial and strategic goals – Maximum bonus only payable for achieving business and personal targets	– Paid in cash – Not pensionable	– 30% of salary	– A combination of 50% company and 50% individual performance measures with a deferred element of amounts over 20% of salary paid over 3 years
Long Term Incentive Plan (LTIP)	– Aligned to main strategic objectives of delivering sustainable growth as set out in the Bank's strategic plan	– Grant will be awarded each financial year – Paid in cash – Not pensionable	– 20% of base salary	– Measured over three years based on financial and non-financial performance measures with good and bad leaver elements – Cancellation elements apply
Pension	– Provides retirement benefits – Opportunity for executives to contribute to their own retirement plan	– Defined contribution	– Bank contribute 10% of salary provided executives contribute a min 3% of salary – Executives may request a salary sacrifice for the equivalent of their personal pension contribution. This arrangement is also available for other staff – For EDs who have exceeded their lifetime allowance and/ or tapered allowance, there is the option of taking a 10% pension allowance in cash (taxable allowance)	– Not applicable

Remuneration Policy

The choice of the performance metrics applicable to the annual bonus scheme reflects the Board's belief that any incentive compensation should be appropriately challenging and tied to the delivery of the defined financial and risk management objectives, along with specific individual objectives. An element of deferral applies to the executive directors' bonus scheme.

The LTIP performance conditions were selected by the Performance & Remuneration Committee on the basis that they reward the delivery of long-term returns to shareholders and the Bank's financial growth and are consistent with the Bank's objective of delivering specific long-term value to shareholders.

The Performance & Remuneration Committee operates the LTIP in accordance with the plan rules, consistent with market practice, and retains discretion over a number of areas relating to the operation and administration of the plan.

Benefits offered to executive directors apply from the commencement of employment.

Changes to Schemes from 2020

The LTIP scheme is discontinued from 2020, with the last granted LTIP being for the performance period ending 2020 and 2021, which if performance measures are achieved, will vest in 2021 and 2022 at a maximum of 20% base salary. The Executive bonus scheme increases from 2020, by 20% to a maximum of 50%, which maintains the variable remuneration package for Executives.

Remuneration policy for other employees

The Bank's approach to annual salary reviews is consistent across the business with consideration given to affordability, the level of experience, responsibility, individual performance and salary levels in comparable companies.

Pension and benefits provided to all employees are broadly in line with the policy for executive directors, although the commencement of benefits may be subject to longer periods of eligibility at the start of employment.

Remuneration policy for non-executive directors

All non-executive directors are appointed for an initial term of 36 months and may be terminated by either party upon 3 months' written notice. Non-executive fees are set in line with the policy in the table below. Non-executive directors are not eligible to participate in any of the benefits provided to employees or executive directors with the exception of private medical insurance.

Element of Remuneration	Purpose and Link to Strategy	Operation	Maximum	Performance Targets
Fees	– Reflects time commitments and responsibilities of each role – Reflects fees paid by financial institutions of similar size, characteristics and sector comparators	– Cash fee paid – Reviewed on an annual basis	– There is no prescribed maximum annual increase. The Performance & Remuneration Committee is guided by market rates and the general increase for the executive director population – NEDs who chair Board Committees receive an additional responsibility allowance of £5k	– Non-executive directors do not participate in variable pay elements

Directors' Report

The directors of Cambridge & Counties Bank Limited (referred to as the 'Bank') present their Report and the audited financial statements for the year ended 31 December 2019.

Future developments and financial risk management objectives and policies

Information about the Bank's future developments, business relationships, internal control and financial risk management systems in relation to financial reporting and financial risk management objectives and policies in relation to the use of financial instruments can be found in the following sections of the Annual Report and Financial Statements which are incorporated into this report by reference:

Future developments – see the Strategic Report on pages 2 to 18.

Internal control and financial risk management systems in relation to financial reporting – see the Corporate Governance Report on pages 19 to 23.

Financial risk management objectives and policies in relation to the use of financial instruments are covered in Note 28 to the financial statements.

Results and Dividends

The results for the year are shown on page 49. The directors do not propose to pay a dividend in respect of ordinary shares for the year ended 31 December 2019 (2018: nil).

The directors who held office during 2019, and up to the date of signing the Bank's financial statements, are as follows, with further detail on their experience noted below.

The Bank provided all directors with qualifying third-party indemnity provisions during the financial period and at the date of this report.

Simon Moore	Chairman & Independent Non-Executive Director
Paul ffolkes Davis	Non-Executive Director & Vice Chairman
Michael Kirsopp	Chief Executive Officer
Rachel Curtis-Bowen	Chief Customer Officer
Caroline Fawcett	Independent Non-Executive Director
Andrea Hodgson	Chief Financial Officer
Mike Hudson*	Chief Risk Officer
Simon Lindley	Chief Development Officer
John McGuire**	Independent Non-Executive Director
Richard Perry***	Non-Executive Director
Ian Smith	Independent Non-Executive Director
Nick Treble****	Independent Non-Executive Director

* Appointment currently in progress
** Resigned 30 September 2019
***Appointed 18 February 2019
****Appointed 17 January 2020

Simon Moore - Chairman & Independent Non-Executive Director

Simon joined Cambridge & Counties Bank when it was formed in 2012, as Non-Executive Director. He was appointed Chairman of the Bank in October 2016.

After leaving the British Army, Simon began his banking career in 1992. He completed his training with Lloyds Bank in 1994 and spent the bulk of his career with Chase Manhattan Bank in London and New York. He also worked with Barclays Bank where he was the regional director for the corporate banking business in Wales and the South West of England.

Directors' Report

Simon was a member of the management board of the Confederation of British Industry (CBI) from 2013 until 2016 and the director responsible for London, the South of England and Financial Services. Prior to that, he spent three years as CBI International Director leading the work of the CBI in support of its members outside Europe.

Simon is non-executive chairman of Al Rayan Bank and non-executive chairman of Pennant International Group Plc. Formerly he was a governor at the University of the West of England and non-executive board member of the Government Office of the South West.

Paul ffolkes Davis - Non-Executive Director & Vice Chairman

Paul began as an investment banker in New York, even before leaving Oxford University in 1977. His career in international capital markets spanned 26 years and included directorships of N M Rothschild & Sons Ltd, NatWest Markets and Rabobank International.

His activities centred initially on the fixed income markets but following Big Bang he was part of the Rothschild team that developed the privatisation/Equity Capital Market model that has become the industry standard.

Since 2004 Paul has been Bursar of Trinity Hall, one of Cambridge University's oldest colleges. In Cambridge he has chaired the University's Board of Scrutiny and the Bursars' Sub-Committee on Investments. He has been intimately involved in the foundation, design and structure of Cambridge & Counties Bank, the College's investment in which forms a key part of its endowment portfolio. Paul was Chairman of Cambridge & Counties Bank from June 2012 to October 2016.

Mike Kirsopp - Chief Executive Officer

Mike has spent over 40 years working in the financial services industry, specifically within the commercial lending sector. Much of his career was spent lending within the commercial banking arm of Lloyds Bank, which also included senior roles in the business change and strategy functions.

Mike joined Cambridge & Counties Bank in 2011, initially working on developing the plan to gain the new banking licence, which underpinned the launch of the Bank in 2012. Mike initially performed the role of Chief Operating Officer, taking up the position of Chief Executive Officer in 2014.

Rachel Curtis-Bowen - Chief Customer Officer

Rachel has 25 years' experience in financial services. She began her career in a branch of the Halifax Building Society before working with Alliance & Leicester and then Santander, holding senior management positions in customer service, deposit management and marketing.

Rachel was part of the team that developed the new Cambridge & Counties Bank proposition, which launched in 2012 and she became the Bank's first female board member in 2015. Rachel champions customer experience within the Bank and fiercely defends the Bank's 99% customer satisfaction rates. She is responsible for the liabilities side of the balance sheet, raising deposits from UK SMEs and also heads up the Bank's marketing function. Rachel also holds a non-executive director position at the Loughborough Building Society.

Rachel is an advocate of supporting women in business and is the founding member of an East Midlands mentoring scheme which aims to help the next generation of female leaders.

Caroline Fawcett - Non-Executive Director

Caroline has over 25 years' experience in financial services, specialising in marketing and customer experience in both the UK and US. After a decade as Marketing Director with Legal & General, Caroline progressed to become one of the first Customer Experience Directors within the Insurance sector. She has since led customer driven change programmes across a range of other organisations in the public and private sectors. Caroline has held several Non-Executive Director positions in the financial services industry and public sector over the past nine years, and is currently on the Boards of Co-op Insurance, the Rail Safety and Standards Board, Lifesight Ltd (the Trustee for Willis Towers Watson's Master Trust pension scheme) as well as Trustee of Alzheimer's Society.

Andrea Hodgson - Chief Financial Officer

Andrea joined Cambridge & Counties Bank in 2017, prior to which she worked as CFO for start-up challenger bank where she was responsible for establishing the financial management, governance and control framework for the bank in its early design phase.

Directors' Report

Andrea qualified as a Chartered Accountant with KPMG before moving into the financial services sector, where she has built over 20 years' experience working at, National Australia Group, Bank of Scotland and Lloyds Banking Group in which she held senior executive leadership positions. Previously, she also served as a Non-Executive Director & Deputy Chair at Wirral University Teaching Hospital NHS Foundation Trust.

Andrea is passionate about motivating teams to ensure that Finance are a valued and trusted business partner at the heart of the business.

Mike Hudson* - Chief Risk Officer

Mike joined Cambridge & Counties Bank in 2020, before which he was CRO for Brown Shipley & Co Ltd. With over 30 years' experience in Financial Services working across all the risk categories, Mike has spent much of his career within the banking and lending environment.

At Cambridge & Counties Bank, he is responsible for the management and oversight of the Bank's risk and control framework which also includes helping the Bank meet its regulatory obligations. Mike is passionate about ensuring the Risk Management team provide the appropriate support to the Bank.

* Appointment currently in progress

Simon Lindley - Chief Development Officer

Simon has over 30 years' experience in financial services predominantly centred on business development and property lending. After starting his career in 1985 working for NatWest, Simon moved around the Midlands to broaden his knowledge by leading business development teams for Bank of Ireland, Yorkshire Bank and latterly leading the Handelsbanken in Leicester.

After joining Cambridge & Counties Bank in 2012 as its first Business Development Manager, Simon took over responsibility for the national Property Finance team in 2015 and has been at the centre of the Bank's successful balance sheet growth due to his commitment to delivering a service led and broker-centric business. In 2017, responsibility for the asset finance sales team was added to his duties with Simon joining the Board as the Bank's Chief Development Officer.

Outside of the Bank, Simon is a very proud Non-Executive Trustee of Age UK Leicestershire and has acted as the charity's treasurer for over 10 years.

Richard Perry - Non-Executive Director

Richard has over 35 year's experience in the finance industry. After qualifying in auditing, Richard spent most of his career in the private sector working with FTSE 100 companies in positions that handled Financial Reporting and Control.

In 2013, Richard joined the Pension Service team at LGSS, taking responsibility for the investments of the Local Government Pension Schemes administered by Cambridgeshire County Council and Northamptonshire County Council. Richard joined the Board of Cambridge & Counties Bank in 2019.

Ian Smith - Non-Executive Director

Ian qualified as a Chartered Accountant in 1985 and joined KPMG the same year. He was appointed as Partner in 1998, remaining there until his retirement from the partnership in 2010. During his time with KPMG, Ian had responsibility for the Bank's Midlands and South West financial services practice.

During Ian's 20 years in the financial services sector, he has provided audit and advisory services for a range of clients including banks, building societies and other regulated bodies. His experience covers commercial and retail banking across a broad range of institutions. Ian began his association with Cambridge & Counties Bank in 2012.

Nick Treble - Non-Executive Director

Nick has over 35 years' experience in financial services with a broad experience of banking, asset & liability management, risk management, trading and general management.

He started his career in 1982 at the Allied Irish Banks Group and served as Group Treasurer, Group Chief Risk Officer and Chief Executive of AIB Group UK. Nick was also director of AIB Capital Markets Ltd, Allied Irish Capital Management Ltd, AIB Group (UK) plc and was a member of the AIB Group Executive Committee before retiring in 2012.

Alongside Cambridge & Counties Bank, Nick is also a Non-Executive Director at Bank Leumi UK plc, Saffron Building Society and Eskmuir Properties Group.

Directors' Report

Political Donations

The Bank made no political donations and incurred no political expenditure during the year (2018: £nil)

Employees

Details on the Bank's employees are set out in Note 10 to the financial statements.

Shareholders and Share Capital

Details on the Bank's shareholders and share capital at 31 December 2019 is provided in Notes 25 and 32 to the financial statements.

Going Concern

The directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Projections for the Bank have been prepared concerning its future performance, capital and liquidity, for a period in excess of 12 months from the date of approval of these accounts. Therefore, the going concern basis of accounting has been used to prepare the financial statements (full details can be found in Note 4 to the Financial Statements).

Post Balance Sheet Events

There have been no significant quantifiable events between 31 December 2019 and the date of approval of the financial statements which would require a change to, or additional disclosure, in the financial statements. However, the emergence of the COVID19 pandemic in early 2020 is expected to have a wide-reaching impact across the UK and globally. We are continuing to monitor the situation and evaluate the impact on the Bank. It is too early to predict with sufficient certainty the full impact on either the Bank or its customer base of the UK Government interventions and recently launched initiatives including, but not limited to, CBILS, CCFF, JRS and TFSME.

Disclosure of Information to the Auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board.

R. Bryan

Richard Bryan
Company Secretary

16 April 2020

Statement of directors' responsibilities in respect of the Annual Report, Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Annual Report, 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 (IFRS 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 Company 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 IFRS 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.

Michael Kirsopp
Chief Executive Officer

KPMG

Independent auditor's report

to the members of Cambridge & Counties Bank Limited

1. Our opinion is unmodified

We have audited the financial statements of Cambridge & Counties Bank Limited ("the Company") for the year ended 31 December 2019 which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flow, and the related notes, including the accounting policies.

In our opinion the financial statements:

— give a true and fair view of the state of Company's affairs as at 31 December 2019 and of its profit for the year then ended;

— have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and

— 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 8 June 2012. The period of total uninterrupted engagement is for the eight financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: financial statements as a whole	£0.85m (2018:£1.00m) 3.77% (2018: 3.58%) of profit before tax	
Key audit matters		**vs 2018**
Recurring risks	The impact of uncertainties due to Britain exiting the European Union on our audit	◀▶
	Going concern	◀▶
	Impairment of loans and advances to customers – Real Estate Finance	◀▶
	Revenue recognition – EIR accounting – Real Estate Finance	◀▶
New risk	Third party privileged user access management	▲

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to pages 7-9 (Strategic Report), and page 32 (Risk Management).*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in *Impairment of loans and advances to customers – Real Estate Finance* and *Revenue recognition – EIR accounting – Real Estate Finance* below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Company's future prospects and performance. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	We developed a standardised, firm-wide approach to the consideration of the uncertainties arising from Brexit, in planning and performing our audits. Our procedures included: — **Our Brexit knowledge** – We considered the directors' assessment of Brexit-related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks**.** — **Sensitivity analysis** – When addressing *Impairment of loans and advances to customers – Real Estate Finance*, *Revenue recognition – EIR accounting – Real Estate Finance* and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. — **Assessing transparency –** As well as assessing individual disclosures as part of our procedures on *Impairment of loans and advances to customers – Real Estate Finance* and *Revenue recognition – EIR accounting – Real Estate Finance* we considered all of the Brexit related disclosures together, including those in the Strategic Report, comparing the overall picture against our understanding of the risks. **Our results** As reported on *Impairment of loans and advances to customers – Real Estate Finance* and *Revenue recognition – EIR accounting – Real Estate Finance*, we found the resulting estimates and related disclosures in relation to *Impairment of loans and advances to customers – Real Estate Finance* and *Revenue recognition – EIR accounting – Real Estate Finance* and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a organisation and this is particularly the case in relation to Brexit.

2. Key audit matters: including our assessment of risks of material misstatement (cont.)

	The risk	Our response
Going concern *Refer to page 39 (Directors Report), and page 53 (accounting policy).*	**Disclosure quality:** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Company. The judgement is based on an evaluation of the inherent risks to the Company's business model and how those risks might affect the Company's financial resources or ability continue operations over a period of at least a year from the date of approval of the financial statements. The risk for our audit was whether or not the risk of Covid-19 is such that it amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had this been such, then that fact would have been required to have been disclosed.	Our procedures included: — **Our Covid-19 knowledge:** We considered the directors' assessment of Covid-19 related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; — **Sensitivity analysis:** We assessed the stressed scenarios used by the Company in its forecasting of probability, liquidity, and capital and the viability of possible management actions. — **Challenge of assumptions:** We assessed the Group's forecast profitability and capital models to identify key assumptions. We challenged the reasonableness of assumptions underpinning the Company's forecasts. — **Enquiry of Regulators**: We engaged with the Prudential Regulation Authority to understand their assessment of the Company's capital and liquidity position. — **Assessing transparency:** We critically assessed the completeness and accuracy of the matters covered in the going concern disclosure within the financial statements using our knowledge of the relevant facts and circumstances developed during our audit work, considering economic outlook, key areas of uncertainty and mitigating actions available to the Company to respond to these risks. **Our results** We found the going concern disclosure without any material uncertainty to be acceptable (2018: acceptable).

2. Key audit matters: including our assessment of risks of material misstatement (cont.)

	The risk	Our response
Impairment of loans and advances to customers – Real Estate Finance Allowance for impairment losses: (£6.8 million; 2018: £7.9 million) *Refer to page 59 and 60 (accounting policy and financial disclosures).*	**Subjective estimate:** The accounting standard, *IFRS 9 – Financial Instruments,* requires the Company to recognise expected credit losses ('ECL') on financial instruments. The measurement of the ECL depends on the change in credit quality of each loan since initial recognition. Loans exhibiting no significant increase in credit risk since origination attract a 12-month ECL (stage 1). Loans exhibiting a significant increase in credit risk since origination (stage 2) or loans with objective evidence of impairment (stage 3) are measuring using a lifetime ECL. For loans classified as stage 1 or 2, the Company uses models to determine the level of ECL on a portfolio wide basis. These models utilise inputs of forward-looking information. We identified the following assumptions and judgements as exhibiting heightened estimation uncertainty: — The probability of default for both the12-month and lifetime ECL calculations; — Forward-looking economic forecasts. For all loans classified as stage 3, an impairment assessment is performed at an individual loan level. The effect of these matters is that, as part of our risk assessment, we determined that the ECL on Real Estate Finance (REF) loans and advances has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and potentially many times that amount. The financial statements disclose the sensitivities estimated by the Company.	Our procedures included: — **Our financial risk modelling expertise:** For the REF portfolio we involved our own credit risk modelling specialists in evaluating the appropriateness of the Company's IFRS 9 impairment methodologies. We challenged the key impairment assumptions used in the model of probability of default and loss given default assumptions using our knowledge of recent impairment experience in this industry. For the IFRS 9 model we evaluated the model documentation to assess the appropriateness of the impairment methodologies. We compared the key assumptions used in the model of 12 month and life time PD with externally available data, including Moody's and Cass Business School. We compared the loan portfolio key metrics, including arrears trends and provision coverage with those of comparable lenders. — **Our economic scenario expertise:** We involved our own economic specialists to assist us in assessing the appropriateness of the Company's methodology for determining the economic scenarios used and the probability weightings applied to them. We assessed the four key economic variables which included agreeing the economic variables to external sources. We also assessed the overall reasonableness of the economic forecasts by comparing the Company's forecasts to our own modelled forecasts. — **Tests of details:** We sample tested key inputs and assumptions impacting ECL calculations, specifically those used in the determination of probability of default and loss given default. Additionally, we performed detailed credit file reviews of the stage 3 individually assessed impaired loans to determine they were appropriately assessed and reserved. **Our results** We found the resulting estimate of impairment to be acceptable (2018: acceptable).

We continue to perform procedures over the impairment of loans and advances to customers – Asset Finance. However, following an evaluation of the significance of the estimate for this portfolio in comparison to materiality, we have not assessed this as a significant risk in our current year audit and, therefore, it is not separately identified in our report this year.

2. Key audit matters: including our assessment of risks of material misstatement (cont.)

	The risk	Our response
Revenue recognition – EIR accounting – Real Estate Finance EIR liability: (£3.5 million; 2018: £3.9 million) *Refer to page 58 and 59 (accounting policy and financial disclosures).*	**Subjective estimate:** Using a spreadsheet based model, fees earned and incurred on loans and advances to customers are recognised using the effective interest rate method that spreads directly attributable expected cash flows over the expected lives of the loans. The directors apply judgement in assessing the expected repayment profiles used to determine the EIR period. The most critical element of judgement being the loans' expected behavioural life. The directors have determined this estimate with reference to product mix, historical customer behaviour since the start up of the Company in 2012, and management judgement over future redemption profiles of the loans. The effect of these matters is that, as part of our risk assessment, we determined that cash flows recognised on an effective interest rate basis have a high degree of estimation uncertainty for the Real Estate Finance loan book, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements disclose the sensitivities estimated by the Company.	Our procedures included: — **Historical comparison:** We critically assessed the expected life assumptions against the Company's recent historical experience of customer behaviour by product type. — **Expectation vs outcome:** We applied alternative statistics based forecasting methodologies, based on actual redemptions experience, to create an expectation of the expected repayment profiles and hence the calculated EIR adjustment. We compared our result to the Company's EIR adjustment and assessed whether the expected repayment profile assumptions were appropriate. — **Methodology implementation:** We assessed the methodology applied by management against IFRS 9 requirements and performed recalculations. This included considering the ongoing appropriateness of fees and costs included or excluded from the EIR calculation. — **Assessing transparency**: We assessed the adequacy of the Company's disclosures regarding the degree of estimation involved in arriving at the interest income recognised and its sensitivity to key assumptions. **Our results** We found the resulting estimate of EIR to be acceptable (2018: acceptable).

We continue to perform procedures over EIR accounting – Asset Finance. However, following an evaluation of the significance of the estimate for this portfolio in comparison to materiality, we have not assessed this as a significant risk in our current year audit and, therefore, it is not separately identified in our report this year.

2. Key audit matters: including our assessment of risks of material misstatement (cont.)

	The risk	Our response
Third party privileged user access management	**Control performance:** The Company's accounting and reporting processes are dependent on automated controls enabled by IT systems. User access and change management controls are an important component of the General IT Control environment assuring that unauthorised access and changes to systems do not impact the effective operation of the automated controls in the financial reporting processes. The Company's Real Estate Finance portfolio is administered on the Phoebus application which is developed, maintained and supported by a third party. Authorised third party users have standing privileged access to the 'live' Phoebus Production environment. The activities of these privileged third party users are not monitored although access is reviewed by the Company on a quarterly basis. Consequently, these users could bypass internal change management controls and make unauthorised changes directly to the Phoebus Production environment, which may undermine our ability to place some reliance on automated and IT dependent controls in our audit.	Our procedures included: **Controls testing:** We tested the design and operating effectiveness of key controls over third party privileged user access management, including controls over: — Authorising access rights for new joiners; — Timely removal of user access rights; — Privileged user and developer access to production systems; — Re-certification of user access rights; and — Segregation of duties access between Phoebus application development and production environments. **Substantive procedures**: We tested program and configuration changes identified during the audit period for the Phoebus application were appropriate; tested; and authorised by the Company. Additional procedures were performed for the program and configurations changes that did not follow the change management process to confirm there was no impact on financial reporting. **Our results** Although we identified design and operating effectiveness deficiencies over third party privileged user access to Phoebus and change management controls, the combination of our substantive and controls testing did not identify unauthorised changes and provided us with sufficient evidence to rely on the operation of audit relevant Phoebus automated and IT dependent controls.

3. Our application of materiality and an overview of the scope of our audit

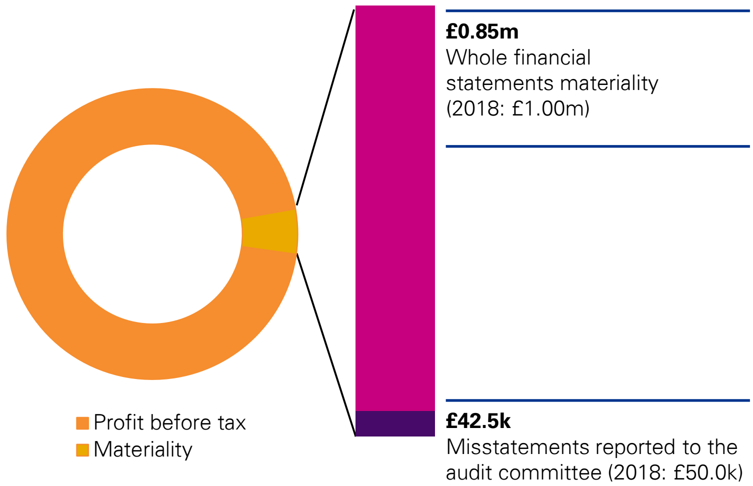
Materiality for the financial statements as a whole was set at £0.85m (2018: £1.00m), determined with reference to a benchmark of profit before tax of which it represents 3.77% (2018: 3.58%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £42.5k (2018: £50.0k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was all performed at the company's head office in Leicester.

Profit before tax
£22.5m (2018: £27.9m)

Materiality
£0.85m (2018: £1.00m)



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, 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 a year from the date of approval of the financial statements.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual 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 those reports;

— in our opinion the information given in the strategic report and the directors' report 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.

6. We have nothing to report on the other 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the financial statements are not in agreement with the accounting records and returns; 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.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 40, the Directors are responsible for: the preparation of the financial statements including 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 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 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 other irregularities (see below), 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, other irregularities 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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the company's licence to operate. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital and liquidity, conduct, money laundering, sanctions list and financial crime, and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any.

Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. 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.

S. Ryder

Simon Ryder

(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square

Sovereign Street

Leeds

LS1 4DA

16 April 2020

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December

£'000	Note	2019	2018
Interest income calculated using the effective interest rate	6	57,045	57,514
Interest expense	6	(14,137)	(13,089)
Net interest income		42,908	44,425
Other income	7	50	310
Total operating income		42,958	44,735
Administrative expenses	9	(17,763)	(14,584)
Depreciation, amortisation and loss on disposals	18,19	(1,093)	(509)
Operating profit before impairment losses		24,102	29,642
Impairment losses on loans and advances to customers	16	(1,566)	(1,716)
Profit before tax		22,536	27,926
Taxation charge	12	(4,035)	(5,518)
Profit after tax		18,501	22,408
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Fair value through other comprehensive income: Debt securities		(71)	37
Fair value through other comprehensive income – net change in value	25	-	48
Fair value through other comprehensive income – reclassified to profit or loss	25	(86)	-
Related tax	25	15	(11)
Total other comprehensive income		(71)	37
Total comprehensive income attributable to owners of the bank		18,430	22,445

All profit for the year arises from continuing operations.

The notes on pages 53 to 87 are an integral part of these financial statements.

Statement of Financial Position

At 31 December

£'000	Note	2019	2018
Assets			
Cash and balances at central banks	13	228,972	232,286
Loans and advances to banks	14	7,695	14,384
Debt securities	17	-	13,350
Loans and advances to customers	15	761,503	769,016
Other assets and prepayments	20	1,224	940
Property plant and equipment	18	3,154	386
Intangible assets	19	791	846
Deferred taxation	12	729	880
Total assets		**1,004,068**	**1,032,088**
Liabilities			
Customers' accounts	22	854,449	901,398
Derivative financial liabilities	21	31	94
Current tax liabilities	23	1,595	2,698
Other liabilities and accruals	23	5,840	2,710
Provisions	24	-	8
Total liabilities		**861,915**	**906,908**
Equity			
Share capital	25	44,955	44,955
Convertible loan notes	25	22,900	22,900
Fair value through other comprehensive income reserve	25	2	73
Retained earnings		74,296	57,252
Total equity		**142,153**	**125,180**
Total liabilities and equity		**1,004,068**	**1,032,088**

These financial statements were approved by the Board of Directors on 16 April 2020 and were signed on its behalf by:

Mike Kirsopp

Chief Executive Officer

Company registered number: 07972522

The notes on pages 53 to 87 are an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December

£'000	Share capital	Contingent convertible loan notes	Fair value through other comprehensive income reserve	Retained earnings	Total equity
Balance at 1 January 2019	**44,955**	**22,900**	**73**	**57,252**	**125,180**
Profit for the year	-	-		18,501	18,501
Other comprehensive income	-	-	(71)	-	(71)
Total comprehensive income for the period	-	-	(71)	18,501	18,430
Transactions with owners, recorded directly in equity	-	-	-	-	-
Dividends paid on ordinary shares	-	-	-	-	-
Issue of shares	-	-	-	-	-
Convertible loan note interest	-	-	-	(1,457)	(1,457)
Total contributions by and distributions to owners	-	-	-	(1,457)	(1,457)
Balance at 31 December 2019	**44,955**	**22,900**	**2**	**74,296**	**142,153**

£'000	Share capital	Contingent convertible loan notes	Fair value through other comprehensive income reserve	Retained earnings	Total equity
Balance at 1 January 2018 (as previously stated)	23,955	12,900	36	39,352	76,243
IFRS 9 transition adjustment	-	-	-	(3,013)	(3,013)
Balance at 1 January 2018 (as restated)	23,955	12,900	36	36,339	73,230
Total comprehensive income for the period					
Profit for the year	-	-	-	22,408	22,408
Other comprehensive income	-	-	37	-	37
Total comprehensive income for the period	-	-	37	22,408	22,445
Transactions with owners, recorded directly in equity					
Dividends paid on ordinary shares	-	-	-	(1,000)	(1,000)
Issue of shares	21,000	10,000	-	-	31,000
Convertible loan note interest (net of tax)	-	-	-	(495)	(495)
Total contributions by and distributions to owners	21,000	10,000	-	(1,495)	29,505
Balance at 31 December 2018	**44,955**	**22,900**	**73**	**57,252**	**125,180**

The notes on pages 53 to 87 are an integral part of these financial statements.

Statement of Cash Flow
For the year ended 31 December

£'000	Note	2019	2018
Cash flows from operating activities			
Profit after tax		18,501	22,408
Adjustments for:			
Depreciation, amortisation and loss on disposals		1,093	509
Non cash item on adoption of IFRS 16	18,29	(2,429)	-
Taxation charge		4,035	5,518
		21,200	28,435
Net increase in other assets/liabilities			
Net decrease/(increase) in loans and advances to customers	15	7,513	(82,692)
Net (decrease)/increase in customers' accounts	22	(46,949)	103,222
Net (decrease)/increase in value of debt securities	17	(86)	6
Net decrease in derivatives	21	(63)	(27)
Net increase in other liabilities and provisions	23,24	3,122	585
Net (increase) in other assets & prepayments	20	(285)	(72)
Income tax paid		(4,972)	(5,102)
		(41,720)	15,920
Net cash from operating activities		**(20,520)**	**44,355**
Cash flows from investing activities			
Proceeds from sales of debt securities	17	23,244	-
Acquisition of debt securities	17	(9,894)	(10,199)
Acquisition of property, plant & equipment and intangible assets	18,19	(1,376)	(1,077)
Net cash from investing activities		**11,974**	**(11,276)**
Cash flows from financing activities			
Proceeds from the issue of share capital	25	-	21,000
Proceeds from the issue of contingent convertible loan notes	25	-	10,000
Convertible loan note interest paid	25	(1,457)	(795)
Dividends paid on ordinary shares	25	-	(1,000)
Net cash from financing activities		**(1,457)**	**29,205**
Net increase in cash and cash equivalents	13	(10,003)	62,284
Cash and cash equivalents at 1 January	13	246,670	184,386
Cash and cash equivalents at 31 December		**236,667**	**246,670**

Cash and cash equivalents comprise of:
- Cash and balances at central banks (including any accrued interest).
- Loans and advances to banks (including any accrued interest) all of which have a maturity of less than 3 months.

The notes on pages 53 to 87 are an integral part of these financial statements.

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Notes to the Financial Statements
(Continued)

1. Reporting entity

Cambridge & Counties Bank Limited (referred to as 'the Bank') is a company incorporated and domiciled in the United Kingdom. The Bank is registered in England and Wales and has the registered number 07972522. The registered address of the Bank is Charnwood Court, 5b New Walk, Leicester, England, LE1 6TE. Cambridge & Counties Bank is a UK bank that specialises in providing lending and deposit products for Small and Medium Enterprises (SMEs). The Bank is a private company limited by shares.

2. Basis of accounting

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the Bank and endorsed by the EU and the Companies Act 2006 applicable to companies reporting under IFRS. They have been prepared under the historic cost convention as modified by the revaluation of financial instruments through profit or loss and the revaluation of financial instruments through other comprehensive income. The financial statements are presented in pounds sterling, which is the functional and presentational currency of the Bank.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in Note 5 to the Financial Statements.

3. Changes in accounting policies

Except for the changes as a result of the adoption of IFRS 16 (set out in Note 29), the Bank has consistently applied the accounting policies set out in these financial statements.

4. Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources:

The Board remains confident that its offering to the market remains relevant and attractive, and that the Bank has sufficient capital and liquidity to support its strategic plans. The Bank's 3-year strategic plan is updated quarterly to produce a forward-looking assessment. With the evolving macroeconomic environment and change in interest rate outlook, the Bank's revenue growth expectations for 2020 have however been tempered.

The Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. The projections for the Bank's future performance, capital strength and liquidity, for a period in excess of 12 months from the date of approval of these accounts all show that the Bank has adequate resources to meet its regulatory and operational requirements. Therefore, the going concern basis of accounting has been used to prepare the financial statement.

As part of this assessment the UK's exit from the European Union and the potential COVID 19 impacts have been assessed. The Directors recognise that the current macroeconomic situation will continue to evolve, and that whilst 2020 performance expectations have been reduced, they do not consider that these events will have a materially destabilising impact on the Bank's performance. This conclusion has been reached after taking account of a number of factors including:

- The Bank has modelled a severe yet plausible stress scenario based on the Bank of England's ACS (annual cyclical stress) scenario which includes increased unemployment and inflation, demand for finance and property prices reducing and significantly higher credit losses than experienced in recent years;
- Management have already incorporated into the Bank's business plan an expectation of greater uncertainty in the UK macro-economic environment which is likely to result in reduced demand for new finance and reduced mortgaging activity in the real estate and asset finance markets as well as potential reduction in savings balances;

- The Bank maintains a strong liquidity positions with its Liquidity Coverage Ratio around 4 times higher than the regulatory minimum at the end of 2019; and
- All of the Bank's staff, key suppliers, customers and the assets that it has financed are UK based.

5. Accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed below. Each of these areas of management judgement, along with any others which are considered material, has a paper prepared for review and approval by the Bank's Audit Committee at least once a year.

Loan loss provisioning

The Bank adopted IFRS 9 in 2018 with the provisioning methodology changing to an expected loss basis.

The Bank has made two key judgements and two key estimates in its loan loss provisions. These two key judgements are:

- all of the loans and advances to customers meet the criteria to be classified as financial instruments, and therefore held at amortised cost with an associated loan loss provision, as set out in Note 28.
- the Bank uses four unbiased probability weighted forward looking economic scenarios in its estimate of loan loss provisions, being the base case, downside, severe downside and upside. These scenarios and their application in the estimate of loan loss provisions are described further in Note 28.

The two key estimates are the Probability of Default (for the expected life of the loans and the next 12 months) and the Loss Given Default.

For loans in stage 1 and 2 the Bank estimates the probability of default (PD) and the loss given default (LGD). The probability of default is calculated using both quantitative and qualitative data including character, property type and location. The LGD is calculated using the property valuation and associated sales costs.

The expected credit loss on loans in stage 3 are estimated on an individual basis. Individual impairment losses on loans and advances are calculated based on assessment of the expected cash flows and the underlying collateral. This assessment includes a discount for any assumed forced sale of the underlying asset.

The Bank assesses and discusses all individual customer loans in arrears at the monthly Provision Committee meeting chaired by the CFO. All cases that have an existing specific provision, are in arrears at month-end, or are on the watch list are reviewed.

The expected credit losses across all stages are adjusted for the impact of the forward-looking economic scenarios outlined above.

See Note 28 for the sensitivity analysis regarding this.

Revenue recognition - effective interest rate

The Bank has made a key estimate in relation to the effective interest rate.

The key estimate relates to the expected life of each type of instrument and hence the expected cash flows relating to it. A critical estimate in determining the effective interest rate is the expected life to maturity of the Bank's commercial loans, as a change in the expected life will have an impact on the period over which the directly attributable costs and fees are recognised. See Note 6 for the sensitivity analysis regarding this.

6. Interest income and expense

In accordance with IFRS 9 interest income and expense are recognised in the Statement of Profit or Loss and Other Comprehensive Income for all instruments measured at amortised cost using the Effective Interest Rate method (EIR).

The EIR 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 EIR is the rate that exactly discounts estimated future cash flows through the expected life of the instrument or when appropriate a shorter period, to the net carrying amount of the financial asset or the financial liability. When calculating the EIR, the Bank 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 EIR, transaction costs and all other premiums or discounts. From 2018, in accordance with IFRS 9, the application of EIR has been applied to the gross carrying amount of non-credit impaired financial assets and to the amortised cost of credit impaired financial assets. Early Repayment Charges (ERC) are reported within the EIR expected cashflows and reported within net interest income.

Income from finance leases and instalment credit agreements is recognised over the period of the lease so as to give a constant rate of return on the net investment in the lease.

Interest income and expense presented in the Statement of Profit or Loss and Other Comprehensive Income include:

- Interest on financial assets and liabilities measured at amortised cost calculated on an EIR basis;
- Interest on fair value through other comprehensive income investment securities;
- Income from finance leases and instalment credit agreements.

£'000	2019	2018
Interest income		
Loans and advances to banks	1,451	991
Loans and advances to customers	55,457	56,476
Investment securities	137	47
Total interest income	**57,045**	**57,514**
Interest expense		
Deposits from customers	(13,883)	(12,775)
Other	(254)	(314)
Total interest expense	**(14,137)**	**(13,089)**
Net interest income	**42,908**	**44,425**

Included within interest income for the year ended 31 December 2019 is a total of £458k (2018: £219k) relating to interest on impaired financial assets.

Critical accounting estimates and judgements

Management uses its judgement to estimate the expected life of each type of instrument and hence the expected cash flows relating to it. A critical estimate in determining the effective interest rate is the expected life to maturity of the Bank's commercial loans, as a change in the expected life will have an impact on the period over which the directly attributable costs and fees are recognised.

Sensitivity

If the proportion of Real Estate Loans that had redeemed in the past 12 months was 2% lower for each tranche of lending, the EIR income recognised in the Bank's profit and loss would have been £0.3m lower. If, however the proportion of loans that had redeemed in the past 12 months was 5% higher for each tranche of lending, the EIR income recognised in the Bank's profit and loss would have been £0.8m higher. If the average life of the Bank's asset finance agreements were 3 months shorter than its contractual life the Bank's EIR income recognised in the P&L would have been £0.2m lower.

Notes to the Financial Statements
(Continued)

7. Other income

Other income includes fees and commissions relating to services provided to customers, which do not meet the criteria for inclusion within interest income. The income is recognised as the service is provided.

Other income also includes the fair value movement in derivatives held for risk management purposes. Interest rate swaps are held to hedge against fixed rate savings products.

£'000	2019	2018
Fair value movement	1	6
Other operating income	49	304
Total other income	50	310

8. Auditors' remuneration

The profit on ordinary activities is arrived at after charging:

£'000	2019	2018
The remuneration of the Bank's external auditors:		
Audit services		
Audit of these financial statements	220	143
Audit related assurance services		
Amounts receivable by the company's auditor and its associates in respect of:		
All other services	53	46
Total remuneration payable to the Bank's external auditors	273	189

All services undertaken by the Bank's external auditor are subject to approval by the Bank's Audit Committee. The Bank has a non-audit service policy, which states that non-audit related services provided by the Bank's external auditors should not exceed 70% of the average of the fees paid in the previous three consecutive financial years. The Bank has complied with this policy during 2019 and 2018.

The Bank complies with the EU Legal Framework for the statutory audit of annual and consolidated financial statements, which applied to all companies from June 2016.

9. Administrative expenses

£'000	2019	2018
Staff costs (see Note 10)	10,868	9,312
Other administrative expenses	6,895	5,272
Total	17,763	14,584

10. Staff numbers and costs

The average number of persons employed by the Bank (including directors) during the year was 149 (2018: 143).
The aggregate payroll costs of these persons, including directors, (directors' remuneration is separately disclosed in Note 11) were as follows:

£'000	2019	2018
Wages and salaries	9,005	7,685
Social security costs	1,113	926
Contributions to defined contribution pension plans	750	701
Total	10,868	9,312

11. Directors' remuneration

£'000	2019	2018
Directors' remuneration	1,641	1,516
Amounts receivable under long term incentive schemes	-	67
Company contributions to defined contribution pension plans	103	94
Provision / Payments of compensation for loss of office	520	178
Amounts paid to third parties in respect of Directors' services	52	47
Total	2,316	1,902

The emoluments of the highest paid director were £472k (2018: £415k). There were no amounts receivable under long-term incentive schemes (2018: £32k) and no contributions (2018: £24k) were made to a defined contribution pension scheme on his behalf.

Contributions have been made into 3 executive directors' personal defined contribution pension plans during the year (2018: 5). There were no directors' loans in 2019 (2018: nil).

There were no compensation payments for loss of office made in 2019 (2018: CRO of £178k) although a provision of £520k was made in respect of payments which are expected to be made in 2020.

12. 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 balance sheet date, and any adjustment to tax payable in respect of previous years.

A reduction in the UK corporation tax rate from 19% to 18% (effective 1 April 2020) was substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future tax charge accordingly. The deferred tax asset at the balance sheet date has been calculated based on these rates. Since the balance sheet date, the Budget announced on the 11 March 2020 maintained UK corporation rate tax at 19%. If the deferred tax asset had been calculated using 19% instead of 17% the asset would have been £780k, £51k higher than reported.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that is has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

In 2018, the Bank experienced a higher effective tax rate as its profits exceeded the annual bank corporation tax surcharge allowance for the first time. This resulted in an additional charge of £205k in the year as shown in the table below. There is no additional change in respect of the Bank's corporation tax surcharge in 2019 as the Bank's profits did not exceed £25m.

Notes to the Financial Statements
(Continued)

£'000	2019	2018
Current tax expense		
In respect of the current year	3,892	5,539
In respect of prior years	(13)	(1)
	3,879	5,538
Deferred tax expense		
Origination and reversal of temporary differences	176	(22)
Adjustments in respect of prior periods	(3)	-
Effect of tax rate change on opening balance	(17)	2
	156	(20)
Total income tax expense	4,035	5,518

The income tax expense for the year can be reconciled to the accounting profit as follows:

£'000	2019	2018
Profit before tax from continuing operations	22,536	27,926
Income tax expense calculated at 19.00% (2018: 19.00%)	4,282	5,306
Effects of:		
Convertible loan note interest payment	(314)	-
Expenses not deductible for tax purposes	91	8
Adjustments in respect of previous periods	(16)	(1)
Tax rate changes	(17)	205
Non-Qualifying Depreciation	9	-
Total tax charge 19.00% (2018: 19.00%)	4,035	5,518

Deferred tax

Deferred tax assets are attributable as follows:

The Bank had a deferred tax asset of £729k at 31 December 2019 (2018: £880k) resulting primarily from the original adoption of IFRS accounting standards and more recently IFRS 9. The business plan projects profits in future years sufficient to recognise this asset.

£'000	Balance Sheet		Movement in period	
	2019	2018	Income	Equity
Deferred tax liability				
Plant, Property & Equipment (PPE) and intangible assets	(39)	-	(39)	-
Total Liabilities	(39)	-	(39)	-
Deferred tax asset				
Provisions	-	556	(556)	-
PPE and intangible assets	-	9	(9)	-
Pension and post-retirement benefits	67	74	(7)	-
Other deductible temporary differences	701	247	454	-
Total Assets	768	886	(118)	-
Deferred tax on FVOCI				
FVOCI instruments	-	(6)	6	-
Net deferred tax asset	729	880	(151)	-

13. Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

£'000	2019	2018
Unrestricted balances with central banks*	228,972	232,286
Cash and balances with other banks	7,695	14,384
Total	236,667	246,670

*included within the unrestricted balances with central banks is £60k of accrued interest for 2019 (2018: £56k).

Notes to the Financial Statements
(Continued)

14. Loans and advances to banks

Loans and advances to banks are measured at amortised cost as the Bank holds these assets for the objective of collecting contractual cash flows and the cash flows associated with the assets include only payments of principal and interest (SPPI). As with loans and advances to customers (Note 15) the Bank have assessed whether there are any contractual terms which may cause the financial assets to fail the SPPI test. The Bank has noted no such terms. The Bank do not incur any transactional or other such integral fees which require an effective interest rate to be specifically calculated for these assets. Income is recognised at the contractual interest rate on an accruals basis.

£'000	2019	2018
Gross loans and advances to banks	7,695	14,384
Net loans and advances to banks	7,695	14,384

15. Loans and Advances to customers

Loans and advances to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

The Bank has measured its loans and advances to customers at amortised cost on the basis that the Bank holds these assets for the objective of collecting contractual cash flows and the cash flows associated with the assets include only payments of principal and interest (SPPI).

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In making this assessment the Bank has considered whether the financial asset contains a contractual term that could change the timing or amount of contractual cashflows such that it would not meet this condition. All the Bank's loans contain prepayment features. A prepayment feature is consistent with the SPPI criteria if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

Gross loans and advances have been reduced by £2.3m (2018: £2.9m) as a result of the EIR liability.

£'000	2019	2018
Gross loans and advances	769,684	777,084
Less: allowance for impairment losses (see note 16)	(8,181)	(8,068)
Net loan receivables	761,503	769,016

Gross loans and advances to customers includes £62m (2018: £48m) related to Hire Purchase and Finance Lease agreements). This is made up of £72m (2018: £54m) gross receivables less £10m of unearned finance income (2018: £6m). Of this gross loans and advances balance, £16m is current and £46m is due in more than one year.

16. Allowance for impairment losses

A description of the Bank's credit risk management and methodology in respect of allowances for impairment losses is provided below in Note 28. This note also includes the sensitivity of the Bank's impairment losses to changes in its forward-looking economic scenarios.

Notes to the Financial Statements
(Continued)

A reconciliation of the opening to the closing allowance for impairment losses on loans and advances to customers is presented below:

	Stage 1: subject to 12- month ECL	Stage 2: subject to lifetime ECL	Stage 3: subject to lifetime ECL	Total
Closing Balance at 31 December 2019	3,422	1,303	3,455	8,181
Opening Balance at 1 January 2019	2,330	2,167	3,570	8,068
Increase (decrease) in provision	1,092	(864)	(115)	113
Increase (decrease) in provision				
Write Offs	-	-	(2,057)	(2,057)
Post Write Off Recoveries	-	-	97	97
Gilt Provision Write Back	49	-	-	49
Income Adjustment*	-	-	458	458
P&L Charge	1,043	(864)	1,387	1,566
	1,092	(864)	(115)	113
Increase/(decrease) due to change in credit risk				
- Transfers to and from Stage 1	1,159	1,079	1,313	3,551
- Transfers to and from Stage 2	(57)	(956)	1,134	121
- Transfers to and from Stage 3	(15)	(864)	(529)	(1,408)
New loans originated	276	39	344	659
Derecognised loans	(318)	(162)	(433)	(913)
Loan commitments	47	-	-	47
Allowance utilised in respect of write offs	-	-	(1,944)	(1,944)
	1,092	(864)	(115)	113

* Interest originally charged on the gross carrying amount for credit impaired stage 3 assets which has subsequently been recalculated on the net carrying amount. This resulted in a reduced interest income and impairment charge in the income statement of £458k (2018: £219k).

£'000	Not credit impaired		Credit impaired	
	Stage 1: subject to 12-month ECL	Stage 2: subject to lifetime ECL	Stage 3: subject to lifetime ECL	Total
Real Estate Finance	2,215	2,163	3,557	7,935
Asset Finance	115	4	13	133
At 31 December 2018	2,320	2,167	3,570	8,068
Real Estate Finance	**3,258**	**1,202**	**2,366**	**6,827**
Asset Finance	**164**	**101**	**1,089**	**1,354**
At 31 December 2019	**3,422**	**1,303**	**3,455**	**8,181**

17. Debt securities

Under IFRS 9 the Bank's debt securities are measured at fair value through other comprehensive income.

The Bank's debt securities (Gilts) are initially recognised at fair value and subsequently measured at Fair Value through Other Comprehensive Income. The Gilt instruments meet the SPPI criteria as the Bank hold debt securities for the purpose of collecting contractual cash flows until a decision is taken to sell the asset, or it reaches its maturity date.

Changes in the fair value of debt securities are recognised in other comprehensive income and presented in the fair value through other comprehensive income reserve. When the debt security is sold or matures, the gain or loss accumulated in equity, together with the tax thereon, is reclassified to profit and loss.

In January 2019 the Bank sold its £3m gilt and replaced it with a £10m gilt investment. In May 2019 the Bank sold the Gilt purchased in January 2019 as well as the remaining £10m security held at the end of 2018.

£'000	2019	2018
UK Government Gilts	-	13,350
Total	-	13,350

18. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Bank assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases and are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item. The estimated useful lives are as follows:

- Computer hardware 1 to 5 years
- Fixtures and fittings 3 to 10 years

The Bank's depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

£'000	Property lease*	Computer hardware	Fixtures and fittings	Total
Cost				
Balance at 1 January 2019	-	446	244	690
Additions*	2,429	216	827	3,472
Disposals*	(400)	(163)	(11)	(574)
Balance at 31 December 2019	2,029	499	1,060	3,588
Depreciation				
Balance at 1 January 2019		289	15	304
Charge for the year*	163	101	120	384
Disposals*	(107)	(136)	(11)	(254)
Balance at 31 December 2019	56	254	124	434
Net book value				
At 1 January 2019	-	157	229	386
At 31 December 2019	1,973	245	936	3,154

*the Bank initially applied IFRS 16 (Note 29) at 1 January 2019. The Bank recognised its Head Office lease by recording a cost value of £400k within its Property Plant and Equipment asset category. The comparative period has not been restated.
The original lease for the Bank's Charnwood Court Head Office was replaced with a new lease with a cost value of £2.029m in August 2019 following completion of the refurbishment and agreement of a new 15-year lease. The disposals cost relating to the original lease was offset by a corresponding reduction in lease the lease liability.

19. Intangible assets

Intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses. Expenditure on computer software development is capitalised if the product or process is technically and commercially feasible, future economic benefits are probable, and the Bank can reliably measure the expenditure attributable to the intangible asset during its development. The capitalised expenditure includes the cost of direct labour and software licence costs. Capitalised developments are stated at cost less accumulated amortisation.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful life of capitalised software development costs is 3 to 5 years.

Intangible assets include assets totalling £172k which were in the course of construction at the 31 December 2019 (2018: nil).

£'000	Computer software development
Cost	
Balance at 1 January 2019	2,038
Additions	334
Disposals	-
Balance at 31 December 2019	**2,372**
Amortisation	
Balance at 1 January 2019	1,192
Amortisation for the year	389
Disposals	-
Balance at 31 December 2019	**1,581**
Net book value	
At 1 January 2019	846
At 31 December 2019	**791**

20. Other assets

£'000	2019	2018
Other debtors	121	106
Prepayments	533	324
Cash Ratio Deposit	570	510
Total	**1,224**	**940**

The Bank is required to hold a Cash Ratio Deposit by the Bank of England. This is calculated twice yearly at 0.18% of average eligible liabilities over the previous six months in excess of £600m.

21. Derivatives held for risk management

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivative financial instruments are recognised at fair value. As at 31 December 2019 the Bank had £5m nominal value of derivatives (2018: £5m), all related to the hedging of fixed rate deposit balances.

£'000	Nominal value		Fair value	
	2019	2018	2019	2018
Instrument type				
Interest rate Designated in fair value hedges	5,000	5,000	(31)	(94)
Total interest rate derivatives	**5,000**	**5,000**	**(31)**	**(94)**

On initial designation of the hedge, the Bank formally documents the relationship between the hedging instruments and the hedged items, including the risk management objective, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the retrospective hedged items during the period in which the hedge is designated, and whether the actual results of each hedge are within a range of 80% - 125%.

All of the Bank's hedging relationships are currently fair value hedges. As permitted by IFRS 9, the Bank has elected to continue to apply the hedge accounting requirements of IAS 39.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. To the extent to which the hedge is effective, the carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on premeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

On the discontinuance of a hedge, any adjustment made to the carrying amount of the hedged item as a consequence of the fair value hedge relationship, is recognised in the income statement over the remaining life of the hedged item.

The Bank uses interest rate swaps to minimise interest rate risk exposure in specific periods by hedging the interest rate risk associated with fixed rate deposit balances. The terms of the hedged items and hedging instrument are aligned to minimise hedge ineffectiveness arising. Hedge ineffectiveness, the difference between the hedging gains or losses of the hedging instrument and the hedged item recognised in profit or loss was £1k (2018: £6k).

Fair value hedges of interest rate risk £'000 Instrument type:	2019 Assets	2019 Liabilities	2018 Assets	2018 Liabilities
Interest rate	-	31	-	94
Total	-	31	-	94

The fair value of the Bank's derivatives in place at the year-end decreased by £63k (2018:£27k) during the year. The Bank has not been required to post any collateral in respect of its derivatives.

Credit risk derivative risk management

The Bank mitigates the credit risk of derivatives by entering into transactions under International Swaps and Derivatives (ISDA) master netting agreements. The Bank has executed a Credit Support Annex (CSA) in conjunction with the ISDA agreement, which requires the Bank and its counterparty (NatWest Markets PLC) to post collateral to mitigate counterparty credit risk in the event of specific triggers being met.

Type of credit exposure	% of exposure that is subject to collateral requirements		Principal type of collateral	Collateral received/given
	2019	2018		
Derivatives held for risk management	100%	100%	Cash	Nil (MTM below VM threshold)

The following table sets out the Bank's Financial assets and Financial liabilities that are subject to an enforceable master netting arrangement, irrespective of whether they are offset in the statement of financial position. The values reflect the instruments fair value. The Bank's ISDA does not meet the criteria for offsetting in the statement of financial position. This is because it creates a right of set-off of recognised amounts that is only enforceable following a predetermined event.

The Bank could be required to give, or receive, collateral in the form of cash, or other marketable securities, in respect of its derivative transactions. The Bank has not had to post any collateral in respect of its derivatives, as the aggregate mark-to-market has remained below the CSA VM threshold throughout the year.

£'000				Related amounts not offset in the statement of financial position		
Type	Gross amounts of recognised financial assets	Gross amounts of financial liabilities offset in the statement of financial position	Net amounts of financial liabilities in the statement of financial position	Financial instruments liabilities	Cash collateral received	Net amount
2019						
Assets	-	-	-	-	-	-
Liabilities						
Derivatives held for risk management	-	-	-	31	-	31
2018						
Assets	-	-	-	-	-	-
Liabilities						
Derivatives held for risk management	-	-	-	94	-	94

22. Deposits from customers

IFRS 9 stipulates that all financial liabilities be classified at amortised cost, except for those recognised at fair value through profit or loss (including derivative contracts). This includes:

- financial liabilities which have been designated as FVTPL on the basis that this provides more relevant financial information;
- Financial liabilities which arise when a transfer of a financial asset does not qualify for derecognition (or when the continuing involvement approach applies);
- Financial guarantee contracts;
- Commitments to provide a loan at a below market rate of interest; or
- Contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

The Bank have assessed all financial liabilities to classify and measure them appropriately. As with financial assets, financial liabilities are initially measured at their fair value, plus or minus any transaction costs which are directly attributable to the financial liability.

In respect of Customer Deposits, the Bank classifies its customer deposits as being held at amortised cost, which is consistent with the criteria outlined above.

Under the amortised cost method, the Bank spread any transaction costs or integral fees paid or received across the expected life of the financial instrument. The Bank do not have any such fees in respect of its deposit accounts. The Bank's commission payments to brokers are already spread over the life of the deposit account and are accounted for within interest payable.

Deposits are the Bank's primary source of debt funding. £5m of the Bank's fixed rate deposits are hedged using interest rate derivatives, these deposits are held at fair value.

Notes to the Financial Statements
(Continued)

£'000	2019	2018
Instant access	52,210	62,538
Term and notice accounts		
Payable within 1 year	711,806	770,243
Payable after one year	90,461	68,707
Total	854,477	901,488
Fair value adjustment for hedged risk	(28)	(90)
Total deposits from customers	854,449	901,398

£'000	2019	2018
Variable rate deposit balances	629,925	680,942
Fixed rate deposit balances	224,552	220,546
Total	854,477	901,488
Fair value adjustment for hedged risk	(28)	(90)
Total deposits from customers	854,449	901,398

23. Other liabilities

£'000	2019	2018
Accruals	3,279	2,655
Corporation tax	1,595	2,698
Lease liability	2,163	35
Other creditors	398	20
Total	7,435	5,408

See Note 29 for more details on the lease liability.

24. Provisions

A provision is recognised in the Statement of Financial Position when the Bank has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Financial services compensation scheme £'000	2019	2018
1 January	8	134
Provided during the year	-	-
Utilised during the year	(8)	(48)
Released during the year	-	(78)
31 December	0	8

- Financial services compensation scheme (FSCS)

In common with all regulated UK deposit takers, the Bank paid levies to the FSCS to enable the FSCS to meet claims against it. The FSCS levy covers the costs of running the scheme and the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. The FSCS meets these current claims by way of loans received from HM Treasury.

The Bank is not aware of any plans by the FSCS to levy any costs to member firms in respect of any Financial institution failures in 2019 and therefore the provision at 31 December 2019 is nil. The Bank paid costs of £8k to the FSCS scheme in January 2019 in respect of Institutional failures in 2018.

Notes to the Financial Statements
(Continued)

25. Capital and reserves

- Share capital

	£'000		No. of shares	
	2019	2018	2019	2018
Ordinary shares of £1 each authorised, issued and fully paid				
1 January	44,955	23,955	44,955,000	23,955,000
Shares issued during the year	-	21,000	-	21,000,000
31 December	44,955	44,955	44,955,000	44,955,000

Perpetual subordinated contingent convertible loan notes				
1 January	22,900	12,900	22,900,000	12,900,000
Authorised notes issued during the year	-	10,000	-	10,000,000
Fully paid notes as at 31 December	22,900	22,900	22,900,000	22,900,000

The holders of 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 Bank.

Dividends on ordinary shares are recognised in equity in the period in which they are approved by shareholders. No ordinary share dividends were paid in 2019 (2018: Dividends on ordinary shares of £1m were paid during the year).

During the year there were no new shares authorised or issued (2018: 21m ordinary shares). There were no new issues of any convertible loan notes (2018: £10m).

Cambridgeshire County Council holds the perpetual subordinated contingent convertible loan notes. Interest on these securities is due and payable only at the sole discretion of the Bank.

- Fair value through other comprehensive income reserve (FVOCI reserve)

The FVOCI reserve includes the cumulative net change in the fair value of financial assets until the investment is derecognised or impaired. The reduction in 2019 reflects the sale of the Bank's gilt portfolio. The remaining £2k relates to the original transition to IFRS accounting standards.

£'000	2019	2018
FVOCI reserve as at 31 December	73	36
FVOCI financial assets - net change during the year	(86)	48
Related tax	15	(11)
FVOCI Reserve as at 31 December	2	73

- Convertible loan note interest payments

The following convertible loan note interest payments were recognised as distributions to owners during the year ended 31 December:

£'000	2019	2018
Convertible loan note interest 6.362 pence per loan note (2018: 6.1613 pence per loan note)	1,457	795
Total	1,457	795

26. Employee benefits

- Defined contribution pension plans

The defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

The Bank operates a defined contribution Personal Pension Scheme, which is provided by Royal London, and also contributes to the personal pension plans of certain employees. The pension cost for the year represents the contributions payable by the Bank under these arrangements and amounted to £750k (2018: £701k)). There was an outstanding contribution due of £75k (2018: £82k) at the end of the year.

27. Financial instruments and fair values

The Bank has set out in notes 22,27,28, how it classifies financial assets and liabilities under IFRS 9.

The following table summarises the classification and carrying amounts of the Bank's financial assets and liabilities:

2019 £'000	Amortised cost	At fair value through other comprehensive income	At fair value through profit or loss	Liabilities at amortised cost	Total
Cash & balances at central banks	228,972	-	-	-	228,972
Loans and advances to banks	7,695	-	-	-	7,695
Loans and advances to customers	761,503	-	-	-	761,503
Total	998,170	-	-	-	998,170
Customers' accounts	-	-	(28)	854,477	854,449
Derivatives	-	-	31	-	31
Total	-	-	3	854,477	854,480

2018 £'000	Amortised cost	At fair value through other comprehensive income	At fair value through profit or loss	Liabilities at amortised cost	Total
Cash & balances at central banks	232,286	-	-	-	232,286
Loans and advances to banks	14,384	-	-	-	14,384
Debt securities	-	13,350	-	-	13,350
Loans and advances to customers	769,016	-	-	-	769,016
Total	1,015,686	13,350	-	-	1,029,036
Customers' accounts	-	-	(90)	901,488	901,398
Derivatives	-	-	94	-	94
Total	-	-	4	901,488	901,492

Derecognition

The following sets out how the Bank derecognises assets and liabilities and fair values its assets in accordance with IFRS 9:

- Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the associated cash flows expire, or the Bank transfers the financial asset and the transfer qualifies for derecognition in accordance with the provisions set out in IFRS 9. To qualify for a transfer the Bank must meet either of the following:

- The contractual right to receive the cash flows of the financial asset have been transferred; or
- The contractual right to receive the cash flows of the financial asset is retained by the Bank, but the Bank also assume a contractual obligation to pay the cash flows to one or more recipients.

In respect of point 2 above, the Bank assess whether the following three conditions are all met before treating the financial asset as having been derecognised:

- The Bank assumes no obligation to pay amounts to the eventual recipients unless those amounts have been collected from the original financial asset;
- The Bank is prohibited under the terms of the transfer contract from selling or pledging the original asset, other than as security to the recipients of the cash flows; and
- The Bank has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. The Bank may also not reinvest any such cash flows received.

Where the above criteria are met, and a transfer is deemed to have occurred, the Bank evaluate the extent to which it retains the risk and rewards of ownership of the financial asset. Where the Bank determines that the risk and reward of ownership of the assets has been transferred, the Bank derecognises the asset. If the Bank determines that the risk and reward remains with them, the asset is not derecognised and remains in the statement of financial position.

On derecognition of the financial asset, the Bank recognises the difference between the carrying amount of the asset and the consideration received in its profit or loss.

- Derecognition of financial liabilities

The Bank derecognises a financial liability only when the obligation, which is specified in the contract has been discharged, is cancelled or expires. The Bank may also be required to derecognise a financial liability where there has been a substantial modification. A modification is considered to be substantial where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Fair value

Fair value of financial assets and financial liabilities are based on quoted market prices. If the market is not active, the Bank establishes a fair value by using appropriate valuation techniques.

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

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable either directly (e.g. prices) or indirectly (e.g. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data.

Key considerations in the calculation of the disclosed fair values for those financial assets carried at amortised cost include the following:

- Cash and balances at central banks

These represent amounts with an initial maturity of less than 3 months and their carrying value is considered to be the fair value.

- Loans and advances to banks

These represent amounts with a maturity of less than 3 months, where adjustments to fair value in respect of the credit rating of the counterparty are not considered necessary. The carrying value of the asset is considered to be the fair value.

- Loans and advances to customers

The Bank's standard lending is via products with a variable interest rate, which it considers equivalent to a current market product rate. Therefore, the Bank considers the discounted future cash flows of these mortgages to be equal to the carrying value. The Bank has a small number of real estate loans that have a fixed interest rate, which the Bank considers to be aligned to current market rates. All of the Bank's hire purchase and finance lease accounts have a fixed interest rate. The Bank considers these to be aligned to current market rates.

Notes to the Financial Statements
(Continued)

- Customers' accounts

Customers' accounts at variable rates are at current market rates and therefore the Bank regards the fair value to be equal to the carrying value. The fair value of fixed rate customers' accounts that have been designated as hedged with interest rate derivatives have been determined by discounting estimated future cash flows based on market interest rates on equivalent deposits. The unhedged portion of fixed rate deposits comprise primarily of short-term bonds whose rates are considered to be in line with the market rates.

- Debt securities

Where securities are actively traded in a recognised market, with available and quoted prices, these have been used to value these instruments. These securities are therefore regarded as having level 1 fair values.

- Derivatives

The fair values of derivative assets and liabilities are calculated based on the present value of future interest cash flows, discounted at the market rate of interest at the balance sheet date. The Bank has not been required to post any collateral in respect of its derivatives.

Derivative financial liabilities are classified at fair value through profit or loss.

The fair values of all financial assets and financial liabilities by class together with their carrying amounts and fair value valuation level are as shown in the following table.

£'000	2019					
	Level 1		Level 2		Level 3	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets						
Cash & balances at central banks	228,972	228,972	-	-	-	-
Loans and advances to banks			7,695	7,695	-	-
Loans and advances to customers	-	-	-	-	761,503	761,503
Financial liabilities						
Customers' accounts	-	-			854,449	854,449
Derivatives	-	-	31	31	-	-

£'000	2018					
	Level 1		Level 2		Level 3	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets						
Cash & balances at Central banks	232,286	232,286	-	-	-	-
Loans and advances to banks			14,384	14,384	-	-
Debt securities	13,350	13,350	-	-	-	-
Loans and advances to customers	-	-	-	-	769,016	769,016
Financial liabilities						
Customers' accounts	-	-			901,398	901,398
Derivatives	-	-	94	94	-	-

- The fair values of the Bank's debt securities (UK Gilts and EIB bonds) are based on quoted bid prices in active markets.
- The fair value of derivative assets and liabilities are determined using widely recognised valuation models for determining the fair values of interest rate swaps.
- There have been no transfers between levels in 2019 or 2018.

28. Financial risk management

A key component of the Bank's business is the effective management of risk in order to ensure that the Bank maintains sufficient capital, liquidity and controls at all times and acts in a reputable way, taking into account the interests of customers, Regulators and shareholders. The principal risks the Bank is exposed to are;

- Credit risk – loans and advances to customers
  – loans and advances to banks and debt securities
- Liquidity risk
- Market risk
- Operational risk
- Capital adequacy

The Bank's Enterprise Risk Management Framework and Risk Appetite is set out in the Risk Management report.

- Credit risk – loans and advances to customers

Credit risk is the risk of financial loss to the Bank if a customer to a financial instrument fails to meet its contractual obligations.

Credit risks associated with lending are managed through the use of detailed lending policies which outline the approach to lending, underwriting criteria, credit mandates, concentration limits and product terms. The Bank seeks to mitigate credit risk by focusing on business sectors where it has specific expertise and through limiting concentrated exposures on larger loans, certain sectors and other factors that can represent higher risk. The Bank also seek to obtain security cover and where appropriate, personal guarantees from borrowers. Credit risk is principally assessed through the manual underwriting of all transactions.

The Board Risk & Compliance Committee has oversight responsibility for credit risk.

- Credit exposure

The Bank's maximum exposure to credit risk after provisions for impairment is as follows:

£'000	2019	2018
Cash and balances at central banks	228,972	232,286
Loans and advances to banks	7,695	14,384
Debt securities	-	13,350
Loans and advances to customers*	769,684	777,084
	1,006,351	1,037,104
Commitments to lend**	50,660	43,868
Gross credit risk exposure	**1,057,011**	**1,080,972**
Less allowance for impairment losses	(8,181)	(8,068)
Net credit risk exposure	**1,048,830**	**1,072,904**

*net of Effective Interest Rate liability of £2.3m (2018: £2.9m).
**Commitments to lend represent agreements entered into but not advanced as at 31 December.

The above table represents the maximum credit risk exposure to the Bank at 31 December 2019 and 2018 without taking account of any underlying security. At 31 December 2019 the value of securities held as collateral against drawn loans and advances to customers is £1,348m (2018: £1,339m) of which £1,286m (2018: £1,290m) is in the form of property, £62m in the form of assets owned by the Bank and financed by customers using hire purchase and finance leases and £0.8m (2018: £0.8m) is in the form of cash deposits.

Notes to the Financial Statements
(Continued)

- Credit risk management

The Bank specialises in providing lending for Small and Medium Enterprises (SMEs). Its lending is secured on property. The Bank lends to owner occupied businesses to invest in their own commercial premises, as well as to experienced commercial and residential property investors. It also has a growing asset finance business providing finance to SMEs for business-critical assets and Classic Cars through hire purchase and finance lease facilities. At 31 December 2019 these loans totalled £62m (2018: £48m).

Credit risk is managed in accordance with lending policies, the risk appetite and risk management framework. Lending policies and performance against risk appetite are reviewed regularly. All applications are reviewed and assessed by a team of experienced underwriters.

All properties are individually valued, and detailed property reports are produced to ensure the property represents suitable security. Affordability assessments are also performed on all loans and other forms of security are often obtained, such as personal guarantees.

Real Estate Loans are secured on properties solely located in the UK, concentration risks are monitored, and credit exposures are diversified by sector and geography.

The Bank retains the ownership of all assets financed by hire purchase and finance leases.

- Concentration of credit risk

The Bank monitors concentration of credit risk by product type, borrower type, geographic location and loan size.

Lending by product and type %	2019	2018
Commercial real estate lending		
Residential	37%	40%
Commercial	52%	52%
Other	3%	2%
Asset finance	6%	6%
Classic Cars	2%	-
Total	100%	100%

The Bank's lending real estate portfolio is geographically diversified across the UK:

Region	2019	2018
East Anglia	1%	4%
East Midlands	20%	20%
Greater London	3%	4%
North East	4%	4%
North West	18%	19%
Scotland	6%	6%
South East	7%	6%
South West	7%	6%
Wales	7%	7%
West Midlands	8%	7%
Yorkshire/Humberside	19%	17%
Total	100%	100%

The Bank's total lending portfolio (by number of accounts) falls into the following concentration by loan size:

Loan size	2019	2018
0 - £250k	67%	66%
£251k -£500k	17%	17%
£501k-£1,000k	8%	9%
£1,001k-£3,000k	6%	7%
£3,001k+	2%	1%
Total	100%	100%

- LTV banding

The Bank's real estate lending balances falls into the following LTV bandings:

LTV banding	2019	2018
0-50%	24%	21%
51-60%	27%	24%
61-70%	46%	49%
71-80%	1%	3%
81+%	2%	3%
Total	100%	100%

- Credit risk – security

The Bank enters into loan agreements with customers and where appropriate takes security. The security profile of the loans receivable book is shown below:

	2019		2018	
	£m	%	£m	%
Secured on property	707	92%	729	94
Secured on other assets	62	8%	48	6
Total	769	100%	777	100

In addition to security over property, the Bank may also take additional security in the form of Director Guarantees and cash deposits. Collateralised deposits at the end of 2019 totalled £0.8m (2018: £0.8m).

- Credit risk – allowance for impairment losses (see also Note 16)

The Bank uses a forward-looking 'expected credit loss' (ECL) model to assess its credit risk. This requires considerable management judgement over how changes in economic factors affect ECLs, which are determined on a probability-weighted basis.

As the Bank has to date incurred limited arrears and losses in its initial seven years of trading, it has had to use significant management judgement in calibrating the weightings and values. Over time as the Bank obtains more performance data, it will continue to develop its models and incorporate this performance data into them.

<u>Expected credit loss recognition</u>

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECL or lifetime ECL. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument (in the Bank's case for customer loans and advances this is the same average life assumption as used for its effective interest rate calculation), whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12-month period after the reporting date, based on the estimated loss curve.

In respect of real estate lending, the Bank recognises loss allowances at an amount equal to lifetime ECL, except where the credit risk has not increased significantly since initial recognition and repayments are fully up to date. For these the amount recognised will be 12-month ECL.

<u>Inputs into measurement</u>

The inputs into the measurement of ECLs include the following variables:

- Probability of default (PD): A series of quantitative and qualitative variables are assessed for each loan and a customer grade calculated. The drivers include customer character, property type and location. The customer grade is converted to a PD using a default curve based on historic performance, management judgement and industry benchmarking.
- Loss given default (LGD) is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counter parties and management experience. The Bank calculates its real estate LGD using the drivers of loan to value ratio (LTV).
- Expected credit loss (ECL) percentage: By taking the appropriate PD and LGD, the Bank can calculate an ECL percentage.

Notes to the Financial Statements
(Continued)

- **Exposure at default (EAD)** represents the expected exposure in the event of a default. The Bank will derive the EAD from the current exposure to the counterparty and any potential changes to the current amount allowed under the contract. The Bank does not have a significant amount of undrawn commitments linked to existing customer loan agreements and any new commitments would not be drawn in the event that the Bank considered them likely to cause a default.

The Bank defines default where the loan is in arrears for four or more consecutive payments (i.e. over 90 days), the loan is linked to another account in default, the customer has been declared bankrupt or the company has been wound up or a liquidator/administrator appointed. This is aligned to the regulatory definition of default.

Credit risk grades

The Bank allocates each exposure a credit risk grade (slot) using its Credit Grading Model. Each exposure has been allocated a credit risk grade on initial recognition. Credit grades are formally reviewed as a minimum on an annual basis. The grades are reassessed earlier if the customer falls into arrears or contacts the Bank with information that impacts its credit quality.

The table below presents the Bank's real estate lending portfolio split by slot. Each loan account is allocated a slot between 1 and 4 with accounts in default allocated a slot 5.

Real estate lending split by slot as at 31 December 2019	Stage 1 (£m)	Stage 2 (£m)	Stage 3 (£m)	Total (£m)
1	-	-	-	-
2	123	2	-	125
3	469	15	-	484
4	53	20	-	73
5	-	-	25	25
Real Estate Gross loans*	645	37	25	707

*Excluding EIR liability of £3.5m

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Provisioning stages

Under IFRS 9 all the Bank's lending exposures are allocated a stage based on the current status of the loan. The Bank has set the following definitions for each of the three stages within IFRS 9:

IFRS 9 Stage	Definition	Provisioning Basis	Cure Criteria
Stage 1	- All performing loans which do not feature on the watchlist. - Loans which have no arrears on them.	12 month Expected Credit Losses	n/a
Stage 2	- The customer is at least 30 days in arrears and the arrears do not relate to administrative (e.g. incorrect standing order or direct debit) or system errors. - The customer is in forbearance and does not meet the criteria to be classified as a stage 3 forborne exposure. - The customer is on the Bank's watchlist. -The loan has been restructured due to arrears. - The underlying loan collateral is located in a particular region or sector deemed to be of higher risk by the Credit Committee where appropriate. - Any other significant decline in credit quality identified by the Bank.	Lifetime Expected Credit Losses	Movement back to stage 1 will only occur where the borrower meets all of the following: - Arrears have been fully cleared on the account. - The account has been 'performing' for a period of at least 6 consecutive months. - The account has met all the terms of any forbearance measure and a period of 6 consecutive months have passed since the forbearance ending, and the account has been 'performing' for this period. - The account has been removed from the Bank's watchlist and is not considered to have an increase in credit risk for internal risk management purposes. - There are no other indicators that suggest credit risk has increased significantly since initial recognition. - There are no connected accounts which meet the definition of a stage 2 account.
Stage 3	- The account is over 90 days past due. - The customer has been declared bankrupt. - The company has been wound up or a liquidator/administrator has been appointed. - The account is part of a connected exposure where the borrower meets at least one of the above criteria across any connected account. - The account is in forbearance and the forbearance arrangement is considered to be 'significant'.	Lifetime Expected Credit Losses	Movement from stage 3 back to stage 2 will only occur when the borrower meets all of the following: - The account is no longer more than 90 days down. - No connected accounts are more than 90 days down. - The customer has not been more than 90 days down for a consecutive period of 3 months. - Where forbearance was extended, all terms of the forbearance have been met and full payments have been made for a period of at least three months. - The Bank are actively seeking resolution and have obtained cooperation from the borrower to work to resolve the arrears. - There are no other indicators of default which would warrant the account remaining in stage 3

Notes to the Financial Statements
(Continued)

Under IFRS 9 customers may move from a stage 1 provision exposure to a stage 2 exposure as a result of a significant increase in credit risk. To determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition the Bank reviews each account annually or more regularly should the customer's payment record show any deterioration.

As a backstop, and as required by IFRS 9, the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due.

For an account to be 'cured' i.e. evidence a significant reduction in credit risk, and return from stage 2 to stage 1, the customer would need to demonstrate a good track record of payments for at least 6 months.

Movement from stage 3 to stage 2 will only occur when the borrower satisfies all the criteria in the table above.

The table below provides information on the payment due status of loans and advances to customers:

£'000	2019	2018
Neither past due nor impaired	733,179	741,203
Past due but not impaired:		
Up to and including 1 payment missed	5,245	9,474
Over 1 and up to 3 payments missed	4,081	13,611
Default – inc. credit impaired and IFRS stage 3 loans	27,178	12,796
Total	769,684	777,084
Less allowances for impairment losses	(8,181)	(8,068)
Total loans and advances to customers	761,503	769,016

Forbearance

The Bank can implement forbearance agreements for the servicing and management of customers who are in financial difficulty and require some form of concession to be granted, even if this concession entails a loss for the Bank. A concession may be either a modification of the previous terms and conditions of an agreement, which the borrower is considered unable to comply with due to financial difficulties or a total or partial refinancing of an agreement that would not have been granted had the borrower not been in financial difficulties.

The Bank may modify the contractual terms of a loan for several reasons, including to reflect changing market conditions or where forbearance (i.e. a renegotiation of the terms of a loan) is granted at the request of a borrower. This modification may have an impact on the IFRS 9 impairment provision stage to which as asset is allocated.

An existing loan whose terms have been modified may require derecognition and the renegotiated loan recognised as a new loan at fair value, with any adjustments taken through the profit or loss account. Derecognition is assessed using the same '10 percent' test applied to financial liabilities. Where a modification does not result in derecognition, the gross carrying amount of the asset is recalculated as the present value of the modified cash flows, discounted at the financial assets original effective interest rate. Any subsequent modification gain or loss is then recognised in the profit or loss amount.

When the terms of a financial asset are modified, and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparisons of:

- *the remaining lifetime PD at the reporting date based on the modified terms; with*
- *the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.*

Should modification result in a derecognition event, the Bank would make an assessment as to whether the new financial asset is credit impaired at initial recognition.

Notes to the Financial Statements
(Continued)

The Bank has not, and does not expect to, renegotiate a significant number of loans. All loans in forbearance are treated as being in a minimum of stage 2 for IFRS 9 provisioning purposes and the lifetime ECL is recognised for the period of forbearance and an appropriate cure period.

Forbearance can be temporary or permanent depending on the circumstances, progress on rehabilitation and the detail of the concession agreed.

As at 31 December 2019 there were seven customers who had forbearance arrangements in place (2018: four).

Write-off

A write off is a direct reduction in a financial assets gross carrying value when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. A write off therefore constitutes a derecognition event. The Bank has experienced a total of 11 write offs on its REF portfolio and 4 write offs on its AF portfolio since its inception. The Bank will write off all or part of the gross carrying amount of a financial asset under the following circumstances:

- Where the underlying collateral of a loan has been sold, with the proceeds having been received by the Bank, and there is no reasonable expectation of recovering the remainder of the outstanding balance;
- The write off has been approved in line with the Bank's policy; and
- The Bank have explored reasonable avenues of recovering the outstanding loan amount.

The release of provisions and the write-off of any bad debt is subject to appropriate delegated authorities.

Forward looking information

IFRS 9 requires ECLs to be calculated in an 'unbiased and probability weighted basis that is determined by evaluating a range of possible outcomes'. For REF lending the Bank apply a range of scenarios in the calculation of the weighted average impairment provision, on the following basis:

Scenario	Weighting Applied 2019	Weighting Applied 2018
1. Base Case	60%	65%
2. Downside	10%	25%
3. Severe Downside	10%	5%
4. Upside	20%	5%

When the weightings above are applied to each respective provision, the Bank arrive at a stage 1 and stage 2 provision which is both probability weighted and inclusive of forward-looking economic information.

For stage 3 REF loans, the Bank calculate the provision, on an account by account basis, using the same 4 scenarios. The scenarios are aligned to those which have been used within the stage 1 and 2 provisioning. Stage 3 loans are considered in default and therefore attract a 100% PD. The Bank do not adjust the PD within each scenario. The Bank adjust the LGD element of the stage 3 ECL calculation via the application of a forced sale discount which is applied to the collateral valuation. Whilst the stage 3 provisions vary on the valuation type used (market value versus forced sale) the Bank apply consistent adjustments when arriving at the weighted provision. The weightings for each scenario are consistent with those used in the stage 1 and stage 2 provisioning.

The Bank also consider whether or not the application of the above scenarios may have an impact on the staging classification of accounts.

Sensitivity

The Bank has considered the potential impact on its loan loss provision as a result of changes in both the weightings of the forward-looking economic scenarios and changes in the macro economic forecasts. The tables below show the results of this analysis.

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% change in scenario weighting		Real estate loan provision impact	AF & CV&S loan loss provision impact
-10% reduction in base case	+2.5% downside +2.5% severe downside +5% upside	+£0.3m	+£0.005m
+5% increase in base case	-1.25% downside -1.25% severe downside -2.5% upside	-£0.2m	- £0.003m

% change in base case macroeconomic variable	Real estate loan provision impact
Residential house price increase by 20% more than the base case Commercial property prices increase by 20% more than the base case	-£0.1m
Residential house price decrease by 20% more than the base case Commercial property prices decrease by 20% more than the base case	+£0.1m

A 10% increase in the Bank's Real Estate Loans in Stage 2 would result in a £102k increase in the Bank's Real Estate Loan loss provision.

- Credit risk – loans and advances to banks and debt securities

Credit risk exists in respect of Loans and Advances to Bank's and Debt securities where the Bank has acquired securities or placed cash deposits with other financial institutions. No assets are held for speculative purposes or actively traded. Certain liquid assets are held as part of the Bank's liquidity buffer.

The Bank hold balances in its Bank of England reserve account, along with nostro accounts held with RBS and Barclays. The counterparties to which the Bank is exposed are domestically and globally systemic banks, and as such the Bank considers that the risk of default across these balances is extremely low. The Bank's debt securities have been held in UK Government gilts.

The Bank consider that the loans and advances to Banks and the debt securities are of low credit risk and as such provide for a 12-month ECL, consistent with the assets being classified in stage 1.

The Bank monitors its exposures to all counterparties on an ongoing basis and whether there have been any changes in the credit rating which may cause an increase in the probability of said counterparty default. As at 31 December 2019 the Bank held no provisions against loans and advances to banks given the low credit risk of these financial instruments, their high propensity to meet contractual cash flow obligations as they fall due and the instant access terms of these balances.

The table below sets out the credit quality of the Bank's on-balance sheet Loans and Advances to Bank's and Debt securities. Full details on the Bank's derivative instruments can be found in Note 21.

£'000	2019	2018
Cash and balances at central banks	228,972	232,286
Deposits at other banks - Rated A or above*	7,695	14,384
UK Government Gilts	-	13,350
Derivatives held for risk management purposes** - Rated BAA or above*-	(31)	(94)

*Ratings based on Moody's long-term rating
**Net assets

The Bank's Loans and Advances to Banks and Debt Securities credit risk is managed through a series of policies and procedures including:

- Cash placements - Credit risk of counterparties is controlled through the counterparty placements policy, which limits the maximum exposure by entity where the Bank can place cash deposits.
- Gilts and Treasury Bills - As part of the liquidity buffer, the Bank has held a portfolio of Gilts. These instruments carry sovereign risk. The Bank sold its gilt portfolio in 2019 however, may consider purchase of new holdings in future periods.
- Derivatives - Credit risk on derivatives is controlled through a policy of only entering into contracts with a limited number of UK credit institutions, with a credit rating of at least BAA (using Moody's long-term rating) at inception.

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- Liquidity risk

Liquidity risk is the risk of being unable to fund assets and meet obligations as they fall due without incurring unacceptable losses.

The Bank's Board of Directors sets the Bank's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to the Assets & Liabilities Committee (ALCO). ALCO manages the Bank's liquidity policies and procedures mandated by the Board's Risk & Compliance Committee. The Bank's liquidity position is monitored on a day-to-day basis and a summary report, including any exceptions and remedial action taken, is provided to management on a daily basis.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained.

Regular liquidity stress testing is conducted across a variety of scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account both Bank-specific events (e.g. a negative media comment) and market-related events (e.g. prolonged market illiquidity, reduced fundability of currencies, natural disasters or other catastrophes).

The Bank's key liquidity risk management drivers include the following items:

- Deposit funding risk

The deposit funding risk is the primary liquidity risk driver for the Bank. This could occur if there was a concern by depositors over the current or future credit worthiness of the Bank. The Bank mitigates this risk with a high proportion of its deposits being protected by the UK Government's Financial Services Compensation Scheme (FSCS) and by having a diversified mix of deposit accounts with varying maturity profiles.

- Pipeline loan commitments

The Bank needs to maintain liquidity to cover the outstanding pipeline of loan offers. Although certain pipeline offers may not be legally binding, the failure to adhere to an expression of intent to finance a loan brings reputation risk, therefore liquidity is held for such pipeline offers.

- Contingency funding plan

The Bank is required to maintain a Resolution, Recovery and Liquidity Funding Contingency Plan documents by its Regulator, the PRA. The plans involve a two-stage process, covering preventive measures and corrective measures to be invoked when a potential or actual risk to the Bank's liquidity or capital position arises from either an internal or external event. The plans set out what actions the Bank would take to ensure it complies with the liquidity adequacy rules and operate within its risk appetite and limits set by the Board.

- Funding for Lending Scheme (FLS)

The Bank is a participant in the FLS, which enables it to borrow highly liquid UK Treasury Bills in exchange for eligible collateral. The Treasury Bills issued are for an original maturity of nine months and if delivered back prior to their maturity date can be exchanged for further nine-month bills until January 2022 when the FLS scheme ends. Costs of borrowing are charged directly to the income statement.

The Treasury Bills are not recorded on the Bank's balance sheet as ownership remains with the Bank of England. The risk and rewards of the collateral provided remains with the Bank and continues to be recognised in the Bank's financial statements.

The Bank monitors its liquidity risk using a number of metrics including the liquidity coverage ratio, its loan to deposits ratio and an internal survival days metric. The Bank's liquidity coverage ratio at 31 December 2019 was 463% (2018: 331%) and the gross loans to deposit was 90% (2018: 86%).

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The table below analyses the Bank's contractual undiscounted cash flows of its financial liabilities. Customer deposits includes any accrued interest as at 31 December. The contractual date is the earliest repayment date of the deposits.

31 December 2019 £'000	Total	Undiscounted contractual cash flows		
		Less than 3 months	3 months to 1 year	Greater than 1 year
Liabilities				
Customer deposits	854,449	320,921	443,095	90,433
Derivatives	31	-	-	31
Total	854,480	320,921	443,095	90,464

31 December 2018 £'000	Total	Undiscounted contractual cash flows		
		Less than 3 months	3 months to 1 year	Greater than 1 year
Liabilities				
Customer deposits	901,398	391,758	441,027	68,613
Derivatives	94	-	-	94
Total	901,492	391,758	441,027	68,707

The following table sets outs the Bank's liquid assets:

£'000	2019	2018
Balances with Central banks	228,972	232,286
Loans and advances to banks	7,695	14,384
Debt securities	-	13,350
Total	236,667	260,020

The following table sets outs the Bank's off-balance sheet assets:

£'000	2019	2018
Funding for Lending Scheme Treasury Bills	77,000	106,000
Total	77,000	106,000

- Asset encumbrance

The Bank's assets can be used to support collateral requirements for central bank operations, or third party repurchase transactions. Assets that have been set aside for such purposes are classified as 'encumbered assets' and cannot be used for other purposes. All other assets are defined as 'unencumbered assets'. These comprise assets that are readily available to secure funding or meet collateral requirements and assets that are not subject to any restrictions but are not readily available for use.

As at 31 December 2019 the Bank held £77m (2018: £106m) of Treasury bills under the Funding for Lending Scheme (FLS). These Treasury bills are held off balance sheet, and as at 31 December 2019 they had not been monetised. The Bank has a total of £158m (2018: £197m) of loans which are available as collateral to support FLS and DWF drawings.

- Market risk

Market risk is the risk that changes in market rates negatively impact the earnings or market value of the Bank's assets or liabilities. All of the Bank's exposure to market risks relates to non-trading portfolios. The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

- Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in market interest rates. Interest rate is the main market risk faced by the Bank and primarily arises from loans and deposits to customers, liquidity holdings and debt securities. Oversight of interest rate risk is monitored by ALCO on a monthly basis and is managed through the use of appropriate financial instruments, including derivatives, with established risk limits, reporting lines, mandates and other control procedures in place.

Interest rate risk consists of asset-liability gap risk and basis risk.

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- Asset-liability gap risk

Where possible the Bank seeks to match the interest rate structure of assets with liabilities, creating a natural hedge. Where this is not possible the Bank will enter into interest rate swap transactions to convert the fixed rate exposures on loans and advances, customer deposits and debt securities into variable rate exposures.

- Basis risk

Basis risk is the risk of loss arising from changes in the relationship between interest rates, which have similar but not identical characteristics. This risk is managed by matching and, where appropriate, through the use of derivatives with established risk limits and other control procedures.

The Bank's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed in line with PRA guidance. The following table summarises the re-pricing periods for the Bank's assets and liabilities. Items are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date.

The interest rate sensitivity exposure of the Bank at 31 December 2019 was:

31 December 2019 £'000	Within 3 months	More than 3 but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-Interest Bearing	Total
Assets							
Cash and balances at central banks	228,972						228,972
Loans and advances to:							
Banks	7,695						7,695
Customers	707,269	9,916	9,996	41,336	2,081	(9,095)	761,503
Other						5,898	5,898
Total Assets	943,936	9,916	9,996	41,336	2,081	(3,197)	1,004,068
Off balance sheet assets							
Derivatives				5,000			5,000
Liabilities							
Customers accounts	(644,281)	(25,458)	(90,175)	(89,679)		(4,856)	(854,449)
Other Liabilities						(7,466)	(7,466)
Total Equity		(22,900)				(119,253)	(142,153)
Total liabilities	(644,281)	(48,358)	(90,175)	(89,679)	-	(131,575)	(1,004,068)
Off Balance sheet items:							
Notional value of derivatives	(5,000)						(5,000)
Interest Rate Gap	294,655	(38,442)	(80,179)	(43,343)	2,081	(134,772)	-
Cumulative gap	294,655	256,213	176,034	132,691	134,772	-	-

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The interest rate sensitivity exposure of the Bank at 31 December 2018 was:

31 December 2018 £'000	Within 3 months	More than 3 but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-Interest Bearing	Total
Assets							
Cash and balances at central banks	232,286						232,286
Loans and advances to:							
Banks	14,384						14,384
Customers	727,727	3,637	7,988	34,097	2,550	(6,983)	769,016
Debt Securities				13,000		350	13,350
Other						3,052	3,052
Total Assets	974,397	3,637	7,988	47,097	2,550	(3,581)	1,032,088
Off balance sheet assets							
Derivatives					5,000		5,000
Liabilities							
Customers accounts	(712,883)	(15,387)	(104,513)	(68,615)			(901,398)
Other Liabilities						(5,510)	(5,510)
Total Equity		(22,900)				(102,280)	(125,180)
Total liabilities	(712,883)	(38,287)	(104,513)	(68,615)	-	(107,790)	(1,032,088)
Off Balance sheet items:							
Notional value of derivatives	(5,000)						(5,000)
Interest Rate Gap	256,514	(34,650)	(96,525)	(21,518)	7,550	(111,371)	-
Cumulative gap	256,514	221,864	125,339	103,821	111,371	-	-

Sensitivity analysis

The Bank considers a 200 basis points (bps) movement to be appropriate for scenario testing given the current economic outlook and industry expectations.

The Bank estimates that a +/-200bps movement in interest rates paid/received would have impacted the overall balance sheet values as follows:

+200bps: -£1.9m (2018: -£1.5m)

-200 bps: £2.1m (2018: £1.6m)

This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

- Foreign currency risk

The Bank has no deposit accounts denominated in € or $.

- Equity price risk

The Bank does not undertake any equity investments and therefore is not exposed to equity market risk.

- Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, people and systems or from external events that cause regulatory censure, reputational damage, financial loss, service disruption and/or customer detriment.

The Bank's objective is to manage operational risk in order to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, Bank policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has delegated responsibility for operational risk to the Risk & Compliance Committee, which is responsible for the oversight of the management of the full range of operational risks it faces, including:

- People
- Fraud
- Execution, delivery and process management
- Information security and management
- Technology and cyber security
- Model
- Supplier
- Change management/execution
- Employment practices and workplace safety
- Conduct
- Operational resilience

The Bank uses various tools to monitor its exposure to operational risk, including Risk and Control Self Assessments, monitoring of operational risk events, scenario analysis and the use of key risk indicators.

- Capital management

The Bank manages its capital under the Capital Requirements Regulation (CRR) and Capital Requirements Directive (together referred to as CRD IV) framework. The framework is enforced in the UK by the Prudential Regulation Authority (PRA) who sets and monitors capital requirements for the Bank.

The Bank's policy is to maintain a strong capital base to maintain investor and market confidence and to sustain the future development of the business. The Board manages its capital levels for both current and future activities and documents its risk appetite and capital requirements during stress scenarios as part of the Bank's Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP represents the Board's risk assessment for the Bank and it is used by the Board, management and shareholders to understand the levels of capital required to be held over the short and medium term and to assess the reliance of the Bank against failure. The Bank submitted its last ICAAP to the PRA in February 2019. The Bank presents regular reports on the current and forecast level of capital to Executive Committee, ALCO, Risk & Compliance Committee and to Board. The key assumptions and risk drivers used to create the ICAAP are regularly monitored and reported and any material deviation from the forecast and risk profile of the Bank would require the ICAAP to be reviewed.

The Bank's Total Capital Requirement (TCR) is set by its regulator, the PRA. During 2019 the Bank's TCR was 11.6% of Risk Weighted Assets. The Bank's regulatory capital at 31 December 2019 totalled £139.7m (2018: £124.3m), (before IFRS 9 transitional relief). In addition to the TCR requirement the Bank is required to hold additional capital buffers, referred to as Pillar 2B, which includes the Counter Cyclical Buffer and the Capital Conservation Buffer. The Capital Conservation Buffer was the Counter Cyclical Buffer requirements at 31 December 2019 were 2.5% and 1% respectively.

As at 31 December 2019, the Bank's regulatory capital consists entirely of Tier 1 capital which includes ordinary share capital, convertible loan notes, retained earnings, reserves, and deductions for intangible assets which are included in equity although treated differently for capital adequacy purposes.

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- Impact of IFRS 9 on capital planning

The Bank's regulator issued guidelines on the transition requirements for the implementation of IFRS 9. The guidelines allow a choice of approaches to the recognition of the impact of adoption of the standard on regulatory capital as follows:

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

The Bank elected to adopt the phased approach and has informed its regulator of this decision. Under the transition guidelines the financial impact of the increase in provision balances on Tier 1 regulatory capital is phased in over 5 years with 85% of the increase in requirements being excluded in 2019 (95% in 2018), 70% in 2020, 50% in 2021 and 25% in 2022.

The principal impact on the Bank's regulatory capital of the implementation of IFRS 9 arose from the impairment calculation methodology. The Bank's capital requirement is calculated based on the gross exposures net of specific provisions.

The tables below set out the Bank's capital resources at 31 December and reconciles these resources to the Bank's reported regulatory capital.

£'000	31 December 2019	31 December 2018
Tier 1		
Ordinary share capital	44,955	44,955
Perpetual subordinated contingent convertible loan notes	22,900	22,900
Retained earnings	74,296	57,252
FVOCI reserve	2	73
Deductions: Intangible assets	(791)	(846)
Other deductions*	(1,688)	-
Total Tier 1 capital	139,674	124,334
Tier 2		
Total Tier 2 capital		-
Total regulatory capital before IFRS 9 transitional relief**	**139,674**	**124,334**
IFRS 9 transitional relief	2,696	2,905
Total regulatory capital after IFRS 9 transitional relief	**142,370**	**127,239**

£'000	31 December 2019	31 December 2018
Equity as per statement of financial position	142,153	125,180
Regulatory adjustments		
Less intangible assets	(791)	(846)
First loss tranche on BBB Enable Guarantee	(1,688)	-
Total regulatory capital before IFRS 9 transitional relief**	**139,674**	**124,334**
IFRS 9 transitional relief	2,696	2,905
Total regulatory capital after IFRS 9 transitional relief	**142,370**	**127,239**

*Other deductions from Common Equity Tier 1 Capital relates to the first loss element of the British Business Bank's Enable Guarantee that became effective in 2019. The Enable Guarantee provided the Bank with a facility to guarantee up to £50m of commercial loans. The guarantee, which for regulatory reporting purposes is treated as a synthetic securitisation enables the Bank to risk weight the loans within the guarantee at 0%. The reduction in capital requirements as a result of the lower risk-weighting is partially offset by a requirement to hold capital to cover the first £1.688m of losses arising from the loans within the guarantee. The £1,688k is referred to as the Bank's first loss element.

**after applying the transitional factor.

29. Leases

The Bank's head office lease was previously reported as an operating lease under IAS 17. Following the application of IFRS 16 from 1 January 2019 the Bank recognises this lease on balance sheet using a value for the lease and lease liability calculated as the present value of the remaining lease payments discounted at the Bank's incremental borrowing rate. This right-of-use asset has been measured at an amount equal to the lease liability, adjusted by the amount of any pre-paid or accrued lease payments.

The Bank already recognised the value of its leases in relation to its IT printers on its balance sheet prior to IFRS 16 being applied.

The Bank has not recognised right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application. The Bank has 3 leases for its regional offices which meet these criteria. The short-term nature of these leases provides the Bank with the flexibility to move premises as business needs change. The offices are all located in major UK cities and alternative premises are readily available should the Bank require larger or smaller offices. Whilst these leases include renewal options, the renewal is not certain and therefore no value for the lease is recorded within the Bank's property, plant and equipment balance sheet category.

Right of use asset (£'000)	Property	Computer Hardware - Printer	Total
Balance at 1 January 2019	-	35	35
Lease additions	2,430	111	2,541
Lease disposals	(400)	(24)	(424)
Depreciation charged to P&L	(57)	(20)	(77)
Balance at 31 December 2019	**1,973**	**102**	**2,075**

Lease liability (£'000)	Property	Computer Hardware - Printer	Total
Balance at 1 January 2019	-	35	35
Lease additions	2,430	111	2,541
Lease disposals	(400)	(35)	(435)
Interest charged to P&L	54	3	57
Lease payments	(22)	(13)	(35)
Balance at 31 December 2019	**2,062**	**101**	**2,163**

30. Commitments

At 31 December 2019, the Bank had undrawn credit lines commitments of £50.7m (2018: £43.9m) and capital commitments of £nil (2018: £1.0m).

At 31 December 2019, the Bank had contingent liabilities of £nil (2018: £nil).

31. Related parties

Related parties of the Bank include key management personnel and entities that have a significant voting power. The following transactions with related parties are included in the profit and loss account for the period.

- Transactions with Controlling parties

£'000	2019	2018
Cambridgeshire County Council		
Sums paid in respect of Directors' services	52	47
Interest payments on perpetual subordinated contingent convertible loan notes	1,457	795
Trinity Hall, Cambridge		
Hospitality services	6	6
Interest on 31-day business notice account	1	13

Notes to the Financial Statements
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The Bank continues to have a number of professional relationships with Trinity Hall. The Bank has used the college facilities and services for a number of meetings and events during 2019. Trinity Hall currently hold a 31-day business notice account. The account balance at 31 December 2019 was £93k (2018 £92k). The account earns interest at the standard rate for this type of account.

- Key management personnel compensation

The key management personnel of the company comprised the executive and non-executive directors of the Bank. The compensation of key management personnel is shown in the following table (see also note 11).

£'000	2019	2018
Directors' remuneration*	1,641	1,516
Amounts receivable under long term incentive schemes	-	67
Company contributions to defined contribution pension plans	103	94
Provision / Payments of compensation for loss of office	520	178
Amounts paid to third parties in respect of Directors' services	52	47
Total	2,316	1,902

* emoluments of the highest paid director were £472k (2018: £415k).

- Transactions with key management personnel

The amounts paid to third parties in respect of director's services relate to the non-executive director fees for Richard Perry in 2019 and Chris Malyon in 2018 (amounts paid to Cambridgeshire County Council for both 2019 and 2018).

Caroline Fawcett, an Independent Non-Executive Director is the Director of a company who had £96,027 (2018: £95,000) on deposit at the end of the year and accrued interest, at standard Bank rates, of £902 during the year (2018: £577).

There were no transactions in 2019 (2018: with Kiloran Howard Photography. Kiloran Howard Photography is a company run by the Vice Chairman's wife).

There were no loans outstanding to any directors at 31 December 2019 (2018: nil).

32. Ultimate parent company

The legal title to the ordinary share capital of the company is held equally by:

- Cambridgeshire County Council as Administering Authority of the Cambridgeshire Local Government Pension Fund; and
- The Master or Keeper, Fellows and Scholars of the Hall of the Holy Trinity in the University of Cambridge (commonly called Trinity Hall, Cambridge).

33. Subsequent events

There have been no significant quantifiable events between 31 December 2019 and the date of approval of the financial statements which would require a change to, or additional disclosure, in the financial statements. However, the emergence of the COVID19 pandemic in early 2020 is expected to have a wide-reaching impact across the UK and globally. We are continuing to monitor the situation and evaluate the impact on the Bank. It is too early to predict with sufficient certainty the full impact on either the Bank or its customer base of the UK Government interventions and recently launched initiatives including, but not limited to, CBILS, CCFF, JRS and TFSME.

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34. Standards issued but not yet adopted

A number of new standards and amendments to standards have been endorsed by the EU and are effective for annual periods beginning on or after 1 January 2020.

The Bank has not applied the following new or amended standards in preparing these financial statements.

New or amended standards	Summary of the requirements	Possible impact on financial statements
Amendments to IFRS 9 Financial Instruments	Prepayment Features with Negative Compensation (Amendments to IFRS 9) contains two amendments: • Financial assets containing prepayment features with negative compensation can now be measured at amortised cost. • Clarification that an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange.	The Bank has considered these amendments and considered that they will not have an impact on the financial statements.
Amendments to IFRS 3 Definition of a Business	Definition of a business in IFRS 3 contains the following amendments: • Narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs. • Introduce an optional concentration test to permit a simplified assessment.	The Bank has considered these amendments and considered that they will not have an impact on the financial statements.
Amendments to IFRS 17 Insurance Contracts	Insurance Accounting IFRS 17 contains the following amendments to be implemented by January 2022: • Amend the profit recognition pattern for insurance contracts to reflect insurance coverage and any investment services provided. • Insurers would be required to allocate part of the insurance acquisition cash flows directly attributable to newly issued contracts to expected contract renewals, meaning that such newly issued contracts are less likely to be onerous.	The Bank has considered these amendments and considered that they will not have an impact on the financial statements.

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35. Country by country reporting

The regulations under Article 89 of the CRD IV require the Bank to disclose the following information about the source of the Bank's income and the location of its operations:

Requirement	Disclosure
Name, nature of activities and geographical location	Cambridge & Counties Bank operates as a single entity exclusively in the United Kingdom. The principle activities of the Bank can be found in Note 1.
Average number of employees	As disclosed in Note 10 to the accounts.
Annual turnover and profit before tax	As disclosed in the Income Statement on page 49.
Corporation tax paid	As noted in the Cash Flow Statement on page 52.
Public subsidies	There were none received in the current or prior year.

Contact Details

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