Cambridge &
Counties Bank
Built on understanding

Annual report & financial statements 2020

Contents

Strategic Report

Contents
Strategic Report
Corporate Governance Statement
Independent Auditor's Report
Financial Statements
Notes to the Financial Statements

Strategic Report

Summary of Key Performance Metrics

Metric	2020	2019
Customer deposit balances	£917m	£854m
Gross new lending	£220m	£158m
Common Equity Tier 1 capital ratio	20.7%	19.4%
Liquidity Coverage Ratio	419%	463%
Total Capital ratio	24.3%	23.0%
Pre-tax Profit	£11.2m	£22.5m
Cost to income ratio	55.5%	43.9%
Cost of risk	72bps	20bps
Net interest margin	3.7%	4.2%
ROCE	6.4%	13.8%
Total Equity	£150m	£142m
Gross lending balances	£841m	£770m
Impairment coverage	1.5%	1.1%

Chairman's statement

Overview

As we signed off our 2019 accounts, we highlighted that 2020 was likely to be a challenging year, but nobody could have envisioned just what an extraordinary period we were about to enter. As a Board we took early decisions that we would focus our efforts on supporting our customers and colleagues through the emerging pandemic. This meant that we concentrated our operational resources on our existing business streams rather than government backed lending schemes where the focus on volume did not align with our way of doing business. At the same time, we put in place processes and procedures to allow 100% of our colleagues to work remotely and safely.

This focus on what we do well has resulted in a resilient financial performance for the year. We grew advances to customers by 8.8% reflecting continued customer demand that we were able to meet while maintaining credit quality and pricing disciplines. We funded the growth in advances through continued attraction of good quality customer deposits, which we grew by 7.3% in the year while reducing the cost of these deposits and maintaining a strong liquidity position. There were of course headwinds with record low base rates along with increased economic and market uncertainty reflected in an increased impairment charge through the income statement of £5.8m (2019: £1.6m) with total Balance Sheet provision of £12.5m (2019: £8.2m). These combined to result in a profit before tax of £11.2m (2019: £22.5m) which, while lower than 2019, does in the view of the Board, represent a resilient performance in these extraordinary times.

Capital

It is pleasing to note that we retain a high-quality capital base being able to resource the growth in the year alongside the increased impairment. The Bank delivered Common Equity Tier 1 (including IFRS9 transitional relief) of 20.7% (2019: 19.4%) with total capital at 24.3% (2019: 23.0%) at the year end.

Dividends

No dividends are proposed for payment.

The Board

As previously intimated 2020 saw two of our Executive Directors move on to the next stage in their careers. Mike Kirsopp retired as our Chief Executive Officer and the Board recognised Mike's tremendous efforts in building and sustaining the Cambridge & Counties Bank business since its inception. We wish him well in the next phase of his career. Rachel Curtis-Bowen our Chief Customer Officer decided that this year was the right time to develop her career outside of Cambridge & Counties Bank. Rachel left with the Board's gratitude for her contribution to the Bank's growth. Donald Kerr joined the Bank in November from Co-Operative Bank where he was Managing Director for their Small and Medium Enterprise (SME) franchise and was appointed Chief Executive Officer and appointed to the Board on 26 November 2020. The Board are pleased to note the successful transition of the Chief Executive responsibilities and look forward to working with Donald as he implements the Board's plans for the Bank.

Advances to customers

8.8%

growth

Outlook

Having suffered the worst economic shock ever, there can be no doubt that the measures put in place by policy makers in the Government and Regulators have mitigated many of the potential (and likely very severe) short term consequences for the UK. These efforts, combined with the capital buffers built by UK banks (including Cambridge & Counties Bank), has meant that we have been able to support short term forbearance for those customers who needed it while sustainably growing our franchise. While the path out of the health crisis is becoming clearer with a successful vaccine programme, the economic recovery will still depend on several factors including continued levels of policy maker support. Along with a number of commentators, we expect the UK economic outlook to improve in 2021, however we are mindful that there are a number of moving parts that could still result in the downside scenario occurring. What is pleasing is that 2020 has shown us that the Bank has the people, processes, and policies to withstand these potential shocks and continue to support our customers while sustainably growing the business.

I would like to end by placing on record the Board's thanks to everyone at Cambridge & Counties Bank for working so tirelessly to support our customers and fellow team members through these times. It has been a beacon in very difficult times and gives us great confidence in the future of the Bank.

Simon Moore
Chairman

9 April 2021

"As a Board we took early decisions that we would focus our efforts on supporting our customers and colleagues through the emerging pandemic."

Chief Executive Officer's Review

Overview

Cambridge & Counties Bank was created out of the last financial crisis to support SMEs in their local communities. Our focus in this health and economic crisis has continued to be on supporting our customers, while at the same time protecting the well-being of our people, which has enabled us to deliver a set of resilient returns for our shareholders.

The Bank has delivered a robust performance in 2020: delivering a profit before tax of £11.2m (2019: £22.5m) and return on shareholder equity of 6.4% (2019: 13.8%). Whilst the Bank's financial outturn has been significantly impacted by the COVID-19 pandemic and the adverse economic environment, we have not yet experienced any meaningful crystallisation of credit losses as a result COVID-19. We continue to adopt a cautious and conservative outlook reflected in our balance sheet impairment provision coverage ratio of 1.5% (2019: 1.1%). The material increase in loan impairment charge to £5.8m (2019: £1.6m) results in a cost of risk at 72bps (2019: 20bps). Net interest income reduced year on year by 11% reflecting contraction in lending volumes during Q2 augmented by the impact of the significant reduction in Bank of England bank base rate.

The year presented several challenges from a margin perspective on both sides of the balance sheet, and whilst net interest income reduced year on year the Bank has retained a healthy net interest margin (NIM) of 3.7% (2019: 4.2%) in the period. Initially new business asset pricing came under pressure as high levels of competition drove a market disconnect between risk and reward. The Bank chose not to compete at these price levels and as a result initially saw gross loan balances reduce during 2020. Pleasingly the Bank's year-end balance sheet reflects a return to growth of 9% in gross customer assets through the Bank's core real estate finance activities as our customers sought our support to fund their acquisitions.

In terms of liability pricing the sizeable injection of Government backed liquidity support, together with the impact of the Bank of England reduction in bank base rate brought further challenges to liability margins. The Bank took the strategic decision to increase liquidity levels until the wider impact of the pandemic on market forces became more certain. This sector wide reaction increased market demand resulting in deposit rates being slow to react and adjust to the succession of reductions in the bank base rate.

The Bank's liquidity position remains robust with a 419% liquidity coverage ratio (LCR) (2019: 463%), a diversified product and customer base, and double the deposit intermediary acquisition channels we had a year ago. Cambridge & Counties Bank is an established brand and continues to attract steady inflows into notice accounts and fixed rate bond products and maintains a prudently funded loan to deposit ratio (LDR) of 90% (2019: 90%).

The Bank's cost income ratio of 55.5% (2019: 43.9%) reflects the continued investment in key skills and capabilities in IT and infrastructure.

Since the previous credit crisis in 2008/9 the UK banking sector has more than tripled its capital capacity across the sector including buffers designed to absorb the 'capital shock' of any potential credit losses that could emerge in an economic downturn. The Bank's capital capacity has never been stronger at £150m. Our business has eight years of sustained growth and retained earnings delivering a capital ratio of 24.3% (2019: 23.0%), more than double the Bank's current total regulatory capital requirement and three times the capital requirement when the Bank first launched.

Doing the right thing has always been at the core of the Bank's culture and how we operate, and this year's performance reflects that alignment of the Bank's strategic aspirations with our social and environmental contribution evidenced across the Environmental, Social, and Governance (ESG) agenda.

Strategy

Despite the challenges the COVID-19 pandemic has posed our customers, communities and people, the Bank continues to be well placed to play its part in the recovery and continues to offer a competitive and customer focused range of straight-forward finance products. The Board's strategy is one of continued moderate organic growth in our existing markets without material uplift in risk.

> "Doing the right thing has always been at the core of the Bank's culture and how we operate, and this year's performance reflects that."

Our strategic objectives are:

- to develop our lending products to meet climate change challenges and help support our customers ensure their properties are energy efficient;
- to continue to diversify income streams exploring underserved niche markets that sit within our frontline capability, play to our manual underwriting skillsets and sector expertise; and
- to continue to invest in our customer contact strategy and geographical footprint to maintain our high customer service and satisfaction levels and access underserved markets.

2020
Capital ratio
24.3%

2019
23.0%

The smooth transition by the Bank to a full-service remote model in March 2020 was testament to the Bank's operational resilience planning and preparation. A beneficial outcome of the Bank's crisis management response has been accelerated process improvement and increased automation, facilitating the Bank's longer-term ambitions to develop end to end automated solutions which are core to the 3-year strategic plan. The Bank's people led technology enabled vision has not changed and our priority in 2021 is to continue to focus on providing unwavering customer support and service levels across our market relevant proposition.

Supporting our customers and our people during COVID-19

The Bank's relationship model has been fundamental in supporting our customers and proving a dependable lender, providing a human interface to help navigate the challenges of the national lockdowns, provide payment holiday support, and perform facility appraisals and business reviews. The Bank has stayed true to its commitment to put our customers and brokers at the centre of our purpose and this is reflected in our 95% customer satisfaction measure and growth in new business volumes. We were delighted that at the end of our first year as NACFB patron, Cambridge & Counties Bank were nominated by our broker community in the NACFB 2020 Awards and we value the strength of their support.

Pleasingly our proactive response in providing our customers with payment holiday support, cash preservation advice and financing options has resulted in a recovery to 94% of the Bank's customer base fulfilling their normal contractual repayments from an initial position of granting 37% of the Bank's customer base payment holiday arrangements in Q1 2020.

To a person, everyone has been critical in supporting our customers and the Bank during this health crisis and their safety and wellbeing has been of our foremost concern. I am incredibly proud of how our people have responded to the challenges COVID-19 has presented. Our core values to empathise, be responsive, reliable, and adaptable embody our peoples' exceptional response in rising to the challenges the pandemic has presented and I want to extend my appreciation and thanks to them all.

> "I am incredibly proud of how our people have responded to the challenges COVID-19 has presented."

Outlook

2020 has been an unexpectedly challenging year as the economic outlook materially changed, however we have not yet seen any crystallisation of specific provisions or credit losses in relation to the pandemic. The sizeable credit loss provision that we have taken to provide a robust level of coverage across our loan portfolio has impacted the financial performance this year and reflects our conservatism in economic outlook, scenarios, and weightings. Whilst conclusion of trade arrangements culminating in the EU Withdrawal Act brought a measure of stability to financial markets, the political and economic outlook remains highly uncertain, and we have yet to see the full credit loss impact from the pandemic. However, the Bank remains well capitalised, with strong liquidity and a conservatively positioned lending portfolio enabling the Bank to face into a continuing challenging economic environment from a position of strength..

Donald Kerr
Chief Executive Officer

9 April 2021

95%
customer satisfaction measure

Our Purpose and Business Model

Purpose statement

Cambridge & Counties Bank is a UK Bank that specialises in providing lending and deposit products for SMEs.

Unique ownership

Established in June 2012, Cambridge & Counties Bank has a unique ownership structure being jointly owned 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.

We have a simple and proven Business Model

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. We seek to be straight forward and easy to deal with in our interactions with introducers and deliver a banking experience that attracts and retains our customers business. The Bank delivers a range of savings accounts via the internet, post, and savings intermediaries.

Lending

The Bank's commercial real estate loans are secured on property. We lend 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 several broader organisations such as charities, clubs, societies, and associations.

Customer satisfaction

Our customer satisfaction metric continues to perform outstandingly and compares well across the industry and other service sector businesses. 95% 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. Our longer-term customers also remain positive regarding their relationships with us and continue to highly rate our services and recommend us. On the lending side both broker introducer and customer feedback confirm that quality of service is more than just fast response times and is based on end-to-end service delivery.

The Bank's relationship model has been fundamental in supporting our customers throughout the challenges of the 2020 pandemic providing a human interface and underpins the strong levels of satisfaction and new business generated from existing lending customers. Our focus on treating customers fairly and over 90% call answer rates is acknowledged in customer feedback and continues to be reflected in the 'stickiness' of balances in the deposit book and high recommendation scores.

Operating model and commitment to investment

The Bank consolidated its lending services, deposit operations and customer service teams, together with business change and IT functions under the successful establishment of a Chief Operating Office function, aligning the Bank's operational capabilities with its strategic ambitions to focus on delivering increased productivity, reduce its cost to serve

"These developments have provided improved customer experience and automation, ensuring improved resilience and scalability across our online services."

and enable scalability. The restructure was completed with the appointment of Tina Hayton-Banks into the role of Chief Operating Officer (COO) in November 2020.

The Bank continues to invest in its Risk & Compliance capabilities and critically in the Bank's credit grading models to ensure the Bank's lending portfolio management continues to develop alongside the complexity of the business. To support the forbearance management exercise necessitated by COVID-19, rapid developments were delivered in our core banking systems to automate and manage forbearance cases and a new management system was developed.

The Bank has continued its commitment to invest in its IT and infrastructure, with the first stage of the new business intelligence and management reporting strategy completed, delivering a company wide data warehouse ingesting data from the Bank's core banking platform, asset finance system and financial crime and contact strategy databases and including incorporation of climate data. A new model risk management framework and review committee together with a refreshed data governance framework have been established as part of the Bank's strategy to improve data quality and optimise how data is used across the organisation. New bespoke Financial Crime systems have been developed and implemented providing enhanced transaction monitoring, customer risk assessment and a replacement modern deposits servicing customer portal was successfully launched, built on the Bank's strategic platform with 17 new reusable application programme interfaces (APIs) developed accessing our core banking system. These developments have provided improved customer experience and automation, ensuring improved resilience and scalability across our online services. The Deposit Online platform will be further expanded in 2021 to create an online application portal, maximise the investment in our strategic platform, providing additional automation and simplifying Cambridge & Counties Bank's ability to process deposits.

The increasing risk of cyber threats is ever present, and the Bank has enhanced its security posture, maintaining its CE Plus accreditation and continued alignment with the NIST framework.

Section 172 Companies Act 2006 Statement

Overview

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;

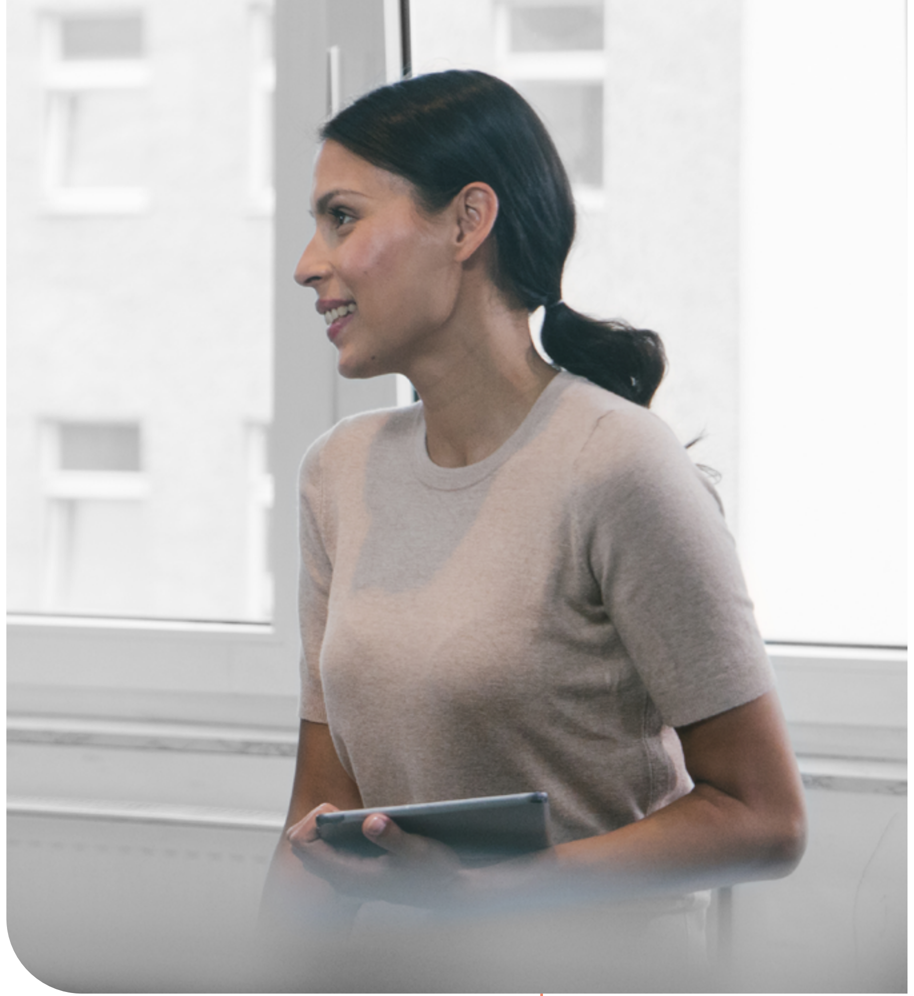
d) the impact of the company's operations on the community and the environment;

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

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 2020.



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.

2020
ROCE
6.4%

2019
13.8%

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 subcommittees 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 7,500 deposit customers and 1,250 lending customers	The Bank undertakes regular customer feedback surveys and customer focus groups. The results of which are shared with all staff and the Board. 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 customers.
Employees	The average number of people employed by the Bank during the year was 165	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 with an average score of 87% reflecting well in comparison to other organisations. We continue to record consistently high participation rates in our employee engagement survey and record strong scores. The Bank has a staff forum which meets monthly and is chaired by the Bank's CEO. The forum actively influences the format and content of Staff Meetings, and evolution of working practices and benefit packages. The Board reviews the employee staff survey results and also receives regular reports from the CEO on the activities of the Employee Forum.
Suppliers	Business and individuals who provide services and goods which the Bank uses to deliver its products to its end customers	Management regularly meets with the Bank's key suppliers particularly those providing important business services and information technology systems.
Regulators	The Bank is regulated by the PRA and FCA	The Bank's senior management are committed to fostering open and honest engagement with its Regulators as the cornerstone principle of the UK regulatory environment. The CEO, CFO and CRO meet regularly with the Bank's PRA Supervisory team through the framework of 'proactive engagement and continuous assessment' meetings and report on key themes discussed through committee and Board meetings as appropriate. The CRO reports to the Board Risk & Compliance Committee on material matters of regulatory liaison and the Bank's assessment of the quality of the relationship with each Regulator. In addition, the Chairman, Senior Independent Director and Chair of Risk maintain a direct relationship with the Bank's Regulators on key themes as appropriate.
Communities	The geographic locations in which the Bank has offices, employees, and customers	The Bank is a member of several 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.

Contents
Strategic Report
Corporate Governance Statement
Independent Auditor's Report
Financial Statements
Notes to the Financial Statements

Decisions made during the year

The Board reaffirmed the Bank's current strategy, business structure, dividend policy and capital structure during 2020. The Bank's strategy has remained broadly unchanged since it started trading in 2012 and has a balance sheet with assets more than £1bn with pre-tax profits exceeding £11m pa.

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, realising 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:

- Macroeconomic environment and continued impact of COVID-19 on the UK economic recovery;
- Credit cycle impacts closely aligned to the above and the risk of material property price erosion;
- Changes in competition and market demand;
- Liquidity costs, greater commoditisation and the continued rise in deposit brokers in both the retail and SME markets;
- Long term trends in technology investment including IT data security and cyber security threats;
- Operational Resilience including the impact of Supplier/Outsourcing Risks;
- Geopolitical headwinds and post Brexit financial services equivalence arrangements, trade negotiations, and the effects on UK business confidence; and
- The increased focus on climate change risk.

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. 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 2021 although we remain confident that following the expansion of our geographic footprint across the country, and investing in our relationships with our broker introducers, we will meet our growth appetite at acceptable margins commensurate with the Board's credit risk appetite.

"The Bank has a moral, legal, and regulatory duty to prevent, detect and deter financial crime."

Other non-financial disclosures

The Bank has a moral, legal, and regulatory duty to prevent, detect and deter financial crime and maintains a financial crime framework. This framework is supported and reinforced by the Bank's systems and behaviours which put the customer at the heart of every interaction. The Bank promotes an environment that protects its customers, employees, and communities from financial crime, and continues to invest in its AML and KYC financial control system enhancements. The Bank's compliance with requirements of the financial crime framework is monitored through ongoing control testing, assurance, audit, and the provision of management information at senior governance committees. The Bank's Modern Slavery Statement (which is available on our website) sets out the policies we apply and actions we take to ensure that our employees and customers are treated with dignity and respect. This includes raising awareness of issues that could put the people the Bank comes into contact with at risk such as vulnerability and exploitation. The statement also explains how we ensure that the Bank's values are applied within our supply chain including the due diligence we carry out on our suppliers.

The Bank's governance policies and processes are set out in detail on pages 44 to 69

Environmental, social and governance

Introduction

The environmental, social and governance (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 processes are set out in detail on pages 44 to 69.

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 its various stakeholders, especially our customers.

Reducing our environmental impact

Climate change is a significant challenge facing society and with a growing focus of all stakeholders on 'Green Finance'. The Bank has been proactive in its approach to its environmental responsibilities. During 2019/20 we worked closely with the University of Leicester to assess the financial risk and opportunities of climate change. The Bank has recently forged a 3-year relationship with Lancaster University Management School (LUMS) to further advise how climate risk changes will impact the Bank's customer base and its collateral and inform the environmental focus in the evolution of the Bank's strategy.

The Bank achieved its plans to be carbon neutral across its head office site in Leicester in 2019 and is pleased to report the successful extension of its carbon neutral status in 2020 to include all its regional offices as independently verified by Carbon Footprint Ltd.

A highlight of 2020 was the recognition of the Bank's approach to green initiatives by Investors in the Environment (IIE) who awarded the Bank 'Overall Outstanding Achiever 2020' at their 2020 awards presentation. The Bank's score of 91% in the audit conducted led to the IIE reflecting that *"Overall, Cambridge & Counties Bank continues to demonstrate excellence in* *environmental stewardship, achieving an outstanding score in its 5th consecutive year of Green level achievement."*

The Board is proud of the engagement and commitment of our people in reducing the Bank's environmental impact and achieving carbon neutrality. Core to our colleague engagement is the active Green Team facilitating numerous initiatives within the Annual Green Challenge focussing on upcycling, recycling, and protecting the ecosystem during the national lockdowns.

Supporting our local communities

2020 was a challenging year for many of the Bank's local communities within which our people live and work. The Bank has continued to actively support its local charities and accelerated planned initiatives for those groups at a time of need. The swift response by the Bank was warmly received by those stakeholder groups.

Charitable giving by the Bank is facilitated by the Charities Team, which consists of eight colleague members and represents a cross-section of the Bank. The approach of the charities team continues to be a proactive one, with close to £45k donated in 2020.

Charitable activities during 2020 included:

Donations to the Leicestershire and Rutland Community Foundation supporting the Coronavirus emergency fund; Turtle Dove, which provide the opportunity and confidence building needed to get vulnerable women back/into the working environment; and Soft Touch Arts. The Bank's continuing support of Soft Touch Arts Stars programme allows the charity to take young people's passion for art and design and provide pathways into higher education or employment.

The Bank also maintains a strong relationship with Leicestershire Cares, through support of several of their initiatives, including:

- Interview Techniques, providing 14/15 year-olds with interview practice that can help shape their careers. Most of the interview techniques sessions in 2020 have been conducted remotely due to the COVID-19 related restrictions; and
- Collect for Christmas – raising over a £1,000 from staff donations that allowed toys to be purchased for under-privileged children.

A key part of the culture of the Bank is the support and encouragement of colleague's involvement in charitable efforts through Matched Funding. Despite the restrictions of local and national lock downs, in 2020 this included, but was not restricted to, a 24h cycle challenge raising funds for Cancer Research and a sponsored walk in aid of Dementia UK.

Treating businesses fairly and helping our customers grow

The Bank is committed to treating businesses fairly and helping them grow through prompt payment of invoices and are pleased to confirm an improved performance from 85% as at 31 December 2019 to 98% of suppliers being paid within 30 days for the year ended 31 December 2020.

Creating an inclusive workplace

The safety and well-being of our people is always our top priority and the pandemic has reinforced how important it is that we look after each other. Early in 2020 we made the decision not to furlough any of our colleagues and provided additional measures including extending dependent leave and flexible working arrangements to support people with home schooling and carer commitments as well as additional assurance and support to vulnerable colleagues.

Maintaining the flow and frequency of communication channels with all our colleagues in a remote operating environment has been more important than ever, enabling us to understand how people are feeling as they adapt to new working practices and how we could better support them. In addition to our annual engagement survey, we ran frequent 'pulse' surveys, 'speed friending' and Bank-wide monthly webinars in which every colleague participates or can view on catch-up. Increased bank-wide connectivity and accessibility has also been achieved through the launch of the Bank's intranet during the year enabling more efficient access to information and creating greater social interaction. This is supported by the Bank's newsletter 'The Natter' delivering formal and informal communications and updates on departmental initiatives.

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

The Bank has maintained its association with the Banking Standards Board (BSB) and for the fifth year participated in the BSB Employee Survey where results continue to be positive, record an improvement on prior year, and reflect strongly in comparison to other organisations. The Bank also continues to record consistently high participation rates and strong scores in the Bank's employee engagement survey, the latest conducted in October 2020.

The Board pays close attention to the Bank's culture and key people measures, including turnover rates, sickness levels and time taken to fill vacancies. All of these remain positively low, although some specialist roles within Risk and Finance take longer to fill given continued high levels of demand for these specialisms. The Bank, despite the restrictions of lockdown, has continued to add to its headcount during 2020, and are proud of how well it has on-boarded new colleagues across the Bank. In 2020, the Board commissioned an external assessment of the Bank's Culture, which gave interesting insight and confirmed the Board's view, both informing and supporting the People strategy going forward.

Inclusion remains at the heart of our culture and we use active initiatives and formal policies to help support colleagues be themselves at work with access to equal opportunities. The Staff Forum continues to provide the 'voice of the organisation', influencing staff meeting agendas, policy development and evaluation. As signatories to the Women in Finance Charter, we are committed to achieving more women in senior positions and driving greater gender balance in the industry as a whole. Gender diversity is one element of our inclusivity strategy, and we are actively promoting equality for all regardless of age, gender, ethnicity, religion, disability, sexual orientation, education, or other characteristics that may result in people being marginalised. The Bank believes that greater diversity leads to wider thinking and skill sets, creating increased innovation and ultimately, better customer service.

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

Financial Performance

Macroeconomics

2020 proved to be an extraordinarily challenging environment as a result of the COVID-19 pandemic and the unprecedented coordination of fiscal and financial initiatives to limit the potential permanent damage of the national lockdowns. Whilst the UK experienced the greatest contraction in GDP in modern history, unemployment has remained under control through the government furlough arrangements. The Treasury reacted swiftly with deployment of liquidity and the launch of the Bank of England 'Term Funding Scheme with additional incentives for SMEs' (TFSME) to encourage Banks to continue lending, as well as the reduction in the Bank of England base rate (BBR) to 0.1%. The impact of the pandemic on the economy somewhat overshadowed the post-Brexit relationship.

Prudential framework

Key prudential initiatives in the year included reduction in the capital requirements including the reduction from 1% to zero for the Counter Cyclical Buffer, acceleration of the Capital Requirements Regulation (CRR) 'quick fix' initiatives (extraordinary regulatory measures aimed at making the regulatory framework more flexible in response to COVID-19) and PRA support for the utilisation of capital buffers whilst still encouraging financial institutions to act prudently. Among the amendments introduced by the CRR quick fix, it is worth highlighting the extension of the transitional period granted with the introduction of IFRS9, recognising the significant increase in provisions for expected credit losses that must be recognised, and the acceleration and extension of the support factor for SMEs reflecting the negative impact of the economic situation.

Financial review

The Bank's results have been directly affected by the health crisis on the economy:

- Interest income reduced by £6m compared to the prior period as a result of the reduction in BBR which was immediately passed onto the Bank's variable rate loan book customers in March 2020, partially offset by the £71m increase in lending balances. Uncertainty in the market increased demand for funding and maintained deposit product pricing as firms sought to hold more liquidity. Despite this, the Bank delivered a NIM of 3.7%, maintained an LDR of 90% and reported an LCR of 419% at the year end.

- The Bank continued to embed its credit risk management in the year, investing in its next generation credit grade modelling, arrears and collections expertise, enabling the teams to provide personal support for customers seeking payment holidays and forbearance. At the end of the year 6% of customer exposures still required a payment holiday or a reduction in their monthly repayments as a result of the COVID-19 pandemic. The Board are proud that the Bank remained open for business throughout the pandemic providing support to SMEs, existing and new customers as competitors withdrew from the market, reflected in a return to organic growth in gross customer loans and advances of 9%.

- The worsening economic conditions caused by the pandemic and consequent expected impact on credit quality assessment has resulted in the Bank making increased loan loss provisions of £4.2m and delivering a balance sheet impairment provision coverage ratio of 1.5%.

- Recognising that the Bank's people are its key differentiator in achieving its service levels and customer support, the Board maintained their commitment to invest in infrastructure, capacity, and capability to ensure that the Bank continues to develop the skills and expertise it needs to support both the current business demands and future growth aspirations. The Board agreed a variable pay award of £1.4m to reflect the huge personal contribution of our people in supporting the Bank through the challenges of COVID-19. The continued investment in the business is collectively reflected in a cost income ratio of 55.5% (2019: 43.9%).

- Despite the challenging conditions the Board are pleased with the Bank's performance delivering a post-tax profit of £9.4m and ROE of 6.4%.

- The Bank closed the year with a total capital ratio of 24.3%, CET1 of 20.7% and leverage ratio of 14.0% including IFRS9 transitional relief and the extended application of the SME factor. These metrics together with the quarterly stress testing carried out during the year provide the Board with the confidence that the Bank has the capacity to absorb the challenge of foreseeable increases in future credit losses.

- The Board is cautiously optimistic that the additional support identified in the Chancellor's March 2021 Budget, the continued progressive roll out of the UK vaccination programme and gradual improvement in business confidence are positive influences on the pace of recovery. Further the Board recognises the role that the Banks will contribute to the UK economic recovery and are committed to continuing to support our customers and SME market through the recovery. The Bank's performance is presented on a statutory basis and structured consistent with the key elements of the business model explained on page 13. The 2020 financial statements have been prepared under International Financial Reporting Standards (IFRS). The Bank's primary financial statements are reported on pages 82 – 85, with a summary of these shown on the following page:

The Bank's primary financial statements are reported on pages 82 to 85

Summary Income Statement £'000	2020	2019
Interest income	50,897	57,045
Interest expense	(12,785)	(14,137)
Net interest income	38,112	42,908
Other income	30	50
Total Operating Income	**38,142**	**42,958**
Operating expenses (including depreciation)	(21,168)	(18,856)
Impairment charge	(5,813)	(1,566)
Profit Before Tax	**11,161**	**22,536**
Taxation charge	(1,763)	(4,035)
Profit After Tax	**9,398**	**18,501**

Summary Balance Sheet £'000	2020	2019
Liquid assets	238,693	236,667
Loans and advances to customers	828,380	761,503
Other assets	7,188	5,898
Total Assets	**1,074,261**	**1,004,068**
Customer deposits	917,215	854,449
Other liabilities	6,911	7,466
Shareholders' funds	150,135	142,153
Total Liabilities and Equity	**1,074,261**	**1,004,068**

Key Performance Metrics	2020	2019
Gross new lending	£220m	£158m
Net interest margin	3.7%	4.2%
Cost to income ratio	55.5%	43.9%
Cost of risk	72bps	20bps
Common Equity Tier 1 capital ratio	20.7%	19.4%
Total capital ratio	24.3%	23.0%
Liquidity Coverage Ratio	419%	463%
ROCE	6.4%	13.8%

Definitions:

Gross new lending: new loans drawn down during the period.
Net interest margin: net interest income / average interest earning assets (at the start and end of the period).
Cost of risk: loan loss impairment charge / average gross lending balance (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 (CET1 and AT1) / risk weighted assets (at the reporting date).
All capital ratios include IFRS9 transitional relief.

Loans and liquid assets

The Bank's balance sheet reflects a return to growth of 9.2% in gross customer assets through the core real estate finance activities as customers sought our support to fund their business aspiration. The Bank's real estate and asset finance net lending balances increased by £67m to £828m.

The Bank's portfolio of £771m commercial loans is secured on property, lending to experienced commercial and residential property investors as well as to owner occupied businesses to invest in their own commercial premises.

The Bank's Asset Finance business provides finance for businesses to acquire essential assets such as equipment, plant, machinery, or vehicles using hire purchase and finance lease facilities. The Bank's customer exposures contracted marginally from £45m to £42m during 2020 as result of a reduction in new advances during the year. The Bank also provides finance for the purchase of classic cars using hire purchase and finance lease products which increased from £18m to £27m in 2020.

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

The Bank's liquidity portfolio comprises high quality liquid assets, primarily cash reserves at the Bank of England, an International Bank Reconstruction and Development Bank and European Investment Bank bonds which are available and accessible to meet potential cash outflows. In addition, the Bank held £57m (2019: £77m) off-balance sheet T-bills drawn through the Bank of England's Funding for Lending Scheme (FLS) due to be repaid by January 2022 at the latest.

A key regulatory measure of liquidity adequacy is the LCR which is designed to promote the short-term resilience of the Bank's liquidity risk profile. The Bank monitors liquidity daily 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 reporting a regulatory LCR at 419% as at 31 December 2020 (2019: 463%), significantly higher than the regulatory minimum of 100%. The strong liquidity portfolio during 2020 reflects the Board's funding strategy and desire to maintain sufficient liquidity buffers during times of economic uncertainty.

2020
Impairment coverage ratio
1.5%

2019
1.1%

Sources of funding

The Bank's lending is primarily funded by the acquisition of UK savings balances through a range of deposit products available direct to business customers and available to retail customers through a network of Deposit Intermediaries. Business customers include several broader organisations such as charities, clubs, societies, and associations.

The Bank grew its deposit portfolio during the year within the Board's funding and liquidity risk appetite from £854m to £917m, to support the lending activity. The cost of funds reduced during the year driven by lower rates across the market as a result of the reduction in the Bank of England base rate in March 2020.

LIBOR

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 customer or derivative exposure to LIBOR related instruments. Whilst the Bank's AT1 capital instrument interest rate is linked to 6 month LIBOR, the instrument's terms and conditions already enable the Bank to realign the interest rate when LIBOR ceases.

Operating income

Total operating income for the year was £38.1m (2019: £43.0m). Interest income reduced by £6.1m with the growth in income from new lending being more than off-set by the impact of the reduction in Bank of England Base Rate in March 2020. The Bank Base Rate reduction was passed on in full to all customers with a variable rate loan.

Interest payable reduced by £1.4m as a result of a reduction in the interest rates paid on the Bank's deposit accounts. This lower payment reflects the partial pass through during the year of the reduction in the Bank of England Base Rate in March 2020.

The Bank continues to generate a strong asset yield of 4.9% (2019: 5.6%) with the reduction in customer loans and advances yields being a combination of competition in the market driving margin pressure, and the reduction in the bank base rate being partially offset by a lower proportion of lower yielding liquid asset balances.

The Bank's liability yield was 1.24%, a reduction of 0.16% compared to 2019, reflecting a reduction in deposit rates across the market as a result of the lower bank base rate. The cost of the Bank's deposit balances reduced from 1.58% in 2019 to 1.43%. In total the Bank's net interest margin reduced from 4.2% to 3.7% in 2020, as a result of the reduction in bank base rate and the impacts of continued price competition in both the lending and deposit markets.

2020
Liquidity coverage ratio
419%

2019
463%

Expenditure

We continue to invest in the business, with total operating expenses increasing from £17.8m in 2019 to £20.2m. Average staff numbers increased from 149 in 2019 to 165 in 2020, driving increased staff costs from £10.9m to £12.9m. The increase in staff costs is higher than the increase in average staff numbers reflecting the timing of staff recruitment and the average salary of the new members of staff.

In addition, during the year, the Bank continued its investment in its IT systems increasing its resilience and security as well as implementing a new customer deposits servicing portal and the first phase of the Bank's new business intelligence (BI) strategy delivering a company wide data warehouse.

The Bank's continued investment in systems and people has resulted in the cost:income ratio increasing from 43.9% in 2019 to 55.5% in 2020 which continues to compare favourably to many of its peers.

Impairment

£'000	2020	2019
Value of loans past due – up to 3 payments missed	5,533	9,326
Value of loans in default – inc. credit impaired and IFRS Stage 3 loans	32,572	27,178
Impairment loan provisions	12,451	8,181

The IFRS9 calculated impairment charge increased over 270% to £5.8m in 2020. The charge is calculated using the Bank's granular credit grading and IFRS9 impairment models. The models include forward looking economic scenarios. The scenarios together with the related weightings are provided in Note 28. During the year the Bank has increased the weighting applied to the downside scenarios as result of the increased economic uncertainty. As a result of the unprecedented economic conditions the Bank has reviewed all its IFRS9 model assumptions and where appropriate introduced a number of management overlays to ensure that the Bank's provisioning levels continue to provide sufficient protection to earnings in the event of increasing credit losses crystallising. The material increase in the loan impairment charge results in a cost of risk at 72bps (2019: 20bps).

Following the implementation of the first UK lockdown in March 2020 the Bank saw an unprecedented number of customers requesting payment holidays or partial reductions in monthly repayments. At its peak over 37% of the Bank's real estate and asset finance customers were in forbearance. The support initiatives provided by the UK Government and the Bank's individual approach to customer management has enabled the majority of these customers to resume full repayment and at the end of the year 6% of customers continue to require forbearance as a result of COVID-19 impacts on their businesses.

We have not yet experienced any meaningful crystallisation of credit losses as a result COVID-19 with our cautious and conservative outlook reflected in our balance sheet impairment provision coverage ratio of 1.5%. The Bank's asset quality remains strong with no meaningful increase in loans in arrears or default. The Bank continued to successfully manage its defaulted loan cases throughout 2020 despite the challenging trading conditions.

Taxation

The taxation charge of £1.8m (2019: £4.0m), reflects an effective corporation tax rate of 19% (2019: 19%). The taxation charge includes a £2k credit (2019: £156k debit) in respect of deferred tax and a credit of £274k in respect of the Bank's convertible loan note interest payment (2019: £314k).

Dividends and convertible loan note payments

The Bank paid a £1.4m coupon on 29 September 2020 as interest payment on the convertible loan notes to Cambridgeshire County Council Pension Fund, the holder of the loan notes.

The Board did not pay an ordinary share dividend in 2020 and does not propose an ordinary share dividend in 2021 as it continues to focus on maintaining a strong, well-capitalised balance sheet.

Shareholders' funds

£'000	2020	2019	Change %
Share capital	44,955	44,955	–
Convertible loan notes	22,900	22,900	–
Reserves	82,280	74,298	11%
Total Shareholder Funds	**150,135**	**142,153**	**6%**

The Bank has a strong, high quality capital base. All 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 £142.2m to £150.1m as a result of the growth in the Bank's retained earnings.

The Bank elected to adopt the original IFRS9 capital transitional arrangements from 1 January 2018 and during 2020 elected to adopt the extension to these arrangements announced within the CRR Quick Fix regulations in June 2020. The original transitional arrangements allow the Bank to increase its Tier 1 capital by

2020
Common Equity Tier 1 capital ratio
20.7%

2019
19.4%

an amount equal to 70% (2019: 85%) of the reduction in Tier 1 capital on 1 January 2018 following adoption of IFRS9, and the expected credit loss method of calculating provisions. The new transitional relief announced in 2020 allows the Bank to further increase its Tier 1 capital by an amount equal to 100% of the reduction in Tier 1 capital in 2020 as a result of increases in IFRS9 Stage 1 and 2 expected losses in the year. The Bank's IFRS 9 transitional relief increased by £2.7m in 2020 as a result of the new arrangements. In total the Bank's IFRS9 transitional relief was £4.8m in 2020 reflecting both the original and 2020 new transitional relief arrangements.

The Bank entered a British Business Bank's Enable Guarantee in June 2019, providing the Bank with additional capital capacity to support its Real Estate Relationship Managers improve funding access for SME borrowers under this Government policy. The Enable Guarantee provides the Bank with a facility to support 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 £1.7m.

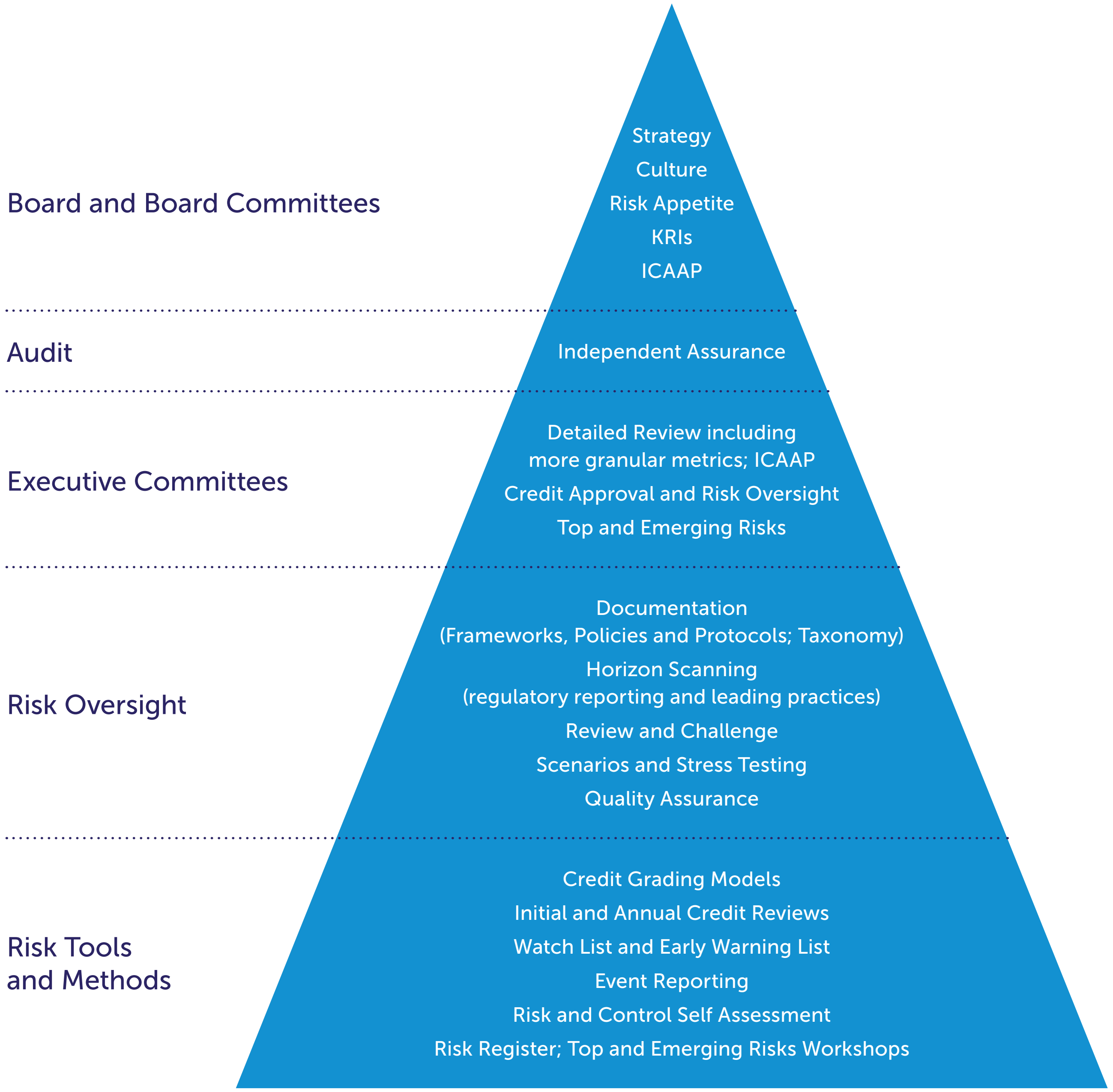
The Bank's capital ratios exceeded its regulatory requirements throughout the year.

The Bank's Common Equity Tier 1 capital ratio (including the impact of the transitional arrangements) at the 31 December 2020 was 20.7%, (2019: 19.4%). The Bank's total capital ratio (including the impact of the transitional arrangements) at 31 December 2020 was 24.3% (2019: 23.0%). The Bank's Common Equity Tier 1 capital ratio and total capital excluding the transitional arrangements were 20.1% and 23.7% at 31 December 2020, respectively.

Risk Management

Approach to risk, enterprise risk management framework and accountability

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 these within its 'Risk Management Cycle':

A Risk Register is maintained to manage and monitor the full list of risks the Bank is exposed to. The Register is regularly refreshed as part of the Risk and Control Self-Assessment programme, to ensure that it provides an up-to-date record of the Bank's overall risk profile. A forward-looking approach is ensured using quarterly 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 the Bank faces.

Governance of Risk Management

Risk management is governed by the corporate governance framework and committee structure described in the Bank's corporate governance statement on pages 44 – 69 with ultimate ownership by the Board.

Three lines of defence model

The Bank manages risk using the 'three lines of defence' model, via clear responsibilities established for all colleagues in relation to risk management, including executive and non-executive responsibilities documented as applicable under the Senior Managers and Certification Regime. The model 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 all colleagues are adequately trained, and that the executives and senior management provide leadership of the governance of risk as members of the relevant committees.

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 Chief People Officer and their respective teams. They are independently responsible for managing, designing, and continually updating the Enterprise Risk Management

> "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."

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 in relation to risk management. A key role of second line is to provide an independent view to management and 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

The Risk Appetite is the amount and type of risks the Board 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 the Board Risk & Compliance Committee for approval. The Risk Appetite Statement was refreshed and updated via this process in 2020.

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 appropriate Board committees monthly. The periodic reporting shows status against each Key Risk Indicator (KRI) 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. These KRIs detail the Bank's Risk Appetite and are reviewed at least annually or in the event of a major change to strategy and/or environment within which the Bank operates.

The Bank's principal risks and uncertainties

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, and operates 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 that 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 expectations of stakeholders.	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 Strategy Day, including 2nd line challenge • Ongoing discussion at risk committees and Board • Regular employee, broker, and customer surveys • 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 a capital surplus above CET1 and total capital requirements sufficient to absorb any unexpected losses and costs without utilisation of regulatory buffers and ensure that its capital base can support a growing and maturing book through the economic cycle, allowing for potential downturns.	• Maintaining a capital surplus buffer exceeding 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 more than 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 Asset & Liabilities Committee Risk & Compliance Committee	The Bank maintains a low-risk appetite for Liquidity & Funding Risk. The Bank holds sufficient liquid assets to meet liabilities as they fall due and ensures that its liabilities can always be met in a stressed scenario, including maintaining satisfactory liquidity coverage and loan to deposit ratios. The Bank will ensure that it is not overly reliant upon any single savings intermediary to raise deposits.	• Measuring, managing, and monitoring the risk over appropriate time horizons, including intra-day • Regular re-forecasting of the liquidity positions • 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	The Bank maintains and monitors its liquidity and funding requirements on a regular basis, including intra-day risk and maintaining a management buffer more than regulatory requirements.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Tax The risk of loss resulting from the Bank entering 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 Banking Book, which is monitored via Key Risk Indicators and tested via 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 Climate Change Steering Committee Model Risk Oversight 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 undertaking 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. The Bank will operate within protocols, underwriting guidelines, exception limits and regulatory guidelines and manage the Early Warning Report and Watch List 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 monthly via a comprehensive suite of Key Risk Indicators.	• Regular modelling of funding requirements and interest rate risk analysis compliance with detailed Risk Appetite and Lending Protocol parameters • Quarterly Stress Testing of the loan portfolio • 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 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	Credit Risk is one of the principal risks the Bank faces, given the nature of its business. The lending portfolio is closely monitored via several 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. The Bank is also assessing the potential impact of climate change and the environmental factors on its loan portfolio.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
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.	• 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.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
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 always remains within the law and regulation. 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 breaches are investigated and reported to the Risk Management Committee and 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. Annual submission of the MLRO Report to the Board.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Operational The risk that events arising from inadequate or failed internal processes, people, and systems or from external events cause regulatory censure, reputational damage, financial loss, service disruption and/or customer detriment.	Operational Risk Management Framework Risk Management Committee Risk & Compliance 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 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 of these KPI's are undertaken. Operational Risk Events are captured, recorded, and reviewed, with actions taken to avoid recurrence.	• Risk and Control Self Assessments and Risk Registers • Scenario Analysis • Monitoring of Operational Risk Events and 'Deep Dive' analysis, where appropriate • Reviewing projects and change management requests • Monitoring of the risk posed using 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 • An enhanced Risk and Control Self-Assessment process is being rolled out across the Bank	Operational Risk is one of the key risks the Bank faces. Although Operational Risk related losses have historically been low, the framework has 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	• Monitoring of the Conduct Risk KPI's • 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 • All variable pay schemes are linked to customer satisfaction measures	The Bank prides itself on its strong risk culture and focus on customer outcomes. An updated Conduct Risk Framework is 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.

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. The Bank's 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 COVID-19 pandemic started to become evident in the UK at the end of 2019 and, in addition to the threat to human life, threatens major economic disruption across the globe.	The Bank continues to follow the advice and guidance provided by the UK Government and the NHS. The Bank monitors the advice daily. The Bank is also a member of UK Finance and actively tracking developments with its peers. The Bank successfully invoked full remote working, ensuring that all its core operations and services are fully functioning. Management continues 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 has supported customers, and will continue to do so, particularly in the high impacted sectors such as hospitality and leisure. Whilst we have seen a reduction in requests for support from a peak in the summer of 2020, we continue to watch events closely as we monitor the effects of further waves.
UK Political and Economic Environment	The uncertainty during 2020 made strategic planning difficult and posed a risk to business growth. This uncertainty is likely to continue throughout 2021 until the practical implications of the Trade deals and Financial Services equivalence arrangements are fully understood.	The situation continues to be monitored with UK political and forward economic outlook a key consideration as part of the process in developing the Bank's 3-year strategic plan and updating its Risk Appetite Statements. Following the EU Withdrawal agreement, we will continue to monitor the practical implications and effects.
Cyber	A Cyber-Attack, due to insufficient defences and/or awareness by 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 support its CISO responsibilities and achieved reaccreditation under the NIST Cyber Essentials program during 2020.

Emerging Risk	Definition	The Bank's Response
Climate Change	Climate Change is a growing risk and consideration needs to be given to the longer-term impacts, particularly in relation to our loan portfolio. If left unchecked, will lead to a medium/long term risk to the credit quality of the book because 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 Classic Vehicles and Sports loan (CV&S) books. Both physical and transitional risks are being factored into Risk Appetite, Key Risk Indicators, and the credit grading model calculation.	This is a topic that the Bank takes very seriously and has provided a detailed report to the PRA on its response to Climate Change and plans to manage these risks. A Climate Change Steering Committee, chaired by the Chief Risk Officer, continues to develop the Bank's action plans, in addition to working with external bodies, such as UK Finance, to assess sector preparedness, planning and actions to ensure the Bank's initiatives remain appropriate and relevant. Regular progress reports are provided to key stakeholders, including the Board.
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.	Operational Resilience and Supplier Risk Management Frameworks were enhanced during 2020 and continual developments 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 through which necessary changes are identified and tracked at the appropriate executive and Board committees.

The Strategic report on pages 6 – 41 was approved, by order of the Board.

Richard Bryan
Company Secretary

9 April 2021

Contents
Strategic Report
Corporate Governance Statement
Independent Auditor's Report
Financial Statements
Notes to the Financial Statements

Corporate Governance Statement

Corporate Governance Statement

How the business is managed

Design and operation of a robust corporate governance framework is critical to meeting the needs of all the Bank's stakeholders. The Bank has a well-established corporate governance structure, and the Board supports the principles of good corporate governance as set out in the UK Corporate Governance Code. 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. The Board believe that its existing governance processes are appropriate for the current size and structure of the Bank.

Structure of the Board and Board Committees

The Board has overall responsibility for the operations of the Bank and is comprised of four independent non-executive directors and two non-executive directors representing the interests of the owners, one of whom acts as vice-chair. The non-executives are currently complemented by four executive director (ED) board members – the Chief Executive Officer, the Chief Financial Officer, Chief Risk Officer and Chief Development Officer.

The Board has its own terms of reference and has specific committees appointed by it for the purposes of Nominations & Governance, Audit, Risk & Compliance, Performance & Remuneration, and Executive Management. Each committee 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 non-executive directors (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 which is chaired by the CEO.

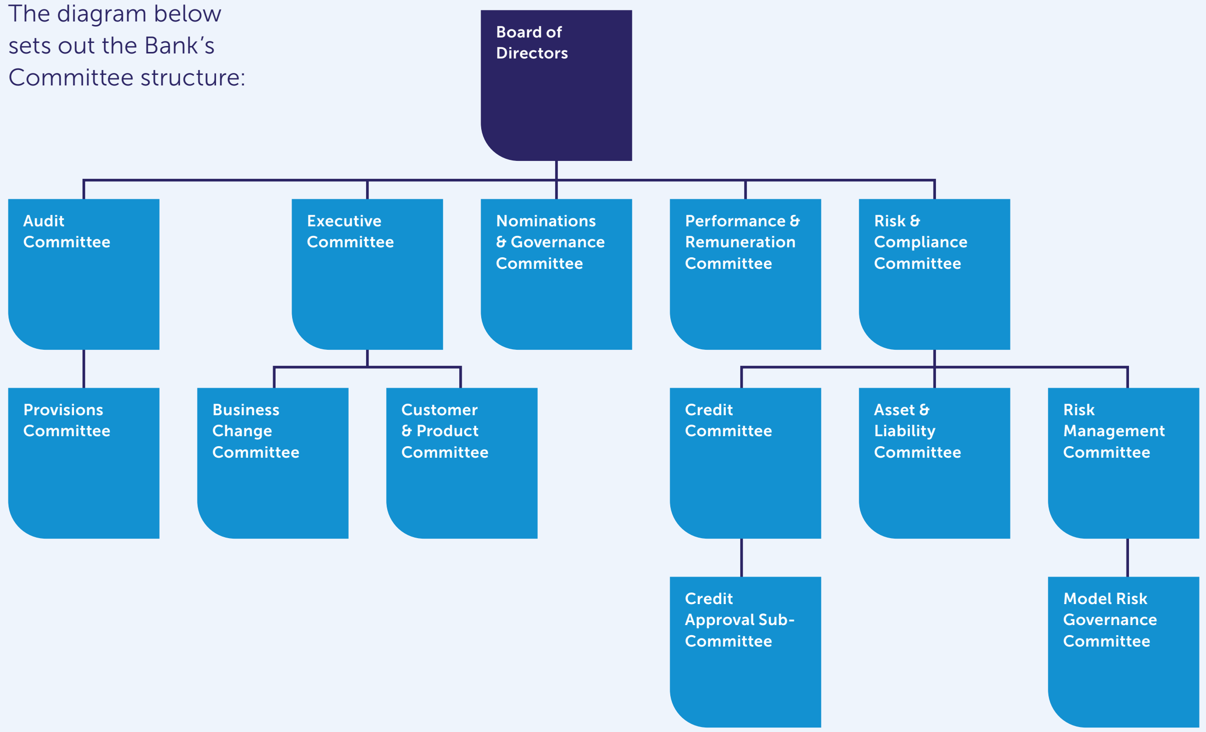
During the first quarter of 2020, the Bank conducted its annual review of the composition of the membership of its Board and the Board committees. This resulted in the reduction of the number of NEDs attending the Audit and Risk & Compliance Committees, building upon changes undertaken in 2019 to allow for greater focus to be given by the NEDs to the responsibilities allotted to each Board committee. The Bank also elected during the year to appoint Ian Smith as the Senior Independent Director, enhancing the Bank's independent oversight. This also prompted the change of the Bank's director nominated as the Whistleblowing Champion for disclosures to Ian Smith. There were a number of changes in Executive Directors during 2020 driven by the Bank's succession planning and retirement of Mike Kirsopp, the Chief Executive Officer, in December 2020. The Bank appointed Donald Kerr, to succeed Mike Kirsopp as the Chief Executive Officer and he formally joined the Board on 26 November 2020. The Bank appointed Mike Hudson as its Chief Risk Officer from 2 January 2020 and, whilst he attended every Board meeting during the year, Mike formally joined the Board on 2 September 2020. Last year, the Bank appointed Nick Treble as a NED and Chair of the Risk & Compliance Committee and he formally joined the board on 17 January 2020. Finally, Rachel Curtis-Bowen resigned from her position at the Bank on 30 June 2020.

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 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

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



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.

Chairman and Chief Executive Officer

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.

Responsibilities and requirements of Executive Directors

The Executive Directors 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.

Responsibilities and requirements of Non-Executive Directors

The essential role of the Non-Executive Directors (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 the NEDs is to ensure they are familiar with the regulatory principles and practices, and to maintain their knowledge of them.

Compliance with the UK Corporate Governance Code

The Bank seeks to comply with the UK Corporate Governance Code (Code) to the extent that it is applicable or considered appropriate for its business. The following areas are those where the Bank has considered the Code not applicable or appropriate:

- As a non-listed, privately owned entity the Bank has no requirement to re-elect directors or hold formal general meetings. Consequently, the sections of the Code regarding re-election of directors and general meetings have been considered not applicable;
- Whilst over half of the Board members are NEDs (six out of 11), only four of them are independent. The Board has considered this appropriate on the basis that the Bank is privately owned and the remaining two NEDs represent the Bank's shareholders and are independent from the Executive;
- The remuneration of the NEDs is set by the Chair and the Shareholders and not by the Board of the Bank. This is considered appropriate on the basis that the Bank is privately owned. No remuneration for the NEDs includes share options or variable elements; and
- The Code introduced principles for ensuring that the Board understood the views of its stakeholders, including its workforce, suggesting one or a combination of a director appointed from the workforce, a formal workforce advisory panel or a designated NED. Whilst the Bank recognises the need for workforce engagement, the suggestions were considered disproportionate for an organisation the size of the Bank. In lieu of the suggestions, the Bank elected to establish a Staff Forum that represents the workforce and meets with the Chief Executive Officer and Chief People Officer each month to discuss matters impacting the workforce. The Staff Forum is also consulted with in advance of any material organisational change. Further, the Bank undertakes an annual staff engagement survey to understand the views of its workforce. This is considered to be a proportionate approach for the Bank in adopting the principles of the Code.

Compliance with the Senior Managers Regime

The Prudential Regulatory Authority (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 2021.

Function	Description	Role	Person
1	Chief Executive Function	Chief Executive Officer	Donald Kerr
2	Chief Finance Function	Chief Financial Officer	Andrea Hodgson
3	Executive Director Function	Chief Development Officer	Simon Lindley
4	Chief Risk Function	Chief Risk Officer	Mike Hudson
5	Head of Internal Audit	Outsourced	N/A
6	Head of Key Business Area	Chief Lending Officer	David Monks
7	Group Entity Senior Manager	Cambridge & Counties Bank is not a group entity	N/A
8	Credit Union Senior Manager	Cambridge & Counties Bank is not a credit union	N/A
9	Chair of Board	Chair	Simon Moore
10	Chair of Risk & Compliance Committee	NED	Nick Treble
11	Chair of Audit Committee	NED	Ian Smith
12	Chair of Performance & Remuneration Committee	NED	Caroline Fawcett
13	Chair of Nomination & Governance Committee	NED	Paul ffolkes Davis
14	Senior Independent Director	NED	Ian Smith
15	Chair of the With-Profits Committee Function	Cambridge & Counties Bank does not have a with-profits committee	N/A
16	Compliance Oversight	Head of Compliance & MLRO	Elizabeth Mullins
17	Money Laundering Reporting Function	Head of Compliance & MLRO	Elizabeth Mullins
18	Other Overall Responsibility Function	Chief People Officer	Sara Thorpe
24	Chief Operations Function	Chief Operating Officer	Tina Hayton-Banks

NB: Senior Management Functions 19 – 23 and 25 – 27 stipulated by the FCA and PRA do not currently apply to Cambridge & Counties Bank's operating model or the Bank is not of a size to meet the requirement to have the function.

Board and Committee attendance

The following table sets out individual director's attendance at the scheduled Board, Risk & Compliance, Audit, Performance & Remuneration and Nominations & Governance Committees meetings during 2020 (attendance is shown only where a director is a member of the committee and includes any meeting where a director is appointed or retired).

Director	Board	Risk & Compliance Committee	Audit Committee	Performance & Remuneration Committee	Nominations & Governance Committee
No. of meetings in 2020	**11**	**8**	**4**	**6**	**6**
Rachel Curtis-Bowen*	6	–	–	–	–
Caroline Fawcett	10	1†	3†*	5	6
Paul ffolkes Davis	11	2†	3	6	6
Andrea Hodgson	11	–	–	–	–
Michael Hudson**	4	–	–	–	–
Donald Kerr***	2	–	–	–	–
Michael Kirsopp	11	–	–	–	–
Simon Lindley	11	–	–	–	–
Simon Moore	11	8	1†	6	6
Richard Perry	10	7	3	5	6
Ian Smith	11	8	4	–	6
Nick Treble	11	8	4	6	–

* Resigned on 30 June 2020
** Appointed on 2 September 2020
*** Appointed on 26 November 2020
† Ceased to be a member from 26 March 2020
†* Became a member from 26 March 2020

"The Board conducts an annual review of its effectiveness, as do each of the Board committees."

Performance evaluation and professional development

Each year all the Directors are subject to a formal appraisal. The Chief Executive Officer carries out appraisals of the Chief Financial Officer, the Chief Risk Officer and the Chief Development 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 conducts 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 each of the Board committees.

Company Secretary and independent professional advice

Richard Bryan, the Bank's General Counsel, has served as the Company Secretary throughout the year ended 31 December 2020. The Company Secretary is responsible to the Board for ensuring compliance with corporate governance requirements. The Board has access to the Company Secretary individually and collectively. As well as the support of the Company Secretary, any Director may take independent professional advice at the Company's expense in the furtherance of their duties, where considered necessary.

Principal accountant fees and services

An analysis of fees for professional services provided by KPMG, the Company's external auditors for the year ended 31 December 2020, is set out in note 8 to the Bank's financial statements.

Internal control and governance framework

Risk management is governed within the corporate governance structure detailed on page 45, with ultimate ownership at Board level via the Risk & Compliance Committee. In addition, the Board 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.

An explanation of the Bank's executive committees and sub-committees is set out below:

Executive Committee

The Executive Committee is chaired by the CEO and its members include all the Bank's executive officers and General Counsel. The Executive Committee is the Bank's principal executive committee and collectively supports the Chief Executive in developing and implementing the Bank's strategy as agreed by the Board, monitoring the Bank's performance, and agreeing any actions that are required to manage issues that affect the Bank.

Other executive committee sub-committees include:

- Business Change Committee
- Climate Change Committee
- Customer & Product Committee

Asset and Liability Committee

The Asset and Liability Committee is chaired by the CFO and is responsible for reviewing and managing all aspects of the Bank's exposure to financial risks, including strategic risk, capital adequacy, liquidity and funding, tax, and market risks.

Credit Committee

The Credit Committee is chaired by the CLO (Chief Lending Officer) and is responsible for reviewing and managing all aspects of the Bank's exposure to credit risk.

The Credit Approval sub-committee reports to the Credit Committee and is responsible for the review, challenge, and approval of loan terms (at origination and subsequent amendment), including pricing, within limits delegated by the Board Risk & Compliance Committee.

Provisions Committee

The Provisions Committee is chaired by the CFO and 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 recovery across the Bank's loan portfolios.

Risk Management Committees

The Risk Management Committee is chaired by the CRO and is 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.

The Model Risk Governance Committee is chaired by the CRO, is responsible for the management and oversight of financial models used with the firm and reports to the Risk Management Committee.

Nominations & Governance Committee report

Membership and operation of the Committee

The Nominations & Governance Committee is chaired by Paul ffolkes Davis and its members include the Chairman, Simon Moore, Caroline Fawcett, Richard Perry, and Ian Smith. Ian Smith is also Chairman of the Audit Committee. Nick Treble as Chair of Risk & Compliance Committee attends occasionally, in line with the responsibilities of his role. The Chief Executive Officer, Chief People Officer and General Counsel and Company Secretary also attend committee meetings.

The Committee is authorised by the Board to keep the structure, size, and composition of the Board under review and for making recommendations to the Board with regard to any changes required to the overall balance of skills, knowledge, experience and diversity on the Board. It leads the process for appointments to the Board, Board Committees, and the chairmanship of those committees. The Committee also considers succession planning for the Board and Executive, taking account of the skills and expertise that will be needed in the future. The Committee is responsible for monitoring the governance arrangements to ensure that such arrangements are consistent with corporate governance standards and developing best practice; it reviews and recommends any corporate governance materials for inclusion in public disclosures or regulatory responses. This committee is responsible for overseeing that Directors fulfil their responsibilities under the Senior Management Regime. The Bank's General Counsel, or an appropriate delegate, acts as the secretary to the Committee.

Appointment of directors and succession planning

The Committee met six times during the year. Following Mike Kirsopp's indication of his intention to retire at the end of 2020, the key focus of the Committee was to secure a replacement CEO. After undertaking an extensive search supported by Taylor Harrison Ltd, the Committee considered and recommended to the Board the appointment of Donald Kerr as CEO. Donald Kerr was appointed a Director on 26 November 2020. The Committee also appointed Ian Smith as the Senior Independent Director in March 2020.

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 the reappointment of Caroline Fawcett and oversight of the recruitment of a new Chair of the Audit Committee, in advance of the retirement of Ian Smith on 30 September 2021. The 2019 Board Effectiveness survey was reviewed and plans for an external review of Board effectiveness agreed, which took place at the end of 2020.

Following the 2018 UK Corporate Governance Code coming into effect during 2019, the Committee completed the revision of 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.

Executive succession planning

The Committee also considered the Executive succession plan which covered the Executive Committee members together with the layer of senior management reporting into Executive Committee members.

Diversity and inclusion

The Bank is committed to fair and consistent treatment of all employees regardless of their personal characteristics, which include gender, ethnicity, religion, sexual orientation, transgender status, disability, nationality, or age. The Board has adopted this approach to diversity and had regard to it during the recruitment process discussed above. The Directors' report, on page 55, provides further detail on the Bank's approach to diversity and inclusion. The Board promotes the Bank's signatory to the Women in Finance Charter and affirms its aspiration to meet the target of 33% of Board positions being held by women, as set out in the Hampton-Alexander Review.

The Directors' report, on page 55, provides further detail on the Bank's approach to diversity and inclusion.

Audit Committee report

Membership and operation of the Committee

The Audit Committee is chaired by Ian Smith, the Bank's Senior Independent NED and its members include Caroline Fawcett, Paul ffolkes Davis, Richard Perry, and Nick Treble. Nick Treble is also Chair of the Risk & Compliance Committee. Committee meetings are attended by members of the Executive Committee including the CEO, CFO and CRO. The Bank's outsourced internal audit provider, Deloitte, and external auditor, KPMG, attend each meeting of the Committee which typically includes a private session with the NEDs without the presence of Executives. The Company Secretary, or an appropriate delegate, acts as the secretary to the Committee.

Audit Committee responsibilities and activity in 2020

The Audit Committee met four times during 2020. The Committee's principal responsibility is to assist the Board in carrying out its responsibilities relating to accounting policies, financial governance & control framework, and 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 fair, balanced and understandable assessment of the Bank's performance. Any significant judgements in relation to financial reporting are reviewed and challenged by Committee. During 2020, the Committee recommended approval to the Board of the 2019 statutory accounts and the supporting management judgement papers including the going concern, effective interest rate, IFRS9, and intangible & tangible assets.

The Audit Committee appraises the performance of the internal audit function and their continued independence. 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.

> "The Committee ensures the financial statements give a fair, balanced and understandable assessment of the Bank's performance."

Performance & Remuneration Committee report

Membership and operation of the Committee

The Performance & Remuneration Committee is chaired by Caroline Fawcett and its members include the Chairman, Simon Moore, Paul ffolkes Davis, Richard Perry, and Nick Treble. Ian Smith, Chair of the Audit Committee, attends meetings of the Performance & Remuneration Committee from time to time to ensure alignment between the work of the Performance & Remuneration Committee and the Audit Committee. Performance & Remuneration Committee meetings are also attended by the Chief Executive Officer, the Chief People Officer and the Group Counsel & Company Secretary. From time to time the Chief Financial Officer and the Chief Risk Officer attend to provide input on their specialist areas and to give their views on the Executives' management of risk and performance against the Senior Management Regime requirements. The Company Secretary, or an appropriate delegate, acts as the secretary to the Committee. No members or attendees participate in the discussion of issues directly affecting their own remuneration. The Committee invite specialist external advisors to attend at least annually to support their work and educate on best practice.

Performance & Remuneration Committee responsibilities and activity in 2020

The Performance & Remuneration Committee met six times during 2020. 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, as well as supporting the business strategy and values of the Bank.

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. It has additionally overseen the arrangements for termination payments to Executive Directors.

The Bank's remuneration policy is included on pages 60 – 61.

The Bank's remuneration policy is included on pages 60 to 61.

Risk & Compliance Committee report

Membership and operation of the Committee

The Risk & Compliance Committee is chaired by Nick Treble, and its members include the Chairman, Simon Moore, Richard Perry, and Ian Smith. Ian Smith is also chair of the Audit Committee. Committee meetings are attended by members of the Executive Committee including the CEO, CFO and CRO. The Company Secretary, or an appropriate delegate, acts as the secretary to the committee.

Risk & Compliance Committee responsibilities and activity in 2020

The Committee met eight times during 2020. The Committee's principal 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.

During the initial phase of the Coronavirus pandemic the committee met more frequently, initially fortnightly, to provide an increased level of oversight of the evolving situation. This was supported by enhanced risk monitoring and management information of key metrics and bespoke control activities, this additional management information continued throughout the year.

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. 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 scrutiny, with the Committee monitoring compliance and embedding of these regulatory regimes within 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 to ensure that the Bank's lending is undertaken within risk appetite.

The Bank's risk management framework is addressed further on pages 29 – 41.

Directors' report

Introduction

The Directors of Cambridge & Counties Bank Limited present their report and audited financial statements for the year ended 31 December 2020, in accordance with section 415 of the Companies Act 2006.

The following information is incorporated into this Directors' Report:

- The information in the Section 172 statement on page 16 on employee engagement and fostering business relationships with customers, suppliers, and others;
- The internal control and financial risk management systems described in 'how the business is managed' section of the corporate governance statement on pages 44 – 67; and
- The diversity and inclusion section of the Governance and Nominations Committee report on page 51.

Results and dividends

The statement of comprehensive income and statement of financial position for the Bank can be found on pages 83 – 85. The Directors do not propose to pay a dividend in respect of ordinary shares for the year ended 31 December 2020 (2019: Nil).

Directors

The Directors of the company who were in office during the year, or from the date of their appointment, and up to the date of signing the financial statements were:

Simon Moore	Chairman & Independent Non-Executive Director
Paul ffolkes Davis	Non-Executive Director & Vice Chairman
Ian Smith [1]	Senior Independent Non-Executive Director
Caroline Fawcett	Independent Non-Executive Director
Nick Treble [2]	Independent Non-Executive Director
Richard Perry	Non-Executive Director
Michael Kirsopp [3]	Chief Executive Officer
Donald Kerr [4]	Chief Executive Officer
Andrea Hodgson	Chief Financial Officer
Mike Hudson [5]	Chief Risk Officer
Simon Lindley	Chief Development Officer
Rachel Curtis-Bowen [6]	Chief Customer Officer

1 Appointed Senior Independent Director in addition to Independent Non-Executive Director 1 March 2020
2 Appointed 17 January 2020
3 Resigned 17 December 2020
4 Appointed 26 November 2020
5 Appointed 2 September 2020
6 Resigned 30 June 2020

The biographies of the Bank's Directors are available at www.ccbank.co.uk/about-us/our-directors

Power of Directors

The Directors are responsible for managing the business of the Bank and may exercise all the powers of the Bank so long as the Articles or applicable legislation do not stipulate that any such powers must be exercised by the shareholders.

Directors' indemnities

Each of the Directors has the benefit of a deed of indemnity which constitutes a 'qualifying third party indemnity provision'. This indemnification for Directors provided by the Bank has been arranged in accordance with the Articles and the Companies Act 2006. The indemnities remain in force at the date of signing these financial statements and are available for inspection at the Company's registered office.

Directors' emoluments waiver

Richard Perry as Shareholder representative for Cambridgeshire County Council as Administering Authority of the Cambridgeshire Local Government Pension Fund, does not receive a fee for his services as a Non-Executive Director, the fees payable are distributed directly to the Council.

Governance arrangements

The Board has chosen to voluntarily adopt the principles of the UK Corporate Governance Code (Code) to the extent that they are applicable or considered appropriate for the Bank. Details of the aspects of the Code not applicable or considered appropriate for the Bank, together with the areas where the Bank has deviated from the recommendations of the Code and the rationale for this, are set out within how the business is managed in the Bank's Corporate Governance statement on pages 44 – 69.

Share capital

Details on the Bank's shareholders and share capital at 31 December 2020 is provided in Notes 25 and 32 to the financial statements.

Future developments

The future development of the Bank is set out in the Chief Executive Officer's statement on pages 10 – 11.

Political donations and expenditure

No amounts were given for political purposes during the year (2019: Nil).

Financial risk management and hedging policies

Details of the use of financial instruments, together with risk management disclosures can be found in the 'managing financial risk' section of the financial statements in Note 28 and the Risk Management section in the 'Strategic report' on pages 6 – 41.

Post balance sheet events

There are no significant events affecting the Bank that have arisen between 31 December 2020 and the date of this report that require disclosure. The Bank continues to monitor development of the COVID-19 pandemic and the potential impact on the Bank. Whilst the Bank has successfully withstood the impact of COVID-19 during 2020, the Bank continues to focus on supporting its customers, protecting the safety and wellbeing of its employees, ensuring safe and secure business operations, and protecting its shareholder interests.

> "The Bank achieved its plans to be carbon neutral across its head office site in Leicester in 2019 and is pleased to report the successful extension of its carbon neutral status in 2020."

Research and development activities

The Bank develops new products and services during the ordinary course of its business.

Overseas branches

The Bank does not have any branches outside of the UK.

Corporate headquarters and registered office

The corporate headquarters and registered office address for Cambridge & Counties Bank Limited is Charnwood Court, 5B New Walk, Leicester, LE1 6TE.

Environmental information

The Bank is committed to being a responsible user of resources and continues to consider ways it can reduce its environmental impact. The Bank's energy use in 2020 was less than 40MWh and the Bank is therefore classified as a 'low energy user' and has therefore not disclosed individual details on its energy and carbon information.

The Bank seeks to mitigate the environmental impact of its property, and where improvements are required, energy efficient equipment is chosen. In 2019 the Bank completed a full refurbishment of its head office site in Leicester and it continues to invest in energy efficient operating solutions. Business travel and use of paper has reduced considerably during 2020 both as a result of the Bank moving to a remote operating model and proactive initiatives sponsored by staff to reduce the Bank's carbon footprint.

Going concern

The Directors recognise their responsibility to assess the Bank's ability to continue as a going concern, for a period of at least 12 months from the date the financial statements are approved. The Directors' assessment of going concern is integrated with the assessment of the viability of the Bank. The Directors, having considered the matters noted in Note 4, are satisfied that adequate funding, liquidity, and capital resources will be in place to allow the financial statements to continue to be prepared on a going concern basis and are not aware of any material uncertainties that may cast doubt upon the Bank's ability to continue as a going concern.

Viability statement

As more fully explained in the corporate governance statement on page 44, the Bank has committed to voluntarily adopt the Code which includes provisions that require the Directors to confirm that the Bank will be able to continue in operation and to meet its financial liabilities as they fall due over a specified period taking account of the current position and principal risks of the Bank.

The Directors have assessed the Bank's viability to December 2023 which is the period over which the Bank's medium term strategic and financial plan is prepared, key capital and leverage ratios are forecast, and regulatory and internal stress testing of the Bank's profit, capital and funding forecasts are carried out. In doing so, the Directors considered the increasing uncertainty of forecasts in the outer years of the planning period from developments in the economic

environment, competition, and regulatory developments. The Directors confirm that they have carried out a robust assessment of the emerging and principal risks facing the Bank, the procedures in place to identify emerging risks, and how such risks are managed or mitigated, and, cognisant of the capital and funding resources, they have a reasonable expectation that the Bank will be able to continue in operation and meet its liabilities as they fall due in the period to December 2023.

In making this assessment, the Directors have considered a wide range of information. Central to this assessment is the detailed 2021 business plan within the Bank's 3 Year Strategic Plan. The Board have continued to conduct a number of internal capital adequacy and liquidity adequacy stress tests on the operating model, most particularly those affecting our property lending concentrations to provide insights into the Bank's financial stability. The stress testing analysis helps management understand the nature and extent of vulnerabilities to which the Bank is exposed. As a 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.

In addition, the Directors have assessed the key strategic risks that could threaten the Bank's prospects and business model more broadly. 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 2021 and beyond. The Board is confident that the business can withstand the macroeconomic challenges of 2021, and supported by its strong culture and risk awareness, considers the organisation is well positioned to respond when the market picks up.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual 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 accounting standards in conformity with the requirements of the Companies Act 2006 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 international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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 mis-statement, 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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.

Fair, balanced, and understandable

The Board has ultimate responsibility for reviewing and approving the annual report. In voluntarily adopting the principles of the Code that are considered appropriate for the Bank, the Directors confirm that they consider that the annual report, taken as a whole, is fair, balanced, and understandable and provides the information necessary for the shareholders to assess the Company's position, performance, business model and strategy. When arriving at this conclusion the Board was assisted by a number of processes including:

- The annual report is drafted and comprehensively reviewed by appropriate senior management with overall coordination by the CFO;
- A verification process is undertaken to ensure factual accuracy, with additional review of compliance with content and disclosure requirements by the Bank's General Counsel; and
- The annual report is reviewed by the Bank senior management including the CFO, CRO, the Bank's Executive Committee and the Audit Committee prior to approval by the Board.

Disclosure of information to 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 Company's auditor is unaware; and each Director has taken all the steps that he/ she ought to have taken as a Director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditors

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

9 April 2021

Remuneration policy

The Performance & Remuneration Committee is authorised by the Board to consider and recommend to the Board the remuneration policy. The policy is considered regularly by the Committee, taking account of changes in regulation and the wider market. In formulating and reviewing the policy, independent advice is sought and considered. In particular, the sustainability of the policy and its risk impact are carefully reviewed. The remuneration policy is formally approved by Committee annually.

The Bank's remuneration policy is to ensure that we attract and retain key talent 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; and
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; and

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.

Reward outcomes in 2020

2020 has been a challenging year for the Bank resulting in a financial performance, that as a direct consequence of the COVID-19 pandemic, delivered an outcome adverse to the original 2020 business plan expectations with increased provision for impairment charges relating to customer forbearance and projected expected credit losses under IFRS9.

"2020 has been exceptionally demanding of our people in successfully managing the business, and meeting our customers' needs. The Performance & Remuneration Committee therefore approved a £1.4m variable pay award."

The Performance & Remuneration Committee has reviewed the business performance in 2020 and considered risk events in conjunction with the Board Risk & Compliance Committee, the affordability of paying variable pay, and the associated risk of low variable pay. After assessment of performance, the Committee has determined that the Executive long term incentive plan (LTIP) 2018-2020 will not vest in 2021. However, the Committee recognised that 2020 has been exceptionally demanding of our people in successfully managing the business, and meeting our customers' needs, and has therefore approved the distribution of £1.4m variable pay award.

Contents
Strategic Report
Corporate Governance Statement
Independent Auditor's Report
Financial Statements
Notes to the Financial Statements

Executive Director Remuneration

The table below summarise the Executive Directors' remuneration policy for 2020:

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 • Provides an appropriate level of basic fixed income • Avoids excessive risk taking from over reliance on variable income	• 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
Benefits	• To aid retention and recruitment	• Company car allowance, provision of private medical insurance, life assurance and permanent health insurance	• Not applicable	• Not applicable

Element of Remuneration	Purpose and Link to Strategy	Operation	Maximum	Performance Targets
Bonus	• Incentivises annual delivery of financial and strategic goals • Maximum bonus only payable for achieving business and personal targets	• Paid in cash • Not pensionable	• 50% 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) **Stopped in 2020 – final scheme still running is 2019 - 2021**	• 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	• Achievement in final year of 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 Executive Directors 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

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 was discontinued in 2020, with the last granted LTIP being for the performance periods ending 2020 and 2021. No LTIP award was made for 2020 as performance criteria was not achieved. Where performance measures are achieved for 2021, the LTIP award will vest in 2022 at a maximum of 20% base salary. The Executive bonus scheme was increased by 20% to a maximum of 50% in 2020, maintaining the variable remuneration package for Executives.

Highest paid Director-2020 remuneration disclosure

The total remuneration paid to the Bank's highest paid Director for qualifying services as a Director in the period from 1 January to 31 December 2020 is included in Note 11 to the financial statements.

Consideration by the Directors of matters relating to Directors' Remuneration

The Performance & Remuneration Committee engage Deloitte LLP (Deloitte) to provide independent advice on remuneration matters. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. Deloitte has provided independent advice on matters under consideration by the Performance & Remuneration Committee including compliance with regulations, advice on market trends and data, remuneration policy and implementation of remuneration arrangements, including support in remuneration arrangements for departing Executives. The Performance & Remuneration Committee is satisfied that the advice it has received has been objective and independent.

In addition, management received external advice, including market data and legal counsel, from a number of other providers which is not considered to be material in assisting the Performance & Remuneration Committee to consider Directors' remuneration.

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 level 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.

Pension and benefits provided to all employees.

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 except for 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 • NED fees are considered and approved by the Shareholders and Chairman • Chairman fees are approved by Performance & Remuneration Committee	• There is no prescribed maximum annual increase. All increases are 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 • The Senior Independent Director receives an additional responsibility allowance of £5k	• Non-Executive Directors do not participate in variable pay elements

Leadership team biographies

Chairman and Executive Directors

Simon Moore
Chairman

Simon joined Cambridge & Counties Bank when it was formed in 2012, as Non-Executive Director and chair of the Nominations & Remuneration Committee. 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.

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 RCI Bank UK 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.

Donald Kerr
Chief Executive Officer

Donald was appointed as the Bank's Chief Executive Officer on 1 November 2020 and joined the Board on 26 November 2020.

Donald is a career banker having joined Bank of Scotland after graduating from university. He has held leadership roles at Lloyds Banking Group, Virgin Money, and Co-operative Bank. Experience gained in corporate and transactional banking led Donald to specialise in SME banking with customers that he believes are the backbone of the UK economy. Managing Director positions in distribution, operations, risk management and strategy culminated in his appointment as Chief Executive Officer for Cambridge & Counties Bank in November 2020.

Andrea Hodgson
Chief Financial Officer

Andrea joined Cambridge & Counties Bank as CFO and Board member in 2017, prior to which she held similar roles at a start-up challenger and USS Ltd. Andrea qualified as a chartered accountant with KPMG before moving into financial services and has 20 years' experience ranging from banking licence application, acquisition, and integrations through to strategy development. Andrea has a proven track record from her executive leadership roles with Lloyds Banking Group, Bank of Scotland, and National Australia Group. Previously, she has also served as a Non-Executive Director and Deputy Chair for a large NHS Foundation Trust.

Andrea is passionate about motivating teams to ensure that the Finance & Treasury functions are valued and trusted business partners that are at the heart of the business.

Simon Lindley
Chief Development Officer

Simon was appointed the Bank's Chief Development Officer and joined the Board in 2017.

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 then leading 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.

Mike Hudson
Chief Risk Officer

Mike was appointed the Bank's Chief Risk Officer on 2 January 2020 and joined the Board on 2 September 2020.

Mike joined Cambridge & Counties Bank in January 2020, before which he was the CRO for 7 years at Brown Shipley & Co Ltd. With nearly 40 years' experience in Financial Services working across all the risk categories, Mike has spent most of his career within banking and lending, helping ensure firms have the appropriate risk and control environment.

At Cambridge & Counties Bank, he is responsible for the management and oversight of the Bank's credit, risk and control framework which also includes helping the Bank meet its regulatory obligations, as well as its legal and company secretarial accountabilities. Mike also oversees the Bank's response to climate change, as well as broader environmental, social and governance activities.

He is passionate about ensuring the broader Risk Management team provide the appropriate support to the Bank, allowing it to continue to grow securely.

Leadership team biographies

Non-Executive Directors

Paul ffolkes Davis
Non-Executive Director, Vice Chairman, and Chair of Nominations & Governance Committee

Paul joined Cambridge & Counties Bank Board when it was formed in 2012 as shareholder representative and Chairman.

Paul started out 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.

From 2004 through to March 2020, Paul was Bursar of Trinity Hall, one of Cambridge University's oldest colleges. While in Cambridge, he also 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 which continues to form a key part of its endowment portfolio. Paul was Chairman of Cambridge & Counties Bank from June 2012 to October 2016.

Since March 2020, Paul has two new roles as Independent Non-Executive Chairman of Qualis Group, Epping Forest District Council's commercial trading companies and Executive Chairman of Rising Sun Management Ltd.

Richard Perry
Non-Executive Director

Richard was appointed to the Board in 2019 as shareholder representative.

Richard has over 40 years' 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 Northamptonshire County Council, 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
Senior Independent Director and Chair of Audit Committee

Ian joined Cambridge & Counties Bank Board when it was formed in 2012.

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 firm'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.

Caroline Fawcett
Independent Non-Executive Director and Chair of Performance & Remuneration Committee

Caroline was formally appointed to the Board in 2017.

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 ten years and is currently on the Boards of the Rail Safety and Standards Board, Lifesight Ltd (the Trustee for Willis Towers Watson's Master Trust pension scheme) and is a Trustee of Alzheimer's Society.

Nick Treble
Independent Non-Executive Director and Chair of Risk & Compliance Committee

Nick was formally appointed to the Board in January 2020.

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.

The biographies of the Bank's Directors are available at www.ccbank.co.uk/about-us/our-directors

Independent Auditor's Report

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 2020 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 the Company's affairs as at 31 December 2020 and of its profit for the year then ended;

— have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 nine financial years ended 31 December 2020. 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	£0.80m (2019: £0.85m) 3.89% of normalised profit before tax (2019: 3.77% of profit before tax)	
Key audit matters		**vs 2019**
Recurring risks	Going concern	◀▶
	Impairment of loans and advances to customers	▲
	Revenue recognition – EIR accounting – Real Estate Finance	◀▶
	Privileged user access management	◀▶

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

Key audit matters are those matters that, in our professional judgement, 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 decreasing order of audit significance, 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
Going Concern *Refer to page 55 (Directors' Report), and page 86 (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 to continue operations over a period of at least a year from the date of approval of the financial statements in a range of plausible stress scenarios. The risk most likely to affect the Company's available financial resources over this period was the heightened macroeconomic uncertainty, due to COVID-19 effects. This could result in reduced principal and interest collections from the Company's loan assets. The risk for our audit is whether or not a material uncertainty exists that may 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.	We considered whether these risks could plausibly affect the capital, liquidity and solvency in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively. Our procedures also 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 profitability, 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 (2019: acceptable).

2: Key audit matters: our assessment of risks of material misstatement (Continued)

	The risk	Our response
Impairment of loans and advances to customers *Allowance for impairment losses: (£12.5m; 2019: £8.2m)* *Refer to pages 91 to 94 and pages 105 to 112 (accounting policy and financial disclosures).*	**Subjective estimate:** The accounting standard, IFRS9 – 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 measured 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 the 12-month and lifetime ECL calculations; — The loss given default including collateral valuations. — Forward-looking economic forecasts, particularly in the context of COVID-19. 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 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. The financial statements disclose the sens itivities estimated by the Company.	Our procedures included: — **Our financial risk modelling expertise:** We involved our own financial risk modelling specialists in evaluating the IFRS9 models. We used our knowledge of the Company and our experience of the industry that the Company operates in to independently assess the appropriateness of the Company's IFRS9 models and key components. — **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. As part of this work we assessed the reasonableness of the Company's considerations of the economic uncertainty relating to COVID-19. — **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. This included performing sensitivity analysis to understand the significance of certain assumptions; benchmarking procedures to compare the Company's key assumptions to comparable peer group organisations; and assessing the key assumptions against the Company's historical experience. Additionally, we performed detailed credit file reviews of the Stage 3 individually assessed impaired loans to determine they were appropriately assessed and reserved. — **Assessing transparency:** We evaluated whether the disclosures appropriately reflect and address the uncertainty which exists when determining the Company's overall ECL. As a part of this, we assessed the sensitivity analysis that is disclosed. In addition, we challenged whether the disclosure of the key judgments and assumptions made, including in respect of COVID-19, was sufficiently clear. **Our results** We found the resulting estimate of the ECL impairment provision to be acceptable (2019: acceptable).

	The risk	Our response
Revenue recognition – EIR accounting – Real Estate Finance *EIR liability: £3.1m; (2019: £2.3m)* *Refer to pages 91 to 92 (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 cashflows 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 origination 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 independent 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 IFRS9 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 (2019: acceptable).

2: Key audit matters: our assessment of risks of material misstatement (Continued)

	The risk	Our response
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 and Asset Finance portfolios are administered on the Phoebus and Vienna applications respectively. These systems have live databases that are accessed by privileged access accounts, which are shared among authorised users within the Company's IT team. Ineffective controls for part of the year included activity logging for these privileged database access accounts. The Company has enhanced controls to address the issue raised, by implementing logging and monitoring from August 2020. As a consequence, prior to the implementation of logging, there is a lack of accountability for actions performed using the shared privileged accounts on the Phoebus and Vienna live databases which may undermine our ability to place reliance on the integrity of data held within the respective databases in our audit.	Our procedures included: **Controls testing:** We tested the design and operating effectiveness of key controls over in-house and third party privileged user access management, including controls over: — Authorising access rights for new joiners; — Timely removal of user access rights; — Modification of user access rights; — Privileged user and developer access to production systems; and — Segregation of duties for access to Phoebus and Vienna development and production environments. **Tests of detail:** We used sample testing to agree relevant data elements used in the financial reporting process (including those which support calculation of interest and arrears) to appropriate supporting evidence. In addition, as part of the sample testing, we verified that there had been no manipulation of the outputs from automated controls to confirm reliance could be placed on the automated control calculations. Where we performed substantive testing over model inputs, such as those for impairment of loans and advances to customers and EIR accounting, we agreed the inputs to appropriate source documentation to confirm there was no impact on financial reporting. **Our results** Our testing identified weaknesses in the design and operation of privileged user access controls. As a result we expanded the extent of our detailed testing, as set out above, over and above that originally planned, and this work was completed satisfactorily.

We continue to perform procedures over the impact of uncertainties due to the UK exiting the European Union on our audit. However, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

KPMG

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 £0.80m (2019: £0.85m), determined with reference to a benchmark of the Company's profit before tax, normalised by averaging over the last three years due to the impact of Covid-19 on the financial performance in the year ended 31 December 2020, of which it represents 3.89% (2019: 3.77% of profit before tax).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 65% (2019: 65%) of materiality for the financial statements as a whole, which equates to £520k (2019: £550k). We applied this percentage in our determination of performance materiality based on the level of identified misstatements, control deficiencies and changes in the control environment during the prior period.

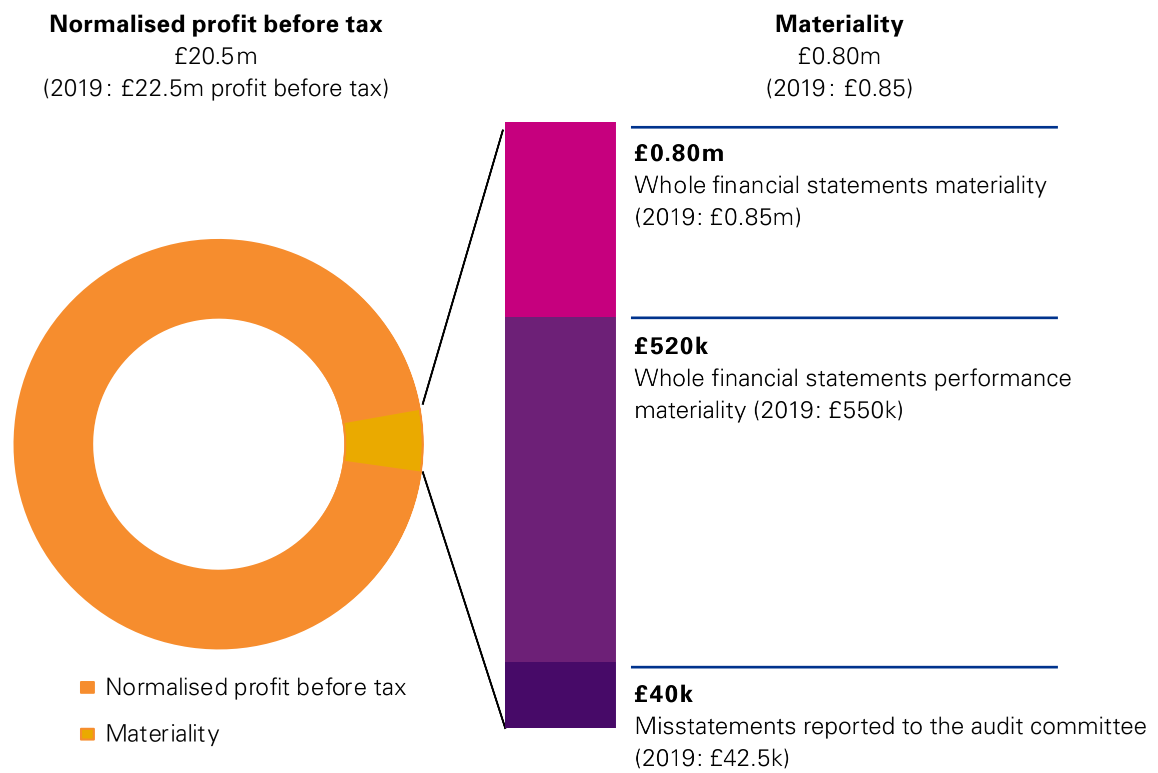
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £40k (2019: £42.5k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality and performance materiality levels specified above and was performed by a single audit team.

4: 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").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in Section 2 of this report.



Contents
Strategic Report
Corporate Governance Statement
Independent Auditor's Report
Financial Statements
Notes to the Financial Statements

Our conclusions based on this work:

— we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

— we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and

— we found the going concern disclosure in Note 4 to be acceptable.

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 above conclusions are not a guarantee that the Company will continue in operation.

5: Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

Fraud risk assessment

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

— Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud;

— Reading Board and various other committee minutes;

— Considering remuneration incentive schemes and performance targets for management and directors;

— Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition under the effective interest rate ('EIR') method, arising from the judgements in relation to customer behavioural lives. We also identified a fraud risk related to estimation of impairment of loans and advances to customers specifically relating to the economic scenarios and cashflow forecasts as these involve subjective judgements, in response to possible pressures to meet performance targets.

Further detail in respect of revenue recognition – EIR accounting and impairment of loans and advances to customers is set out in the key audit matter disclosures in Section 2 of this report.

We also performed procedures including:

— Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included journal entries with specific comments assessed as higher risk.

— Assessing significant accounting estimates for bias.

We discussed with the audit committee matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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 license 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. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6: We have nothing to report on the strategic report and the directors' report

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

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

— we have not identified material misstatements in 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.

7: 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, 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.

8: Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 59, 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 error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

9: 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.

Matthew Rowell (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
9 April 2021

Financial Statements

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December

£'000	Note	2020	2019
Interest income calculated using the effective interest rate	6	50,897	57,045
Interest expense	6	(12,785)	(14,137)
Net interest income		38,112	42,908
Other income	7	30	50
Total operating income		**38,142**	**42,958**
Administrative expenses	9	(20,236)	(17,763)
Depreciation, amortisation and loss on disposals	18,19	(932)	(1,093)
Operating profit before impairment losses		**16,974**	**24,102**
Impairment losses on loans and advances to customers	16	(5,813)	(1,566)
Profit before tax		**11,161**	**22,536**
Taxation charge	12	(1,763)	(4,035)
Profit after tax		**9,398**	**18,501**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Fair value through other comprehensive income: Debt securities		24	(71)
Fair value through other comprehensive income – net change in value	25	29	–
Fair value through other comprehensive income – reclassified to profit or loss	25	–	(86)
Related tax	25	(5)	15
Total other comprehensive income		**24**	**(71)**
Total comprehensive income attributable to owners of the Bank		**9,422**	**18,430**

All profit for the year arises from continuing operations.
The Notes on pages 86 – 122 are an integral part of these financial statements.

Statement of Financial Position

For the year ended 31 December

£'000	Note	2020	2019
Assets			
Cash and balances at central banks	13	190,962	228,972
Loans and advances to banks	14	9,687	7,695
Debt securities	17	38,044	–
Loans and advances to customers	15	828,380	761,503
Derivative financial assets	21	9	–
Other assets and prepayments	20	1,431	1,224
Property plant and equipment	18	2,934	3,154
Intangible assets	19	1,567	791
Current tax asset		522	–
Deferred taxation	12	725	729
Total assets		**1,074,261**	**1,004,068**
Liabilities			
Customers' accounts	22	917,215	854,449
Derivative financial liabilities	21	–	31
Current tax liabilities	23	–	1,595
Other liabilities and accruals	23	6,911	5,840
Total liabilities		**924,126**	**861,915**
Equity			
Share capital	25	44,955	44,955
Convertible loan notes	25	22,900	22,900
Fair value through other comprehensive income reserve	25	26	2
Retained earnings		82,254	74,296
Total equity		**150,135**	**142,153**
Total liabilities and equity		**1,074,261**	**1,004,068**

These financial statements were approved by the Board of Directors on 9 April 2021 and were signed on its behalf by:

Donald Kerr
Chief Executive Officer

Company registered number: 07972522
The Notes on pages 86 – 122 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 2020	**44,955**	**22,900**	**2**	**74,296**	**142,153**
Profit for the year	–	–	–	9,398	9,398
Other comprehensive income	–	–	24	–	24
Total comprehensive income for the period	–	–	24	9,398	9,422
Transactions with owners, recorded directly in equity					
Convertible loan note interest	–	–	–	(1,440)	(1,440)
Total contributions by and distributions to owners	–	–	–	(1,440)	(1,440)
Balance at 31 December 2020	**44,955**	**22,900**	**26**	**82,254**	**150,135**

£'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**
Total comprehensive income for the period					
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					
Convertible loan note interest (net of tax)	–	–	–	(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**

The Notes on pages 86 – 121 are an integral part of these financial statements.

Statement of Cash Flow

For the year ended 31 December

£'000	Note	2020	2019
Cash flows from operating activities			
Profit after tax		9,398	18,501
Adjustments for:			
Depreciation, amortisation and loss on disposals		932	1,093
Non cash item on adoption of IFRS16	18,29	(193)	(2,429)
Taxation charge		1,763	4,035
		11,900	21,200
Net increase in other assets/liabilities			
Net (increase)/decrease in loans and advances to customers	15	(66,877)	7,513
Net (increase)/decrease in customers' accounts	22	62,766	(46,949)
Net (increase)/decrease in value of debt securities	17	518	(86)
Net decrease in derivatives	21	(40)	(63)
Net increase in other liabilities and provisions	23,24	1,071	3,122
Net (increase) in other assets & prepayments	20	(207)	(285)
Income tax paid		(3,881)	(4,972)
		(6,650)	(41,720)
Net cash from operating activities		**5,250**	**(20,520)**
Cash flows from investing activities			
Proceeds from sales of debt securities	17	–	23,244
Acquisition of debt securities	17	(38,533)	(9,894)
Acquisition of property, plant & equipment and intangible assets	18,19	(1,295)	(1,376)
Net cash from investing activities		**(39,828)**	**11,974**
Cash flows from financing activities			
Convertible loan note interest paid	25	(1,440)	(1,457)
Net cash from financing activities		**(1,440)**	**(1,457)**
Net increase in cash and cash equivalents	13	(36,018)	(10,003)
Cash and cash equivalents at 1 January	13	236,667	246,670
Cash and cash equivalents at 31 December		**200,649**	**236,667**

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 86 – 121 are an integral part of these financial statements.

Notes to the Financial Statements

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 accounting standards in conformity with the requirements of the Companies Act 2006. 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 change as a result of the adoption of IFRS9 Hedge accounting (set out in Note 21), the Bank has consistently applied the accounting policies set out in these financial statements.

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 customer accounts or derivatives priced or linked to LIBOR interest rates. The Bank's AT1 Capital instrument interest rate is linked to 6 Month LIBOR, however the instrument's terms and conditions already enable the Bank to automatically realign the interest rate when LIBOR ceases. The Bank has adopted the 'Interest Rate benchmark Reform – Amendments to IFRS9, IAS 39 and IFRS9 (the Phase 1 Amendment)'. This has not resulted in any change to the bank's reported financial results.

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 a period of at least 12 months from the date of signing these financial statements. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, impairment, cash flows and capital resources.

The Board remains confident that the offering to the market remains relevant and attractive, and that 2021 will present the opportunity to continue to grow the customer assets without strain on the Bank's capital or liquidity measures. 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 2021 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 statements.

As part of this assessment the continuing impact of the COVID-19 pandemic as well as the UK's exit from the European Union have been assessed. The Directors recognise that the current macroeconomic situation will continue to evolve, and that whilst 2021 performance expectations have been tempered, 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 but plausible downside scenario based on the Bank of England stress scenario published in January 2021 where the operating environment has unemployment and inflation increasing and demand for finance and property prices reducing with the addition of higher credit losses than experienced in recent years. Based on the forecasts and stresses performed, the Directors are satisfied that the Bank will have sufficient regulatory capital and liquidity for a period of at least 12 months from the date of approval of these financial statements;
- Management have already incorporated an expectation of low interest rates and continued economic uncertainty into the Bank's business plan which may result in reduced demand for new finance and mortgaging activity in the real estate and asset finance markets and increased credit losses;
- The Bank maintains a strong liquidity position with its Liquidity Coverage Ratio (LCR) around four times higher than the regulatory minimum at the end of 2020;
- All of the Bank's assets that it has financed, its customers, staff, and key suppliers are UK based, and;
- All the Bank employees have successfully operated remotely for the majority of 2020 with no significant impact on customer service.

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. For each area of management judgement, along with any others which are considered material, management prepare a paper for review and approval by the Bank's Audit Committee at least once a year.

Loan loss provisioning

The Bank adopted IFRS9 in 2018 with the provisioning methodology changed to an expected loss basis.

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

- all 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 and the Loss Given Default.

All the Bank's loans and advances are allocated to a Stage under IFRS9. Stage 1 loans are loans which are performing as expected with the expected credit loss calculation based on a 12-month probability of default. Loans which have seen a significant increase in credit risk since original inception, or are over 30 days in arrears, are held in Stage 2 with the expected credit loss based on a lifetime probability of default. Loans which are considered credit impaired or in default are placed in Stage 3 with the expected credit loss calculation assuming a 100% probability of default and a lifetime loss given default applied.

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 expected realisable collateral value and associated sales costs.

The expected credit loss (ECL) 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 value of 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 Provisions 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 IFRS9 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 where appropriate a shorter period, to the net carrying amount of the financial asset or the financial liability. When calculating the EIR, the Bank considers 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. In accordance with IFRS9, 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.

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; and
- Income from finance leases and instalment credit agreements.

£'000	2020	2019
Interest income		
Loans and advances to banks	490	1,451
Loans and advances to customers	50,385	55,457
Investment securities	22	137
Total interest income	**50,897**	**57,045**
Interest expense		
Deposits from customers	(12,624)	(13,883)
Other	(161)	(254)
Total interest expense	**(12,785)**	**(14,137)**
Net interest income	**38,112**	**42,908**

Included within interest income for the year ended 31 December 2020 is a total of £176k (2019: £458k) 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

The Bank's effective interest rate is sensitive to changes in customer redemptions and the value of new lending drawn in the year. If customer redemptions increase this is likely to result in increased fee income being received in the form of early repayment charges and the acceleration of the recognition of arrangement fee income. New lending values will impact the value of loan arrangement fees to be recognised in future periods as well as being a key driver of the value of fees expected to be generated in future years from subsequent early redemptions.

The following sensitivities have been calculated to show the sensitivity of the EIR income to changes in these items.

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 or loss would have been £0.5m lower.

If the Bank's new lending in 2020 had been 25% lower the EIR income recognised in the Bank's income statement would have been £0.2m higher.

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. The fair value movement represents both hedge ineffectiveness and the receipt of proceeds from the early settlement of derivatives during the year.

£'000	2020	2019
Fair value movement	12	1
Other operating income	18	49
Total other income	**30**	**50**

8 Auditors' remuneration

The profit on ordinary activities is arrived at after charging:

£'000	2020	2019
The remuneration of the Bank's external auditors:		
Audit services		
Audit of these financial statements	310	220
Audit related assurance services	–	–
Amounts receivable by the company's auditor and its associates in respect of:	–	–
All other services	–	53
Total remuneration payable to the Bank's external auditors	**310**	**273**

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 services 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 2020 and 2019.

9 Administrative expenses

£'000	2020	2019
Staff costs (see Note 10)	12,924	10,868
Other administrative expenses	7,312	6,895
Total	**20,236**	**17,763**

10. Staff numbers and costs

The average number of persons employed by the Bank (including Directors) during the year was 165 (2019: 149). The increase in staff costs is higher than the increase in average staff numbers reflecting the timing of the recruitment of staff as well as a higher salary cost associated with these new starters.

The aggregate payroll costs of these persons, including Directors, (directors' remuneration is separately disclosed in Note 11) were as follows:

£'000	2020	2019
Wages and salaries	10,735	9,005
Social security costs	1,197	1,113
Contributions to defined contribution pension plans	992	750
Total	**12,924**	**10,868**

11 Directors' remuneration

£'000	2020	2019
Directors' remuneration	2,360	1,641
Amounts receivable under long term incentive schemes	–	–
Company contributions to defined contribution pension plans	1	103
Provision for compensation for loss of office	109	520
Amounts paid to third parties in respect of Directors' services	52	52
Total	**2,522**	**2,316**

The emoluments of the highest paid director were £524k (2019: £472k). There were no amounts receivable under long-term incentive schemes (2019: Nil) and no contributions (2019: Nil) were made to a defined contribution pension scheme on his behalf.

Contributions were made into one Executive Director's personal defined contribution pension plan during the year (2019: 3), with the remaining receiving a cash allowance. There were no Directors' loans in 2020 (2019: Nil).

The 2019 compensation for loss of office provision of £520k was partly utilised in 2020. The remaining £306k of this provision together with the £109k provided in 2020 was utilised in January 2021.

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.

The UK corporation tax rate of 19% (2019: 19%) has been used in the preparation of these accounts. The deferred tax asset at the balance sheet date has also been calculated based on this rate (2019: 17%).

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 it 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.

£'000	2020	2019
Current tax expense		
In respect of the current year	1,783	3,892
In respect of prior years	(18)	(13)
	1,765	**3,879**
Deferred tax expense		
Origination and reversal of temporary differences	75	176
Adjustments in respect of prior periods	8	(3)
Effect of tax rate change on opening balance	(85)	(17)
	(2)	156
Total income tax expense	**1,763**	**4,035**

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

£'000	2020	2019
Profit before tax from continuing operations	11,161	22,536
Income tax expense calculated at 19% (2019: 19%)	2,120	4,282
Effects of:		
Convertible loan note interest payment	(274)	(314)
Expenses not deductible for tax purposes	5	91
Adjustments in respect of previous periods	(9)	(16)
Tax rate changes	(85)	(17)
Non-Qualifying Depreciation	6	9
Total tax charge 19% (2019: 19%)	**1,763**	**4,035**

Deferred tax

Deferred tax assets are attributable as follows:

The Bank had a deferred tax asset of £725k at 31 December 2020 (2019: £729k) resulting primarily from the original adoption of IFRS accounting standards in 2015 and more recently IFRS9. The business plan projects profits in future years sufficient to recognise this asset.

£'000	Balance Sheet		Movement in period	
	2020	2019	Income	Equity
Deferred tax liability				
Plant, Property & Equipment (PPE) and intangible assets	(2)	(39)	37	–
Total liabilities	(2)	(39)	37	–
Deferred tax asset				
Provisions	–	–	–	–
PPE and intangible assets	–	–	–	–
Pension and post-retirement benefits	65	67	(2)	–
Other deductible temporary differences	667	701	(34)	–
Total assets	732	768	(36)	–
Deferred tax on FVOCI				
FVOCI instruments	(5)	–	(5)	–
Net deferred tax asset	725	729	(4)	–

13 Cash and cash equivalents

Cash and cash equivalents include notes and coins in 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 change 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	2020	2019
Unrestricted balances with central banks*	190,962	228,972
Cash and balances with other banks	9,687	7,695
Total	**200,649**	**236,667**

* included within the unrestricted balances with central banks is £8k of accrued interest for 2020 (2019: £60k).

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	2020	2019
Gross loans and advances to banks	9,687	7,695
Net loans and advances to banks	**9,687**	**7,695**

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 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 £3.1m (2019: £2.3m) as a result of the EIR liability.

£'000	2020	2019
Gross loans and advances	840,831	769,684
Less: allowance for impairment losses (see Note 16)	(12,451)	(8,181)
Net loan receivables	**828,380**	**761,503**

Gross loans and advances to customers includes Hire Purchase and Finance Lease agreements. The table below shows the timing of the expected cashflows on these agreements:

£'000	2020	2019
Gross investment in finance lease receivables*:		
Less than one year	21,686	19,483
1 – 2 Years	17,260	15,712
2 – 3 Years	15,081	12,025
3 – 4 Years	9,941	11,804
4 – 5 Years	7,069	8,037
More than five years	8,935	4,220
Total	**79,972**	**71,281**
Unearned future finance income on finance charges	(11,440)	(9,770)
Net investment in finance leases	**68,532**	**61,511**
The net investment in finance leases may be analysed as follows:		
Less than one year	17,731	15,947
Between one and five years	42,685	41,574
More than five years	8,116	3,990
	68,532	**61,511**

* excludes effective interest rate.

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.

The tables below set out the Bank's provisions by IFRS9 Stage as well as a reconciliation of the opening to the closing allowance for impairment losses on loans and advances to customers.

£'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	3,259	1,202	2,366	6,827
Asset Finance	164	101	1,089	1,354
At 31 December 2019	3,423	1,303	3,455	8,181
Real Estate Finance	2,972	4,489	3,993	11,454
Asset Finance	360	378	259	997
At 31 December 2020	**3,332**	**4,867**	**4,252**	**12,451**

Impairment provision movement £'000	**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 2020	3,332	4,867	4,252	12,451
Opening Balance at 1 January 2020	3,423	1,303	3,455	8,181
Increase/(decrease) in provision	(91)	3,564	797	4,270
Increase/(decrease) in provision				
New loans originated	1,231	279	–	1,510
Derecognised loans	(356)	(57)	(409)	(822)
Loan commitments	95	–	–	95
Allowance utilised in respect of write-offs	(56)	(18)	(1,464)	(1,538)
Transfers between Stages and increase in credit risk				
– Transfers from Stage 1	(1,084)	1,075	9	–
– Transfers from Stage 2	25	(480)	455	–
– Transfers from Stage 3	–	94	(94)	–
– Increase in credit risk	54	2,671	2,300	5,025
	(91)	3,564	797	4,270
P&L charge				
Increase (decrease) in provision	(91)	3,564	797	4,270
Write-offs	72	108	1,542	1,722
Income Adjustment*	–	–	(176)	(176)
Non customer lending related post write-off recoveries	–	–	(3)	(3)
Total P&L impairment charge	**(19)**	**3,672**	**2,160**	**5,813**

* 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 £176k.

Gross loan balances by Stage £'000	**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 2020	625,510	182,749	32,572	840,831
Opening Balance at 1 January 2020	703,704	38,948	27,032	769,684
Increase/(decrease) in loan balances	(78,194)	143,801	5,540	71,147
Increase/(decrease) in loan balances				
New loans originated	187,490	13,824	–	201,314
Derecognised loans	(95,690)	(1,205)	(1,908)	(98,803)
Allowance utilised in respect of write-offs	(102)	(272)	(5,357)	(5,731)
Transfers between Stages and increase in credit risk				
– Transfers from Stage 1	(152,421)	150,915	1,506	–
– Transfers from Stage 2	470	(13,476)	13,006	–
– Transfers from Stage 3	–	1,325	(1,325)	–
– Increase in credit risk	(17,941)	(7,310)	(382)	(25,633)
	(78,194)	**143,801**	**5,540**	**71,147**

£'000	Gross loan balance			Expected Credit Loss (ECL)			Net balance			
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
Real Estate Finance	644,738	37,393	24,848	3,258	1,202	2,366	641,480	36,191	22,482	700,153
Asset Finance	58,966	1,555	2,184	164	101	1,089	58,802	1,454	1,095	61,351
At 31 December 2019	703,704	38,948	27,032	3,422	1,303	3,455	700,282	37,645	23,577	761,504
Real Estate Finance	560,875	178,145	32,017	2,972	4,489	3,993	557,903	173,657	28,023	759,583
Asset Finance	64,635	4,604	555	360	378	259	64,275	4,226	296	68,797
At 31 December 2020	**625,510**	**182,749**	**32,572**	**3,332**	**4,867**	**4,252**	**622,178**	**177,883**	**28,319**	**828,380**

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan loss coverage ratio %	0.5%	2.7%	13.1%	**1.5%**	0.5%	3.3%	12.8%	**1.1%**

17 Debt securities

Under IFRS9 the Bank's debt securities are measured at fair value through other comprehensive income.

The Bank's debt securities are initially recognised at fair value and subsequently measured at fair value through other comprehensive income. The 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 the income statement.

In 2020 the Bank purchased investments with a nominal value of £7m, £20m, and £10m in April, July and October, respectively (total purchase price £38.5m). The Bank did not sell any debt instruments in 2020.

£'000	2020	2019
European Investment Bank bond (EIB)	17,770	–
International Bank Reconstruction & Development bond (IBRD)	20,274	–
Total	**38,044**	–

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 the 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:

- Leasehold properties — Head Office 15 years, Bristol Office 2 years
- 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 2020	2,029	499	1,060	3,588
Leasehold additions	187	6	–	193
Additions	–	49	–	49
Disposals	–	–	–	–
Balance at 31 December 2020	**2,216**	**554**	**1,060**	**3,830**
Depreciation				
Balance at 1 January 2020	56	254	124	434
Charge for the year	205	105	152	462
Disposals	–	–	–	–
Balance at 31 December 2020	**261**	**359**	**276**	**896**
Net book value				
At 1 January 2020	1,973	245	936	3,154
At 31 December 2020	**1,955**	**195**	**784**	**2,934**

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 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 £280k which were in the course of construction as of 31 December 2020 (2019: £172k).

£'000	Computer software development
Cost	
Balance at 1 January 2020	2,372
Additions	1,246
Disposals	-
Balance at 31 December 2020	**3,618**
Amortisation	
Balance at 1 January 2020	1,581
Amortisation for the year	470
Disposals	-
Balance at 31 December 2020	**2,051**
Net book value	
At 1 January 2020	791
At 31 December 2020	**1,567**

20 Other assets

£'000	2020	2019
Other debtors	105	121
Cash Ratio Deposit	672	533
Prepayments	654	570
Total	**1,431**	**1,224**

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 2020 the Bank had £23m nominal value of derivatives (2019: £5m), all related to the hedging of fixed rate deposit balances.

	Nominal value		Fair value	
£'000	2020	2019	2020	2019
Instrument type				
Interest rate	23,000	5,000	9	(31)
Designated in fair value hedges	–	–	–	–
Total interest rate derivatives	**23,000**	**5,000**	**9**	**(31)**

The Bank adopted IFRS9 hedge accounting in 2020 replacing the previous IAS 39 standard. Under IFRS9 the Bank is not required to undertake a monthly retrospective test for hedge effectiveness as long as it can demonstrate the critical terms of the hedge instrument and the hedged item continue to match. The adoption of IFRS9 has not resulted in any changes to prior year reported values.

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, at inception of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedged items during the period in which the hedge is designated. On a monthly basis the Bank must be able to continue to demonstrate that the critical terms of the derivative and the hedged item continue to be closely aligned in order to conclude that the relationship remains highly effective.

All the Bank's hedging relationships are currently fair value hedges.

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 measurement 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 the income statement was £1k (2019: £1k).

Fair value hedges of interest rate risk £'000	2020		2019	
Instrument type	Assets	Liabilities	Assets	Liabilities
Interest rate	9	–	–	31
Total	**9**	**–**	**–**	**31**

The fair value of the Bank's derivatives in place at the year-end was £9k asset, compared to a liability of £31k in 2019. 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
	2020	2019		
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 variation margin (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
2020						
Assets	–	–	–	–	–	–
Derivatives held for risk management	9	–	–	–	–	9
Liabilities	–	–	–	–	–	–
2019						
Assets	–	–	–	–	–	–
Derivatives held for risk management	–	–	–	31	–	31
Liabilities	–	–	–	–	–	–

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 customer accounts or derivatives priced or linked to LIBOR interest rates. The Bank's AT1 capital instrument interest rate is linked to 6 Month LIBOR, however the instrument's terms and conditions already enable the Bank to automatically realign the interest rate when LIBOR ceases.

22 Deposits from customers

IFRS9 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.

The Bank pays commission to certain brokers in respect of its deposit accounts. The commission is charged as a percentage of the customer balance and is recognised within interest payable.

Deposits are the Bank's primary source of debt funding. The Bank hedges interest rate risk arising from its fixed rate deposit balances. As at 31 December 2020 £23m (2019: £5m) of the Bank's fixed rate deposits are hedged using interest rate derivatives, these deposits are held at fair value.

£'000	2020	2019
Instant access	52,259	52,210
Term and notice accounts		
Payable within 1 year	771,037	711,806
Payable after one year	93,912	90,461
Total	**917,208**	**854,477**
Fair value adjustment for hedged risk	7	(28)
Total deposits from customers	**917,215**	**854,449**

£'000	2020	2019
Variable rate deposit balances	590,652	629,925
Fixed rate deposit balances	326,556	224,552
Total	**917,208**	**854,477**
Fair value adjustment for hedged risk	7	(28)
Total deposits from customers	**917,215**	**854,449**

23 Other liabilities

£'000	2020	2019
Accruals	3,407	3,279
Corporation tax	–	1,595
Lease liability	2,202	2,163
Other creditors	1,302	398
Total	**6,911**	**7,435**

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	2020	2019
1 January	–	8
Provided during the year	–	–
Utilised during the year	–	(8)
Released during the year	–	–
31 December	**–**	**–**

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 2020, and therefore the provision at 31 December 2020 is nil. The Bank paid costs of £8k to the FSCS scheme in January 2019 in respect of institutional failures in 2018.

25 Capital and reserves

Share capital

	£'000		No. of shares (000)	
	2020	2019	2020	2019
Ordinary shares of £1 each authorised, issued and fully paid				
1 January	44,955	44,955	44,955	44,955
Shares issued during the year	–	–	–	–
31 December	**44,955**	**44,955**	**44,955**	**44,955**

	£'000		No. of shares (000)	
	2020	2019	2020	2019
Perpetual subordinated contingent convertible loan notes				
1 January	22,900	22,900	22,900	22,900
Authorised notes issued during the year	-	-	-	-
Fully paid notes as at 31 December	**22,900**	**22,900**	**22,900**	**22,900**

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. During the year there were no new shares authorised or issued (2019: Nil). There were no new issues of any convertible loan notes (2019: Nil).

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 2020 (2019: Nil).

Cambridgeshire Local Government Pension Scheme 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 increase in 2020 reflects the purchase of a number of debt securities, whilst the reduction in 2019 was a result of the sale of the Bank's gilt portfolio.

£'000	2020	2019
FVOCI reserve as at 31 December	2	73
FVOCI financial assets – net change during the year	29	(86)
Related tax	(5)	15
FVOCI reserve as at 31 December	**26**	**2**

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	2020	2019
Convertible loan note interest 6.288 pence per loan note (2019: 6.362 pence per loan note)	1,440	1,457
Total	**1,440**	**1,457**

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 Mutual Insurance Society Limited and 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 £992k (2019: £750k). There was an outstanding contribution due of £23k (2019: £75k) 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 IFRS9.
The following table summarises the classification and carrying amounts of the Bank's financial assets and liabilities:

2020 £'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	190,962	–	–	–	190,962
Loans and advances to banks	9,687	–	–	–	9,687
Derivatives	–	–	9	–	9
Debt securities	–	38,044	–	–	38,044
Loans and advances to customers	828,380	–	–	–	828,380
Total	**1,029,029**	**38,044**	**9**	**–**	**1,067,082**
Customers' accounts	–	–	7	917,208	917,215
Total	**–**	**–**	**7**	**917,208**	**917,215**

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**

Derecognition

The following sets out how the Bank derecognises assets and liabilities and fair values its assets in accordance with IFRS9:

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 IFRS9. 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 assumes a contractual obligation to pay the cash flows to one or more recipients.

In respect of point 2 above, the Bank assesses 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 on 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 the income statement.

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 percent 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

  In both the Bank's Real Estate and Asset Finance portfolios, each loan is individually priced based on the circumstances and credit quality of the customer. The Bank's policies in this area have not markedly changed and therefore the fair value of each portfolio is not considered to be materially different to book value.

- 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 future market interest rates. The fair value of unhedged fixed rate deposits have been determined by discounting the estimated future cash flows based on the existing product rate compared to current market rates for an equivalent deposit.

- 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 value 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 assets and liabilities are classified at fair value through the income statement.

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:

	2020					
	Level 1		Level 2		Level 3	
£'000	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets						
Cash & balances at central banks	190,962	190,962	–	–	–	–
Loans and advances to banks	–	–	9,687	9,687	–	–
Debt securities	38,044	38,044	–	–	–	–
Loans and advances to customers	–	–	–	–	828,380	828,380
Derivatives	–	–	9	9	–	–
Financial Liabilities						
Customers' accounts					917,215	919,519

	2019					
	Level 1		Level 2		Level 3	
£'000	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	–	–

- The fair values of the Bank's debt securities (EIB and IBRD 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 2020 or 2019.

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 section of the report.

Credit risk – loans and advances to customers

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

The credit risks associated with lending are managed using detailed lending policies which outline the Bank's 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	2020	2019
Cash and balances at central banks	190,962	228,972
Loans and advances to banks	9,687	7,695
Debt securities	38,044	–
Loans and advances to customers*	840,831	769,684
	1,079,524	**1,006,351**
Commitments to lend**	68,808	50,660
Gross credit risk exposure	**1,148,332**	**1,057,011**
Less allowance for impairment losses	(12,451)	(8,181)
Net credit risk exposure	**1,135,881**	**1,048,830**

* net of Effective Interest Rate liability of £3.1m (2019: £2.3m).

** 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 2020 and 2019 without taking account of any underlying security. At 31 December 2020 the value of securities held as collateral against drawn loans and advances to customers is £1,490m (2019: £1,348m) of which £1,420m (2019: £1,286m) is in the form of property, £69m (2019: £62m) in the form of assets owned by the Bank and financed by customers using hire purchase and finance leases and £1m (2019: £0.8m) is in the form of cash deposits.

- Credit risk management

  The Bank specialises in providing lending for 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 2020 these loans totalled £69m (2019: £62m).

  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 at origination, and regular property reports are produced to ensure the property continues to represent suitable security throughout the life of the loan. 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 %	2020	2019
Commercial Real Estate Lending		
Residential	35%	37%
Commercial	53%	52%
Other	4%	3%
Asset Finance	5%	6%
Classic Cars	3%	2%
Total	**100%**	**100%**

The Bank's Lending Real Estate portfolio is geographically diversified across the UK:

Region	2020	2019
East Anglia	1%	1%
East Midlands	18%	20%
Greater London	3%	3%
North East	4%	4%
North West	20%	18%
Scotland	6%	6%
South East	8%	7%
South West	5%	7%
Wales	8%	7%
West Midlands	8%	8%
Yorkshire/Humberside	19%	19%
Total	**100%**	**100%**

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

Loan size	2020	2019
0 – £250k	65%	67%
£251k – £500k	17%	17%
£501k – £1,000k	9%	8%
£1,001k – £3,000k	7%	6%
£3,001k+	2%	2%
Total	**100%**	**100%**

– LTV banding

The Bank's Real Estate lending balances falls into the following LTV bandings:

LTV banding	2020	2019
0 – 50%	26%	24%
51 – 60%	29%	27%
61 – 70%	42%	46%
71 – 80%	2%	1%
81+%	1%	2%
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:

	2020		2019	
	£m	%	£m	%
Secured on property	772	92	707	92
Secured on other assets	69	8	62	8
Total	**841**	**100**	**769**	**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 2020 totalled £1.1m (2019: £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 eight 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.

The payment status of the Bank's loan and advances are a key driver of the Bank's provisioning requirements. The table below provides information on the payment due status of loans and advances to customers as at 31 December:

£'000	2020	2019
Neither past due nor impaired	802,726	733,180
Past due but not impaired:		
Up to 3 payments missed	5,533	9,326
Default – inc. credit impaired and IFRS Stage 3 loans	32,572	27,178
Total	840,831	769,684
Less allowances for impairment losses	(12,451)	(8,181)
Total loans and advances to customers	**828,380**	**761,503**

Expected credit loss recognition

IFRS9 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.

Inputs into measurement

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 slot calculated. The drivers include customer character, property type and location. The customer slot 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 the 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 the loan to value ratio (LTV).

  The LGD is calculated at the current point in time and is then adjusted to reflect forward looking economic indicators with the calculated loss discounted by the assumed selling period. The LGD does not include any impact of indexation.
- **Expected credit loss (ECL) percentage:** By taking the appropriate PD and LGD, the Bank can calculate an ECL percentage.
- **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 number 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.

Whilst during 2020 the impact of COVID-19 has been evident in UK macroeconomic data, the impact has yet to be seen in the financial performance of the Bank's customer loans, which in the majority of cases, continue to be repaid as scheduled. The Bank's management are however aware that there is typically a time lag between macroeconomic impacts, the effectiveness of government support and business operating model impacts crystallising. The Bank has therefore included additional inputs into its provisioning models during 2020 to ensure that the risk of a future deterioration in the Bank's credit quality is minimised in terms of increased losses. The Bank has included two overlays within its base model:

- An uplift of c.50% in the 12-month PD allocated to Stage 1 customers. This uplift is based on data published by external credit rating agencies and reflects their assessment of the impact of COVID-19 on individual sectors. The uplift used reflects the majority of Cambridge & Counties Bank customers being categorised as operating in the Real Estate sector.
- All cases in forbearance at 31 December 2020 due to COVID-19 impacts on its business model being allocated a lifetime PD even if still classified in Stage 1.

Other ECL model assumptions

The Bank estimates provisions for credit losses at an individual account level for all financial instruments and for all loans the expected life is based on the contractual maturity.

The Bank has not applied the low credit risk exemption permitted under IFRS9.

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be purchased or originated credit-impaired ("POCI"). This includes the recognition of a new financial asset following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. Any changes in lifetime expected credit losses since initial recognition of POCI assets are recognised in the income statement until the POCI is derecognised, even if the lifetime expected credit losses are less than the amount of expected credit losses included in the estimated cash flows on initial recognition.

As at 31 December 2020, the Bank does not hold any financial assets that are purchased or originated credit-impaired (2019: None).

Definition of 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.

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 15 write-offs on its Real Estate Finance portfolio and 9 write-offs on its Asset Finance 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.

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 loan portfolio split by slot. Each loan account is allocated a slot between 1 and 4 with accounts in default allocated a slot 5.

Lending split by slot as at 31 December 2020	Stage 1 (£m)	Stage 2 (£m)	Stage 3 (£m)	Total (£m)
1 – 2	131,205	3,509	–	134,714
3	405,079	103,952	–	509,031
4	24,591	70,684	–	95,275
5	–	–	32,017	32,017
Real Estate Gross loans*	560,875	178,145	32,017	771,037
Asset Finance Gross loan*	64,635	4,604	555	69,794

* includes effective interest rate.

The majority of slot 1 to 3 accounts relate to performing loans where the loans are fully up to date and no significant change in credit risk has been identified.

The majority of slot 4 loans are in Stage 2 as a result of accounts falling into arrears or other deteriorating credit factors having been identified and the account placed on the Bank's Credit watch list.

All slot 5 customers are in Stage 3 with the majority being in default as a result of arrears of over 90 days.

Provisioning stages

Under IFRS9 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 IFRS9:

IFRS9 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.	12m Expected Credit Losses	N/A
Stage 2	– The customer is at least 30 days past due. – The loan 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, save for those accounts which have been added as a result of the death of a customer, and where the death of that customer has not given rise to any significant increase in credit risk as payments continue and are expected to continue to be made. – The underlying loan collateral is located in a particular region or sector as defined by the credit committee where required. – Any other significant decline in credit quality has been identified by the Bank. – Management specifically place the case in Stage 2.	Lifetime Expected Credit Losses	Movement back to Stage 1 will only occur where the borrower meets all 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 terms of any forbearance measure granted and a period of at least 6 consecutive months has 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 any increased 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 other connected accounts which meet the definition of a Stage 2 asset.

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. These criteria can be overridden by management if the account:
	  – Is not guaranteed by other members of the group.
	  – Does not share the same security.
	  – Is a separate legal entity.
	  – Is not deemed to spread contagion to other group members.
	  – The account is in forbearance and that forbearance is considered to be 'significant' (excludes forbearance approved as a result of COVID-19).
	  – Management judgement.
		Lifetime Expected Credit Losses	Movement from Stage 3 back to Stage 2 will only occur when the borrower meets all the following:
			– The account is no longer more than 90 days down and 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 agreement were met, and full payments have been made for a consecutive period of at least 3 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.

Under IFRS9 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 IFRS9, 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.

All staging classifications are subject to management review and can be overridden subject to appropriate approval at the Bank's Provision or Credit Committees.

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 IFRS9 impairment provision stage to which an 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 income statement. 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 account.

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.

All loans in forbearance are treated as being in a minimum of Stage 2 for IFRS9 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.

Additional forbearance support for customers impacted by COVID-19

The economic conditions resulting from COVID-19 have been unprecedented in terms of the financial support required by customers who found themselves in financial difficulty. The Bank has worked with its customers to support them through this period with partial and full payment holidays provided where appropriate. Customers have typically been given payment holidays for an initial 3-month period which have then been reassessed if further payment breaks have been requested.

During the payment holiday period customers interest has continued to accrue with the revised outstanding balance in the case of Asset Finance agreements being repaid over an extended repayment term reflecting the length of the payment holiday, or in the case of Real Estate Loans where the loan term is up to 25 years, typically spread over the remaining term leading to slightly higher monthly instalments.

In line with the guidance issued by the UK Regulator, customers who required forbearance during the period between 31 March and 31 October 2020 were not considered to have incurred a significant change in credit risk and remained within the same IFRS9 'staging' classification. Customers who have requested or continued to require support post the 31 October have been reviewed and where the Bank considers the forbearance to continue to be directly linked to COVID-19 (e.g. the business is unable to operate due to lockdown restrictions) the customer has typically remained in Stage 1. A small proportion of customers have been reclassified to Stage 2 where the Bank has identified that the required period of forbearance is expected to be longer than 3 months and/or the size of exposure requires additional monitoring of the account by the Bank's recoveries and collections team.

Forbearance – curing

Loans are classified as forborne at the time a customer in financial difficulty is granted a concession and the customer will remain treated and recorded as forborne until the following exit conditions are met:

- When all due payments, as per the amended contractual terms, have been made in a timely manner over a continuous repayment period (loan is considered as performing);
- A minimum two-year probation period has passed from the date the forborne exposure was considered as performing;
- None of the customer's exposures are more than 30 days past due at the end of the probation period.

Forbearance analysis

The table below shows the value of forbearance arrangement agreed by the Bank.

31 December 2020	No. of loans		No. of customers	Value of loans
	In concession	Completed concession		£'000
Asset Finance				
COVID-19 Forbearance	6	–	2	418
Non-COVID-19 Forbearance	–	5	4	308
Real Estate Finance				
COVID-19 Forbearance	38	–	35*	36,086*
Non-COVID-19 Forbearance	10	13		
Total	**54**	**18**	**41**	**36,812**

* a number of customers have both COVID-19 and Non-COVID-19 forbearance arrangements. At the end of 2019, there were 7 customers who had forbearance arrangements in place.

Forward-looking information

Determining expected credit losses under IFRS9 requires the incorporation of forward-looking macroeconomic information that is reasonable and supportable. To capture the effect of changes to the economic environment, the calculation of expected credit losses incorporates forward-looking information and assumptions linked to economic variables that impact losses in each portfolio.

The introduction of macroeconomic information introduces additional volatility to provisions. To calculate forward looking provisions, the Bank sources data from industry leading companies such as Experian and Moody's as well as using its own internal knowledge and industry publications such as the Bank of England Annual Cyclical Scenario (ACS). Management exercises judgement in estimating the future economic conditions which are incorporated into provisions through the modelling of multiple scenarios.

For the Bank's provision calculation four different projected economic scenarios are considered to cover a range of possible outcomes, reflecting upside and downside relative to the baseline forecast economic conditions.

The economic scenarios are generated to capture a range of possible economic outcomes to facilitate the calculation of unbiased and expected credit losses. The economic variables modelled have been identified as those that have the most significant impact on the Bank's financial statements and their impact on provisions can be directly assessed.

The Bank's economic scenarios and the probability weightings assigned to each scenario are produced by Finance and reviewed and challenged by the Bank's ALCO and Provisions Committees and approved by Audit Committee. The impact of COVID-19 has resulted in the Bank reviewing and challenging its scenarios. The increased uncertainty in the economy has resulted in the weighting allocated to the Bank's base case reducing, with increased probability being allocated to the downside scenario and reduced weightings to the upside scenario. The Bank's scenarios, their weightings and individual forecasts are set out in the tables on the following page:

Scenario description:

Scenario	Real Estate Description	Asset Finance Description
1. Base Case	The Bank's base case scenario forecasts a sharp reduction in rental income, a reduction in commercial and real estate prices in the next 12 months with a gradual improvement over the remainder of the scenario period.	The Bank uses Moody's Impairment Studio S0 as its base case. The forecast predicts relatively low levels of GDP growth with unemployment increasing in the short term and the equity market remaining stable.
2. Downside	The Bank's downside case is a simple average of its severe downside and base case scenarios.	This scenario is modelled to reflect a 'Moderate Recession' with global equity and risky bond market sell-offs.
3. Severe Downside	A key input to the Bank's severe downside scenario is the Bank of England's annual cyclical scenario published in January 2021. This is considered to be a severe but plausible scenario.	This scenario uses the downside case but predicts a much worse outcome. The UK falls back into a deep recession as a result of multiple shocks that severely restrain liquidity and dislocate financial markets.
4. Upside	The Bank's upside scenario generally assumes no change to the current position in the short term. Over the medium-term upside forecasts are assumed to be either no change or a change at least in line with the Bank's base case.	In this scenario the UK economy receives a near-term boost as signs emerge that the separation agreement with the EU eases uncertainty and boosts business sentiment and financial markets.

Macroeconomic variable forecasts:

The Bank uses the following macroeconomic forecasts in its scenario modelling. The Bank's Asset Finance scenarios use the GDP, Unemployment and equity forecasts with the Real Estate scenarios using the bank base rate, rental income and property price forecasts.

Scenario weighting:

Scenario	Weighting Applied	
	2020	2019
1. Base Case	45%	60%
2. Downside	30%	10%
3. Severe Downside	12.5%	10%
4. Upside	12.5%	20%

Unemployment

Change relative to Q4 2020	2021	2022	2023	2024	2025
1. Base Case	27%	16%	2%	-5%	-8%
2. Downside	58%	60%	44%	30%	19%
3. Severe Downside	65%	78%	64%	49%	35%
4. Upside	11%	-3%	-14%	-17%	-19%

Residential property prices

Change relative to Q4 2020	2021	2022	2023	2024	2025
1. Base Case	0%	1%	4%	8%	11%
2. Downside	-8%	-15%	-7%	1%	6%
3. Severe Downside	-15%	-30%	-17%	-6%	0%
4. Upside	0%	1%	4%	8%	11%

Equity

Change relative to Q4 2020	2021	2022	2023	2024	2025
1. Base Case	5%	3%	1%	6%	11%
2. Downside	-15%	-9%	-6%	1%	6%
3. Severe Downside	-29%	-26%	-21%	-12%	-3%
4. Upside	15%	10%	5%	8%	13%

GDP

Change relative to Q4 2020	2021	2022	2023	2024	2025
1. Base Case	7%	13%	16%	17%	18%
2. Downside	2%	9%	12%	13%	15%
3. Severe Downside	0.4%	7%	10%	11%	13%
4. Upside	11%	15%	18%	19%	20%

Bank base rate

Change relative to Q4 2020	2021	2022	2023	2024	2025
1. Base Case	-	0.3%	0.5%	0.8%	0.8%
2. Downside	-0.1%	0.0%	0.2%	0.3%	0.4%
3. Severe Downside	-0.1%	-0.2%	-0.2%	-0.1%	0.0%
4. Upside	0.3%	0.8%	1.2%	1.2%	1.2%

Rental income

Change relative to Q4 2020	2021	2022	2023	2024	2025
1. Base Case	-2%	-3%	-1%	1%	3%
2. Downside	-12%	-15%	-12%	-8%	-4%
3. Severe Downside	-21%	-27%	-23%	-16%	-12%
4. Upside	0%	0%	0%	0%	0%

Commercial property prices

Change relative to Q4 2020	2021	2022	2023	2024	2025
1. Base Case	-2%	-3%	-1%	1%	4%
2. Downside	-13%	-13%	-8%	-5%	-2%
3. Severe Downside	-23%	-24%	-16%	-11%	-7%
4. Upside	0%	0%	0%	0%	0%

Sensitivities

The expected credit loss provision is sensitive to judgement and estimations made with regard to the selection and weighting of multiple macroeconomic scenarios. As a result, management has assessed and considered the sensitivity of the provision as follows:

1. The tables below show the Real Estate and Asset Finance ECL assuming each scenario has been 100% weighted to show the impact of alternative scenarios.

Real Estate

Scenario	Current weighted Scenario ECL £'000	100% weighting ECL £'000
1. Base Case	11,454	9,283
2. Downside		13,020
3. Severe Downside		18,313
4. Upside		8,651

Asset Finance

Scenario	Current weighted Scenario ECL £'000	100% weighting ECL £'000
1. Base Case	997	922
2. Downside		1,086
3. Severe Downside		1,177
4. Upside		876

2. The table below shows the impact of changes to the impairment assumptions in the IFRS9 models.

Scenario	Provision impact £'000
Residential house price increases by 20% more than the base case	(£142)
Commercial property prices increase by 20% more than the base case	
A reduction from 30% to 25% in the Bank's forced sale discount	(£2,321)
A 33% (12 months) reduction in the assumed time to sell defaulted properties	(£1,916)
A 10% increase in the Bank's Asset Finance LGD	£200

IFRS9 capital transitional relief

In May, the PRA issued guidance on the application of regulatory capital and IFRS9 requirements to granted or extended payment holidays. The PRA set out that it considers that eligibility for, and use of, COVID-19 related payment deferrals, or extensions to those deferrals, granted in accordance with the FCA's proposed guidance do not automatically result in a loan either being regarded as having suffered a significant increase in credit risk or being credit-impaired for expected credit loss (ECL) purposes, or triggering a default under Capital Requirements Regulation.

In June 2020, the PRA ratified EBA proposals to increase the capital relief provided for impairment provisions arising in 2020 and 2021, where these do not relate to accounts that have defaulted. This significantly reduces the short-term impact of impairment charges driven by the COVID-19 pandemic on the Bank's capital ratios. The Bank's capital ratios before and after application of transitional relief are set out in capital management section of this note.

- **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 are currently issued by the European Investment Bank (£18m) and the International Bank Reconstruction & Development (£20m). 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 2020 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, debt securities and derivative assets. Full details on the Bank's derivative instruments can be found in Note 21.

£'000	**2020**	2019
Cash and balances at central banks	190,962	228,972
Deposits at other banks – Rated A or above*	9,687	7,695
European Investment Bank Bond**	17,770	–
International Bank Reconstruction and Development Bonds**	20,274	–
Derivatives held for risk management purposes – Rated BAA or above*	9	(31)

* Ratings based on Moody's long-term rating.
** Gross of provisions.

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.
- **Debt securities:** As part of the Bank's liquidity buffer, it holds a portfolio of debt securities. The Bank's internal Asset and Liability Management Policy sets limits on the value and type of exposures within which the Bank's Treasury function operate.
- **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.

- **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 daily.

  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) / Sterling Monetary Framework facilities

  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 returned 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 has also pre-positioned eligible loan collateral with the Bank of England to enable it to access, if required, the Bank of England's Sterling Monetary Framework facilities, including the Discount Window Facility (DWF). The Bank is currently completing its application to participate in the Term Funding Scheme with additional incentives for SMEs (TFSME), which will enable it to borrow cash in exchange for eligible collateral.

The Bank monitors its liquidity risk using several metrics including the liquidity coverage ratio (LCR), its loan to deposits ratio (LDR) and an internal survival days metric. The Bank's LCR at 31 December 2020 was 419% (2019: 463%) and the LDR was 90% (2019: 90%).

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

Contractual maturity analysis at 31 December 2020 £'000	Due within one year	Due after more than one year	No contractual maturity	Total
Assets				
Cash and balances at central banks	190,962	–	–	190,962
Loans and advances to banks	9,687	–	–	9,687
Debt Securities	–	38,044	–	38,044
Loans and advances to customers	98,286	730,094	–	828,380
Derivative financial assets	–	9	–	9
Current tax asset	522	–	–	522
Other assets	–	–	6,657	6,657
Total Assets	**299,457**	**768,147**	**6,657**	**1,074,261**
Liabilities				
Customers' accounts	823,297	93,918	–	917,215
Lease liabilities	147	2,055	–	2,202
Other liabilities	–	–	4,709	4,709
Total Liabilities	**823,444**	**95,973**	**4,709**	**924,126**

Contractual maturity analysis at 31 December 2019 £'000	Due within one year	Due after more than one year	No contractual maturity	Total
Assets				
Cash and balances at central banks	228,972	–	–	228,972
Loans and advances to banks	7,695	–	–	7,695
Loans and advances to customers	68,012	693,491	–	761,503
Other assets	–	–	5,898	5,898
Total Assets	**304,679**	**693,491**	**5,898**	**1,004,068**
Liabilities				
Customers' accounts	764,016	90,433	–	854,449
Lease liabilities	47	2,116	–	2,163
Current tax liability	1,595	–	–	1,595
Other liabilities	–	–	3,677	3,677
Derivative financial liabilities	–	31	–	31
Total Liabilities	**765,658**	**92,580**	**3,677**	**861,915**

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

£'000	2020	2019
Balances with Central banks	190,962	228,972
Loans and advances to banks	9,687	7,695
Debt securities	38,044	–
Total	**238,693**	**236,667**

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

£'000	2020	2019
Funding for Lending Scheme Treasury Bills	57,000	77,000
Total	**57,000**	**77,000**

– 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 assets are readily available to secure funding or meet collateral requirements and are not subject to any restrictions.

As at 31 December 2020 the Bank held £57m (2019: £77m) of Treasury bills under the Funding for Lending Scheme (FLS). These Treasury bills are held off balance sheet, and as at 31 December 2020 they had not been monetised. The Bank has a total of £122m (2019: £158m) 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 the Bank's exposure to market risk relates to non-trading portfolios.

As at 31 December 2020 the Bank does not have any customer accounts or derivatives where the interest rate is set or linked to LIBOR. The Bank's convertible loan note interest is calculated with reference to the 6-month LIBOR rate however its documentation allows for the automatic conversion of this rate to the new market standard rate at the point in time when LIBOR is withdrawn.

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 risk 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 monthly 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.

– 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 although 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 2020 was:

31 December 2020 £'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	190,962	–	–	–	–	–	190,962
Loans and advances to:							
Banks	9,687	–	–	–	–	–	9,687
Customers	770,854	6,585	16,287	43,552	4,366	(13,264)	828,380
Debt Securities	–	–	7,263	30,781	–	–	38,044
Other	–	–	–	–	–	7,188	7,188
Total Assets	**971,503**	**6,585**	**23,550**	**74,333**	**4,366**	**(6,076)**	**1,074,261**
Off balance sheet assets							
Notional value of derivatives	–	–	11,000	12,000	–	–	23,000
Liabilities							
Customers' accounts	(616,092)	(63,313)	(139,957)	(93,095)	–	(4,758)	(917,215)
Other liabilities	–	–	–	–	–	(6,911)	(6,911)
Total Equity	–	(22,900)	–	–	–	(127,235)	(150,135)
Total liabilities	**(616,092)**	**(86,213)**	**(139,957)**	**(93,095)**	**–**	**(138,904)**	**(1,074,261)**
Off Balance sheet items:							
Notional value of derivatives	(23,000)	–	–	–	–	–	(23,000)
Interest Rate Gap	332,411	(79,628)	(116,407)	(18,762)	4,366	(144,980)	–
Cumulative Gap	332,841	253,227	147,851	141,069	144,986	–	–

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							
Notional value of 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	-	-

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: -£1.6m (2019: -£1.9m)

-200bps: £1.7m (2019: £2.1m)

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 $ and is not exposed to any foreign currency risk.

– 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 to balance the avoidance of financial losses or 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 risk
- Supplier risk
- 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 resilience of the Bank against failure. The Bank submitted its last ICAAP to the PRA in May 2020. The Bank presents regular reports on the current and forecast level of capital to the Executive Committee, ALCO, Risk & Compliance Committee and 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. The Bank's TCR was 11.1% of Risk Weighted Assets (RWA) at 31 December 2020 (2019: 11.6%). The Bank's regulatory capital at 31 December 2020 totalled £153.2m (2019: £142.4m), (after IFRS9 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 remained at 2.5% of RWA in 2020. The Counter Cyclical Buffer reduced from 1% to zero in March 2020 as part of the initiatives to support the UK economy following the COVID-19 pandemic outbreak.

As at 31 December 2020, 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. The Bank's intangible asset deduction as at 31 December 2020 reflects the revised European Banking Authority regulatory treatment that came into force in December 2020. Under these new regulations the positive difference between the prudential and the accounting accumulated amortisation is fully deducted from CET1 (Common Equity Tier 1) capital, while the residual portion of the carrying amount of software is risk weighted. The majority of the Bank's intangible assets are amortised over the prudential period of 3 years and therefore the majority of the Bank's intangible assets are now risk weighted (whereas previously the regulations required these to be deducted from CET1 capital).

- Impact of IFRS9 on capital planning

The Bank's Regulator initially issued guidelines on the transition requirements for the implementation of IFRS9 in 2017. The guidelines allowed 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 from 1 January 2018 and informed its Regulator of this decision. Under the transition guidelines the financial impact of the increase in provision balances on CET1 regulatory capital is phased in over 5 years with 70% of the increase in requirements being excluded in 2020 (85% in 2019), 50% in 2021, and 25% in 2022.

In June 2020 as part of the economic support initiatives implemented as a result of the COVID-19 pandemic, the CRR 'Quick Fix' package announced measures that enable banks to reduce the impact on Tier 1 capital from increased expected credit losses in 2020 and 2021. The Bank has elected to adopt this new transitional relief and has informed its Regulator of this decision. The new relief allows the impact of increased expected loss provision balances in Stage 1 and Stage 2 cases in 2020 and 2021 on CET1 regulatory capital to be phased in over 5 years. 100% of the increase can be added back to CET1 capital in 2020 and 2021, reducing to 75% in 2022, 50% in 2023, and 25% in 2024.

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	**2020**	2019
Tier 1		
Ordinary share capital	44,955	44,955
Perpetual subordinated contingent convertible loan notes	22,900	22,900
Retained earnings	82.254	74,296
FVOCI reserve	26	2
Deductions: Intangible assets	(83)	(791)
Other deductions*	(1,688)	(1,688)
Total Tier 1 capital	148,364	139,674
Total regulatory capital before IFRS9 transitional relief**	**148,364**	**139,674**
IFRS9 transitional relief	4,799	2,696
Total regulatory capital after IFRS9 transitional relief	**153,163**	**142,370**
Equity as per statement of financial position	150,135	142,153
Regulatory adjustments:		
Less intangible assets	(83)	(791)
First loss tranche on BBB Enable Guarantee	(1,688)	(1,688)
Total regulatory capital before IFRS9 transitional relief**	**148,364**	**139,674**
IFRS9 transitional relief	4,799	2,696
Total regulatory capital after IFRS9 transitional relief	**153,163**	**142,370**

* 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 £1.688m is referred to as the Bank's first loss element.

** After applying the transitional factors to both the original and CRR quick fix relief values.

	31 December 2020		31 December 2019	
	Before transitional relief	After transitional relief	Before transitional relief	After transitional relief
Risk weighted assets (RWA)	625,673	629,727	619,259	619,259
Common Equity Tier 1 ratio (CET1)	20.1%	20.7%	18.9%	19.4%
Tier 1 capital ratio	23.7%	24.3%	22.6%	23.0%
Total capital ratio	23.7%	24.3%	22.6%	23.0%

29 Leases

Following the application of IFRS 16 from 1 January 2019, the Bank recognises a value for the lease and lease liability for its long-term property and computer printer leases calculated as the present value of the remaining lease payments discounted at the Bank's incremental borrowing rate. These right-of-use assets have been measured at an amount equal to the lease liabilities, adjusted by the amount of any pre-paid or accrued lease payments.

The Bank expects to fully utilise its office accommodation post the pandemic lockdown and does not consider any of its lease obligations as onerous.

Right of use asset (£'000)	Property	Computer Hardware – Printers	Total
Balance at 1 January 2020	1,973	102	2,075
Lease additions/ modifications*	187	6	193
Lease disposals	–	–	–
Depreciation charged to P&L	(205)	(22)	(227)
Balance at 31 December 2020	**1,955**	**86**	**2,041**

Lease liability (£'000)	Property	Computer Hardware – Printers	Total
Balance at 1 January 2020	2,062	101	2,163
Lease additions/ modifications*	192	6	198
Lease disposals	–	–	–
Interest charged to P&L	136	7	143
Lease payments	(274)	(28)	(302)
Balance at 31 December 2020	**2,116**	**86**	**2,202**

* Property lease modifications and additions include the reclassification of a lease on the Bank's Bristol regional offices (£117k) as well as a revised cashflow projection for the rental payments on the Bank's head office building (£75k). The regional office agreement has less than 12 months remaining but originally had a term of 2 years, whilst a change of £50k in the timing of the Bank's head office lease payments has resulted in the NPV of the future cash flows increasing by £75k.

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. In 2020 the Bank's Sheffield and Birmingham regional office leases met this criteria. The short-term nature of these leases provide the Bank with the flexibility to move premises as business needs change. During the year, the Birmingham lease expired and was not renewed. The Sheffield office is located in a major UK city and alternative premises are readily available should the Bank require larger or smaller offices. Whilst this lease includes 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. During the year, the expense incurred on all the Bank's short term property leases was £67k. The Bank is expected to make payments totalling £31k in respect of the Sheffield lease in 2021. These payments are recorded as an operating expense in the income statement.

The Bank has considered whether any of its leases contain any onerous clauses. Management have concluded that they do not and that the whilst the Head Office has been largely unused during the last 12 months as a result of the lockdown, it is the Bank's intention to start to re-use it later in 2021 as lockdown restrictions are lifted.

The maturity profile of the Bank's lease liabilities is shown in the table below:

£'000	2020	2019
Less than one year	278	204
Between one and five years	937	905
More than five years	2,050	2,298
Total	**3,265**	**3,407**

30 Commitments

At 31 December 2020, the Bank had undrawn credit line commitments of £68.8m (2019: £50.7m) and capital commitments of £nil (2019: £nil).

At 31 December 2020, the Bank had contingent liabilities of £0.3m (2019: £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 income statement for the period.

- **Transactions with Controlling parties**

£'000	2020	2019
Cambridgeshire County Council		
Sums paid in respect of Directors' services	52	52
Interest payments on perpetual subordinated contingent convertible loan notes	1,440	1,457
Trinity Hall, Cambridge		
Hospitality services	–	6
Interest on 31-day business notice account	1	1

Trinity Hall currently hold a 31-day business notice account with the Bank. The account balance at 31 December 2020 was £94k (2019: £93k). 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	2020	2019
Directors' remuneration*	2,360	1,641
Amounts receivable under long term incentive schemes	–	–
Company contributions to defined contribution pension plans	1	103
Provision / Payments of compensation for loss of office	109	520
Amounts paid to third parties in respect of Directors' services	52	52
Total	**2,522**	**2,316**

* Emoluments of the highest paid director were £524k (2019: £472k).

- **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 2020 and 2019 (amounts paid to Cambridgeshire County Council for both 2020 and 2019).

Caroline Fawcett, an Independent Non-Executive Director, is the Director of a company who had £87k (2019: £96k) on deposit at the end of the year and accrued interest, at standard Bank rates, of £0.5k during the year (2019: £0.9k).

Mike Hudson, an Executive Director, is a trustee of a not-for profit organisation that had £76k (2019: £74k) on deposit at the end of the year. The account earns interest at the standard rate for this type of account.

There were no other transactions with key management personnel in 2020 (2019: nil).

There were no loans outstanding to any directors at 31 December 2020 (2019: 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 2020 and the date of approval of the financial statements which would require a change to, or additional disclosure, in the financial statements. The COVID-19 pandemic continues to have a wide-reaching impact across the UK and globally. Management and the Board continue to monitor the situation and evaluate the impact on the Bank. It remains too early to predict with sufficient certainty the full impact on either the Bank or its customer base of the roll-out of the UK vaccination programme and the UK Government economic support initiatives.

34 Standards issued but not yet adopted

A number of new revised standards issued by the International Accounting Standards Board have not yet come into effect. Except for the amendment detailed below, none of these are expected to have a material impact on the Group's financial statements.

'Interest Rate Benchmark Reform- Phase 2 (Amendments to IFRS9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' become effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The Phase 2 amendments provide certain practical expedients and temporary reliefs to address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement

Contents
Strategic Report
Corporate Governance Statement
Independent Auditor's Report
Financial Statements
Notes to the Financial Statements

with alternative benchmark rates. Further details regarding interest rate benchmark reform can be found in the Financial Review section of the Strategic Report.

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 principal 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 82.
Corporation tax paid	As noted in the Cash Flow Statement on page 85.
Public subsidies	There were none received in the current or prior year.

Contact Details

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