Cambridge & Counties Bank Limited

Capital Requirements Directive
Pillar 3 Disclosures
31 December 2017

Cambridge & Counties Bank
Growing business together

Contents

1. Introduction

1.1. Purpose

This document comprises Cambridge & Counties Bank's (or 'the Bank') Pillar 3 disclosures on capital and risk management at 31 December 2017. It has two principal purposes:

- It provides information on the policies and approach taken by Cambridge & Counties Bank to risk management and the maintenance of its capital resources. It also includes details of:
  - The governance structure of the Bank, including Board and Board Committees; and
  - Information quantifying the Bank's assets and capital resources.
- To meet the regulatory disclosure requirements under the Capital Requirements Regulation (EU) No 575/2013 ("CRR"), Part 8 and the rules of the Prudential Regulation Authority ("PRA").

1.2. Business Overview

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

Established in June 2012, Cambridge & Counties Bank has a unique ownership structure being owned jointly by Trinity Hall, a college of the University of Cambridge, and Cambridgeshire County Council as trustees for 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.

- Lending

Our commercial loans are secured on property. We lend to owner occupied businesses to invest in their own commercial premises, as well as to experienced commercial and residential property investors.

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

- Deposits

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

- Our Distribution Network

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

- Financial performance

Full details on the Bank's financial results are reported in its statutory accounts which are published on its website (www.ccbank.co.uk). For the year ended 31 December 2017, the Bank had operating income of £40.0m and reported profit before tax of £24.4m. Total capital at 31 December 2017 was £76.2m. The Bank employed an average of 105 FTE employees during the year.

1.3. Legislative Framework

Cambridge & Counties Bank is subject to the European Union Capital Requirements Directive (CRD) and Capital Requirements Regulations (CRR) implemented on 1 January 2014. The CRR and CRD, commonly known as CRD IV, provide consistent capital adequacy standards for financial services companies and an associated supervisory framework across the European Union and are enforced in the UK by the Prudential Regulation Authority (PRA). The legislation sets out the rules that determine the amounts of capital financial institutions must hold in order to provide security for members and depositors.

The CRD regulations split the Bank's capital resources and reporting requirements into 3 pillars:

- Pillar 1
  Pillar 1 capital is the Bank's minimum regulatory capital requirement relating to credit, market and operational risk.

  The Bank has followed the Standardised Approach when calculating the minimum capital requirements for credit risk (which includes counterparty credit risk). The Bank has no Pillar 1 capital requirement for market risk as it does not operate a trading book. Any market related activity or derivative usage is solely for the purpose of hedging known exposures. The Bank uses the Basic Indicator Approach (BIA) for operational risks.

- Pillar 2
  To calculate its Pillar 2 capital requirements the Board has performed a detailed assessment of the risks facing the Bank including the impact of a severe economic downturn. The Bank has calculated the amount of capital that it considers necessary to cover these risks within its Internal Capital Adequacy Assessment Process (ICAAP). The Bank's ICAAP is reviewed and assessed by the PRA during its annual Supervisory Review and Evaluation Process

- Pillar 3
  Pillar 3 sets out the disclosures that banks' are required to make in order to promote market discipline through the external disclosure of its risk management and risk exposures. The Bank is required to publish its Pillar 3 report annually.

In December 2016 the European Banking Authority (EBA) published its final guidelines on regulatory disclosure requirements (amended June 2017) following an update of the Pillar 3 requirements by the Basel Committee in January 2015 (update March 2017 and further consultation February 2018). These guidelines apply from 31 December 2017. As stated in the EBA guidelines however the scope of application is limited to global systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs). The Bank has decided to implement the EBA guidelines in terms of the tables and qualitative data being disclosed in this report in line with best practice. The table below sets out where each table is presented.

EBA Template	Description	Location in document
-	Own Funds	Appendix 1
-	Leverage ratio	Appendix 1
1	EU LI – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories	Appendix 1
2	EU LI2 – main sources of differences between regulatory exposure amounts and carrying values in financial statements	Appendix 1
3	EU LI3 – outline of the differences in the scope of consolidation	CCB is a solo entity – therefore this template is not applicable
4	EU OV1 – Overview of RWAs	Section 5.2
5	EU CR10 – IRB	CCB uses the standardised approach – this template is therefore not applicable
6	EU INS1	CCB is not an insurance undertaking – this template is therefore not applicable
7	EU CRB-B – total and average net amount of exposures	Appendix 1
8	EU CRB-C – geographical breakdown of exposures	Appendix 1
9	EU CRB-D – concentration of exposures by industry or counterparty types	Appendix 2
10	EU CRB-E - Maturity of exposures	Appendix 2
11	EU CR1-A – Credit quality of exposures by exposure class and instrument	Appendix 2

EBA Template	Description	Location in document
12	EU CR1-B – Credit quality of exposure by industry or counterparty types	Appendix 2
13	EU CR1-C- Credit Quality of exposures by geography	Appendix 2
14	EU CR1-D- Ageing of past-due exposures	Appendix 2
15	EU CR1 – E – Non-performing and forborne exposures	Appendix 2
16	EU CR2-A- Changes in the stock of specific credit risk	Appendix 2
17	EU CR2-B- Changes in the stock of defaulted and impaired loans and debt securities	Appendix 2
18	EU CR3-CRM techniques – Overview	Appendix 2
19	EU CR4 – Standardised approach – Credit risk exposure and CRM effects	Appendix 2
20	EU CR5 – Standardised approach	Section 6.1
21-24	IRB approach	Not applicable as CCB does not use the IRB approach
25	EU CCR1 – Analysis of CCR exposure by approach	Appendix 3
26	EU CCR2 - CVA capital charge	Appendix 3
27	EU CCR8 - Exposures to CCPs	Appendix 3
28	EU CCR3 – Standardised approach – CCR exposure by regulatory portfolio and risk	Section 7
29-30	IRB / IMM templates	Not applicable as CCB does not use IRB/IMM approach
31	EU CCR-5A – Impact of netting and collateral held on exposure values	Appendix 3
32	EU CCR5-B- Composition of collateral for exposures to CCR	Section 7
33	EU CCR6 – Credit derivatives exposures	Section 7
34-38	Market risk templates	Not applicable as CCB does not have a trading book and therefore no market risk

1.4. Scope of Application

All the figures, governance, objectives and policies included within this document are as at 31 December 2017 (unless stated otherwise) and have been prepared to meet the disclosure requirements of CRD IV.

The Pillar 3 report is based upon the Bank's annual report and financial statements for the year ended 31 December 2017. Pillar 3 disclosures are issued on an annual basis in conjunction with the publication of the annual report and financial statements in accordance with regulatory guidelines.

These disclosures have been reviewed by the Risk & Compliance Committee and approved by the Board. The disclosures are not subject to external audit although some of the information within the disclosures also appears in the audited 2017 financial statements. The processes for preparing this disclosure are laid out in the Bank's Pillar 3 policy.

Cambridge & Counties Bank Limited is not part of a Group of companies. This report therefore relates to just Cambridge & Counties Bank Limited. The Bank is regulated by the PRA, with its registration no. 579415. The registered office of the Bank is Charnwood Court, 5B New Walk, Leicester, LE1 6TE.

1.5. Directors

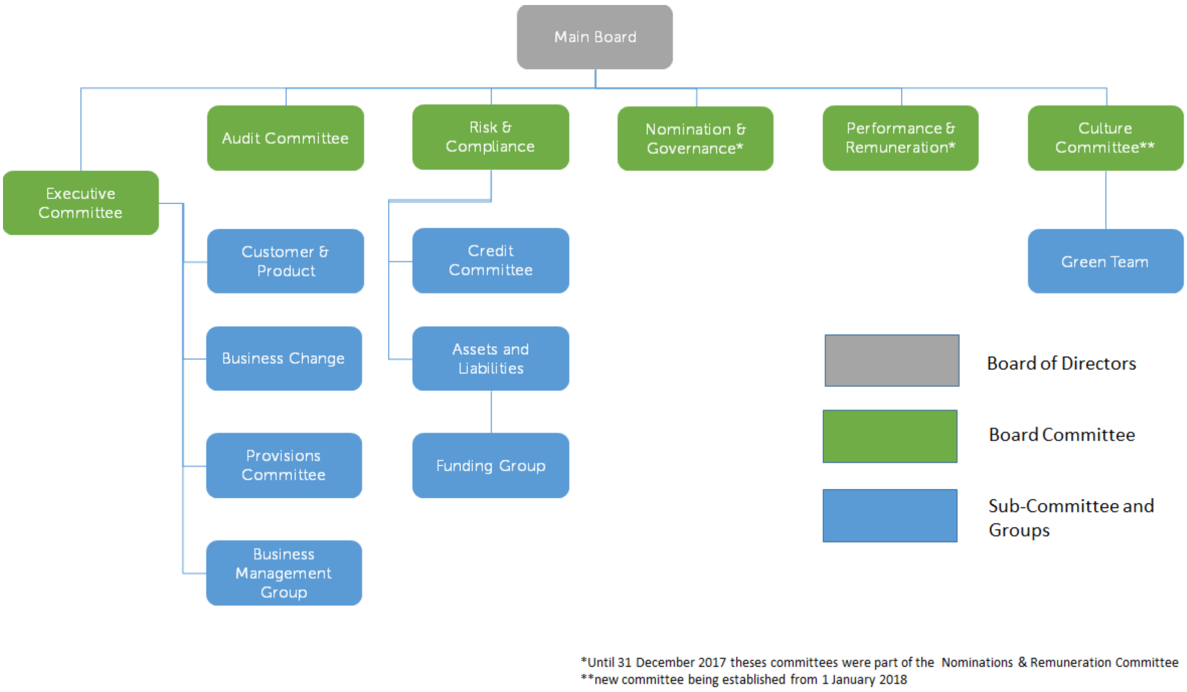
Cambridge & Counties Bank has 5 Executive and 6 Non-Executive Directors. A summary of their experience and confirmation of any other directorships is disclosed on the Bank's website (www.ccbank.co.uk).

Our recruitment policy for selection of all staff, including Directors, can also be found on the Bank's website (www.ccbank.co.uk). This policy covers both recruitment and diversity.

2. Governance and Committees

Authority for managing the Bank's risks ultimately rests with the Bank's Board of Directors. All the powers of the Bank are vested in and exercised by the Board; but some are delegated through job specifications and to various committees. The Board considers the delegation of powers on an on-going basis.

The Board comprises of five Executive Directors and six Non-Executive Directors and sets the Bank's corporate objectives, strategy and risk appetite. The Board ensures that the Bank has sufficient liquidity and capital resources and closely monitors financial results, budgets and forecasts as well as providing oversight of current and future activities. The Board meets a minimum of 10 times a year. The Board's risk and governance structure as from 1 January 2018 is outlined below.



A summary of the committees that report to the Board is set out below. Full terms of reference for each of these Board committees (those where Non-Executives and Executive Directors are both members) are included in appendix 4.

- The Remuneration & Nominations Committee was established by the Board to oversee the appointment, remuneration and other benefits of all Directors and Executive Management and to make recommendations as appropriate to the Board concerning such matters. From 1 January 2018 this committee will be replaced by two new committees;
    - o The Performance & Remuneration Committee will be responsible for establishing and implementing the remuneration policy for employees and directors, which is designed to support long-term business strategy and values of the Bank as well as promote effective risk management and comply with applicable legal and regulatory requirements. The Committee will also review performance and approve remuneration arrangements.
    - o The Nominations & Governance Committee will be responsible for considering and making recommendations to the Board in respect of appointments to the Board, membership and chairmanship of Board Committees, regulatory and strategic developments and monitoring the governance arrangements of the Bank.

- The principle objectives of the Risk & Compliance Committee are to identify, control and manage the risks inherent in the Bank (including conduct / compliance risk) ensuring that these risks are fully documented for approval, and to recommend to the Board a Statement of Risk Appetite.

- The Audit Committee's principal responsibility is to assist the Board in carrying out their responsibilities relating to accounting policies, internal control and financial reporting functions. The committee reviews the effectiveness of the Bank's internal controls, approves the internal audit programme and examines completed internal and external audit reports. The committee ensures the financial statements give a true and fair view, as well as provide the reader with sufficient information to assess the Bank's performance. The committee also appraises the performance of the internal audit function and reviews the appointment of the external auditors and approves the audit fees.

- The Executive Committee has been established by the Board to manage the activities of the Bank on an on-going basis, within the framework of the Business Plan and subject to the overall control of the Board. The Executive Committee delegates some of its responsibilities to a sub-committee, the Business Management Group.

- The Culture Committee is a new committee being established in 2018 to safeguard and promote the Bank's unique culture, to advocate staff and customers' interests and to advance the corporate vision.

3. Risk Management Objectives and Policies

3.1. Introduction

Sound risk management is at the heart of the Bank's strategic objectives, both as an end in itself and to facilitate achievement of the Bank's businesses strategic objectives. The ultimate aim is to protect the Bank's long-term viability and to produce sustainable medium- to long-term revenue streams. The Board's defined risk appetite is articulated in its: Risk Appetite Statements document ("RAS"). This is supported by a suite of metrics provided in the Bank's Risk Indicators document ("RI"). This incorporates a range of quantitative Key Performance and Risk Indicators (KPIs and KRIs), Risk Metrics (RMs) and Early Warning Indicators (EWIs). Together, these describe the amount of each risk type that the Bank is willing to take in pursuit of its objectives.

3.2. Embedding Risk Management & Governance

The Bank's approach to risk management is founded on the effective identification and control of risks, a robust framework for the management of risk and a strong risk management culture that guides how individuals approach their work, the way they behave and the decisions they make. The approach the Bank's takes to deliver this is articulated in the Bank's Risk Management Framework document ("RMF") which is intended to ensure that risks to which the bank is exposed are identified, measured, monitored and, where necessary, mitigated and controlled. In addition, the Bank's Risk Management Policy ("RMP") defines responsibilities across the Bank for the management of risk.

3.3. Risk Management Framework

The Bank has developed a solid RMF that is designed to ensure that risks that may impact the delivery of the Bank's strategic objectives are identified, assessed, managed and, where appropriate, mitigated. The oversight and direction of the Board remains central to the risk management process. The Board is ultimately responsible for the risk management processes and defines, through its RAS, the acceptable levels of risk exposure that are acceptable in the delivery of the Bank's strategic objectives. As noted above, the Board's oversight of risk is supported by the structure of sub-committees where each sub-committee provides a forum for the direction and challenge of the Bank's management, whilst monitoring business performance and risk exposures.

The RMF is underpinned by the three lines of defence model which ensures that staff are aware of their responsibilities and that effective segregation of duties is in place across the Bank.

	First Line of Defence	Second Line of Defence	Third Line of Defence
Owner	**The Business** ExCo (Supported by BMG) (Reports to the Board)	**Risk and Compliance** Risk & Compliance Committee (Reports to the Board)	**Internal Audit** Audit Committee (Reports to the Board)
Function	Owns the risks and the controls	Gatekeeper and Partner Oversight & Challenge Support & Advice	Assurance
Responsibilities	Chief Executive delegates to business heads day-to-day responsibility for risk management, regulatory compliance, internal control and conduct in running their divisions or businesses.	Board Risk Committee delegates to the Chief Risk Officer day-to-day responsibility for oversight and challenge to provide assurance on the management of risk.	Independent reviews and opinions undertaken under the direction of the Audit Committee to test that the Bank's controls are working effectively and remain up-to-date with current regulation

The Internal Audit function is outsourced to Deloitte who provide appropriate expertise to support the delivery of the Audit Plan approved by the Audit Committee. In addition, External Audit is performed by KPMG who are also independent of the operational function of the Bank.

The Bank's Risk Register incorporates the taxonomy of risks to which the Bank is exposed. Whilst Financial Risks are measured using the metrics articulated in the separate Risk Indicators document, the assessment of non-financial risks (i.e Operational, Compliance & Regulatory and Conduct Risks) is achieved through both risk metrics and the output of the Risk & Control Self-Assessment process. This facilitates a more granular review of the Bank's operational risks by considering the likelihood of severe but plausible impacts both before considering the control environment and after giving due consideration to the design and operational effectiveness of the controls in place. The results of this process are also captured in the Bank's Risk Register.

3.4. Reporting

Regular Management Information packs are presented to the Risk & Compliance Committee and recommended to the Board ensuring that the management of risk is aligned to the Board's risk appetites (as detailed above) and that unacceptable risk exposures are identified and, where possible, mitigated at an early stage. The metrics provided are intended to facilitate:

(i) Backward-looking analysis to identify trends in risks and underlying drivers;
(ii) Analysis of current Risk Indicators supported by risk reviews and risk event reporting;
(iii) Forward-looking metrics that provide an early indication of potential threats to the Bank's performance against Risk Appetite;
(iv) Analysis of metrics is based on RAYG indicators that provide an early indication of potential stress so that breaches of Risk Appetite can be avoided by adopting appropriate strategies and actions;
(v) Future trend analysis and calculation of rolling averages (once sufficient data has been collected).

Management also receive daily reports to facilitate the on-going assessment of performance against risk appetite including:

a) the Daily Loans Dashboard; and
b) the Daily Liquidity Report.

3.5. Risk Appetite Introduction

The Bank is committed to maintaining a sound risk management culture that underpins the safe delivery of its strategic objectives. This is supported by qualitative and quantitative policies and Risk Appetite Statements for each of the major risk categories faced by the Bank; these are detailed below. For each of the risk appetite statements there are a range of defined key risk and early warning indicators (KRIs and EWIs) that facilitate an assessment of the risk and performance against appetite.

The major risks to which the Bank is exposed are as follows:

- Strategic Risk
- Capital Risk
- Credit Risk
- Funding Risk
- Liquidity Risk
- Compliance & Regulatory Risk (including Legal Risk)
- Conduct Risk
- Operational Risk
- Market Risk, including Interest Rate Risk in the Banking Book (IRRBB)
- Treasury Counterparty Risk
- Tax Risk
- Reputation Risk

3.6. Risk Appetite Statements

The Risk Appetite statements below describe each risk and articulates the Bank's appetite.

Strategic Risk

Definition	Strategic Risk is the risk that it fails to execute its strategic plan due to either internal or external factors.
Appetite	• The Bank has no appetite for significant, unplanned variances from the strategic plan or budget, without Board approval. • It seeks to deliver its promises to shareholders in terms of delivering strategy, budgets and published targets. • It only has an appetite for strategic risk where it supports its approved business model, sustainable growth, operational efficiency, high quality lending and a conservative approach to funding and liquidity.
Management of the risk	Regular financial and balance sheet MI is presented to the Board to enable it to monitor actual performance against budgeted performance. In addition, the Board discusses any planned or inadvertent deviation from the agreed strategic plan.

Capital Risk

Definition	Capital Risk is the risk that the Bank fails to hold (or cannot access) sufficient capital resources.
Appetite	• The Bank's Board will not operate with a level of capital resources that is less than the regulatory capital requirement. • The Bank will maintain a conservative level of capital based on a percentage of risk-weighted assets. • It has no appetite for material deviation from its planned capital accumulation. • It has no appetite for excessive leverage in its balance sheet - that is, total assets and off-balance sheet items that are, in aggregate, excessively disproportionate to its available Tier 1 capital.
Management of the risk	On a monthly basis, both the Bank's capital adequacy position and a rolling 12-month forecast are produced and reported to the Risk & Compliance Committee. Furthermore, risk indicators are monitored in order to highlight any potential future issues and prompt remedial action.

Credit Risk

Definition	Credit Risk is the risk of a reduction in earnings, and/or value, as a result of the failure of a counterparty to meet, in a timely manner, a commitment into which it has entered with the Bank.
Appetite	• The Bank has no appetite for new unsecured lending. • It has no appetite for arrears or bad debt that would create material volatility in earnings. • It has no appetite for unplanned material concentrations within its lending portfolios by customer, sector, geography, or asset type.
Management of the risk	The Bank's primary aim is to provide secured lending to small and medium sized enterprises that is priced at a level commensurate with the risk. It recognises that some losses are inevitable through the full range of the economic cycle, but desires low overall losses and stable earnings. The Bank has implemented portfolio level protocols across its major business lines, setting out limits on credit risk and portfolio concentrations. Risk indicators are produced on a daily basis and risk positions reported monthly to Credit Committee and Risk & Compliance Committee members.

Funding Risk

Definition	Funding Risk is the risk that it is unable to raise funds at an acceptable price or to access funds markets in a timely manner.
Appetite	• The Bank will ensure that it has access to sufficient and sufficiently diverse financial resources, in terms of source, type and tenor, to fund the Bank. • It has no appetite for paying materially above market rates to obtain funding. • It has no appetite for material volatility in the tenor of its funding profile.
Management of the risk	The Bank strategic intent is to fund its growth by offering deposit products to SMEs (including charities and trusts). In the longer-term, it is the Bank's intention to reduce the asset and liability maturity mismatches by increasing the diversity of the funding book. The Bank monitors funding risk using a range of sources and metrics including the ratio of deposits to loans. Risk exposures are monitored daily and reported to both ALCO and Risk & Compliance Committee members.

Liquidity Risk

Definition	Liquidity Risk is the risk that it is unable to meet its short to medium term commitments as they fall due or that they can only be met at an uneconomic price.
Appetite	• At all times the Bank requires that it have sufficient liquid assets to meet its liabilities when they fall due. • The Bank will maintain a liquidity buffer over and above that required to meet its obligations in normal market conditions.
Management of the risk	At all times the Bank requires that it has sufficient liquid assets to meet its liabilities as and when they fall due. To ensure that this is the case over the longer-term, the Bank seeks to ensure that there are no significant spikes of refinancing, that there is a long maturity profile of assets and that excessive concentration in depositor types, deposit tenors and deposit maturity dates are prevented. The Bank's liquidity is reported on a daily basis to senior management and monthly to ALCO and Risk & Compliance Committee.

Compliance & Regulatory Risk (incorporating Legal Risk)

Definition	Compliance & Regulatory Risk is the risk that non-compliance with laws or regulation could give rise to fines, litigation, sanctions and the potential for material adverse impact on the Bank.
Appetite	• The Bank has zero tolerance for any material breach of laws or regulations.
Management of the risk	The Bank adopts a "comply or explain" approach to legal and regulatory compliance and considers the avoidance of regulatory intervention and fines as key to the successful management of the Bank and maintenance of its reputation.

Conduct Risk

Definition	Conduct Risk is the risk that its customers suffer loss or detriment due to failures in product design, sales marketing processes and operational delivery or failures in the behaviour or ethics of its staff or its third party distributors / suppliers.
Appetite	• The Bank has zero tolerance for any unfair treatment of customers. Any accidental unfair treatment will be remediated as soon as the Bank becomes aware and root cause analysis undertaken to prevent recurrence. • It seeks at all times to protect its good name in the management of the Bank and its customer relationships. • It has zero tolerance for any unethical behaviour by its staff. Again, any unconsciously unethical behaviour will be remediated and subject to root cause analysis to prevent recurrence. • It has no appetite for implementing strategies, policies (including those relating to remuneration and reward), practices or behaviours that would result in a poor outcome for its customers or other stakeholders.
Management of the risk	The Bank aims to provide straightforward products using distribution strategies that meet our customers' needs in order to deliver fair outcomes to our customers. The Bank's selection and recruitment processes are aligned to ensure its people have the relevant skills to mitigate any conduct risk.

Operational Risk

Definition	Operational Risk is the risk that failures arising from inadequate or the failure of internal processes, people and systems or from external events that may cause monetary loss, service disruption or customer detriment.
Appetite	• The Bank has no appetite for significant failures caused by inadequate systems, processes or procedures that could materially impact its ability to service customers and other key stakeholders beyond a 24-hour period. • The Bank seeks to ensure that it remains resilient to operational risk events through the maintenance of a robust control environment and transparent reporting and management of control failures and risk incidents.
Management of the risk	The Bank has a low tolerance for operational losses; however, it recognises that operational risks are an inevitable consequence of doing business and that some operational losses are likely. Controls to mitigate operational risks are established using a cost/benefit approach to limit the Bank's exposure with a focus on protecting its earnings, information assets, customer service, legal and regulatory compliance, and reputation. The Bank also holds insurance to mitigate the impact of some operational risks. The Bank recognises that it cannot prevent unforeseen events within or outside of its control that could impact its ability to service its customers and continue business. Accordingly, operational resilience is a key objective for the Bank. It therefore maintains contingency plans to address such issues should they occur and will make arrangements to ensure that essential functions can be managed from a continuity site up to maximum of 90 days (where the consequences of an event appear likely to be materially longer alternative solutions will be sought during this period). The Bank maintains and tests its business continuity and disaster recovery plans. Cyber security events will be immediately addressed and data loss events will be addressed in accordance with the Data Security Breach. The Bank continues to invest in data and IT security. The Bank have adopted the UK Government's recommended Cyber Essentials security framework and maintains its Cyber Essentials Plus accreditation demonstrating it has the appropriate controls in place to meet regulatory requirements and mitigate the risk posed by cyber criminals. An IT Security Specialist, Ken Munro of Pentest Partners, was appointed as Special Advisor to the Board in 2015 to advise on matters of Cyber Threat and Data Security to ensure that the Bank remains well prepared to face these significant risks. Staff have received training and attended presentations during 2017 to ensure they remain aware of the threat of cyber-attacks and the detective and preventative measures they can employ. Both actual operational losses and near misses are reported to the Risk & Compliance Committee.

Market Risk, including Interest Rate Risk in the Banking Book (IRRBB)

Definition	Market Risk is the risk that changes in market rates negatively impact the earnings or market value of the Bank's assets or liabilities. The Bank's only significant exposure relates to IRRBB. The Bank's exposure to changes in interest rates can be split into two: • Repricing risk– the exposure to timing mismatches between when assets and liabilities re-price; and • Basis Risk– the exposure to assets and liabilities being linked to different interest rate bases (Bank Base Rate, LIBOR etc.), which do not move in parallel with each other.
Appetite	• The Bank has no appetite for any FX risk in excess of limits established in its Treasury Policy. • The Bank has limited appetite for IRRBB arising from the mismatch between its asset and liability positions and pricing.
Management of the risk	• All risk limits are monitored regularly and reported to both ALCO and Risk & Compliance Committee members.

Treasury Counterparty Risk

Definition	Treasury Counterparty Risk is the risk of wholesale Treasury counterparties being unable or unwilling to meet a commitment that they have entered into with the Bank.
Appetite	• The Bank has a zero tolerance for losses relating to the failure of Treasury counterparties. • No limit for an individual counterparty or group of related Treasury counterparties, will exceed 100% of the Bank's capital except for limits to zero risk-weighted Central Banks and Sovereigns.
Management of the risk	The Bank will only invest in institutions that meet the minimum credit quality criteria defined in the Bank's Treasury Policy.

Tax Risk

Definition	Tax Risk is the risk of financial or reputational loss through failed or inadequate processes for the management of the Bank's tax obligations or the reporting associated with its customers' tax obligations.
Appetite	• The Bank has a zero tolerance of tax evasion and requires staff at all times to act in a prudent and compliant manner
Management of the risk	Tax risk is limited as it does not employ tax avoidance schemes and manages its taxes based on a simple underlying business model that maintains the Bank's good standing with the tax authorities.

Reputation Risk

Definition	Reputation risk is the threat or danger to its good name or standing following an adverse risk event.
Appetite	• The Bank has no tolerance for behaviours that could harm its reputation. • The Bank will maintain sufficient financial resources to maintain stakeholder confidence. • The Bank has no tolerance for breaches in its corporate, social or environmental responsibilities that could harm its good name in the local and wider community.
Management of the risk	In defence of its reputation, the Bank takes its social and environmental responsibilities seriously. The Bank's communication strategy covers the full suite of key stakeholders to ensure that they are kept up-to-date with the latest developments and management actions to mitigate any risk event.

3.7. Embedding of Risk Appetites within the Business

- Strategic Planning

  The Bank's risk appetite is a key input into strategic and financial planning decisions. Risk appetite tolerances are also considered and factored into the stress testing work that is undertaken relating to the Bank's capital and liquidity requirements (in the ICAAP and ILAAP processes respectively).

- Risk Limits

  The Bank's risk appetite statements are linked to the day-to-day running of the business through individual Key Risk Indicators and Early Warning Indicators which are managed through policies and protocols under the oversight of the Board and its sub-committees.

- Management Information

  In order to monitor the Bank's performance against stated risk appetites, the Board and its sub-committees receive regular management information containing key current and forecast metrics linked to the risk appetite statements.

4. Remuneration

As a Bank with less than £15bn of assets, the Bank is classified as a "Tier 3" firm for the purposes of the disclosure of remuneration under the Capital Requirements Regulations (CRR). In compliance with the requirements, as laid out in the PRA Supervisory Statement SS2/17 'Remuneration', the Bank has taken note of the regulator's guidance on materiality and proportionality.

The period covered by this declaration is from 1 January 2017 through to 31 December 2017.

The following disclosures meet the requirements for a Tier 3 firm:

- The Bank's Nominations & Remuneration Committee was responsible for designing and implementing the reward structure of the Bank in 2017. The committee ensured that effective risk management was a key component of remuneration and incentive structures. Membership was restricted to Non-Executive Directors only. In 2018, the Performance & Remuneration Committee has replaced this committee.
- The committee's terms of reference describe the committee's responsibilities. The committee's terms of reference are set out in Appendix 4.
- The Nominations & Remuneration Committee met 3 times in 2017. In February 2018, the new Performance & Remuneration Committee met to distribute the variable remuneration from an aggregated pool of reserves.
- The Board of Cambridge & Counties Bank is committed to adhering to the Financial Services Remuneration Code, thus ensuring that the Bank has risk-focused remuneration policies, which are consistent with and promote effective risk management and does not expose the Bank to excessive risk. This is done in a manner that is appropriate to the Bank's size, internal organisation and the nature, scope and the complexity of its activities.
- Cambridge & Counties Bank ensures that its remuneration policies, practices and procedures are clear and documented. To record those policies, practices and procedures, and assess its compliance with the Code, the Bank's Remuneration Policy is reviewed annually to take account of any changes to policies, practices and procedures and in respect of 2017 was approved by the Nominations & Remuneration Committee. In 2018 onwards, this role will be part of the Performance & Remuneration Committee.
- The Bank's remuneration policy is structured in such a way as to ensure that there is a clear link between pay and performance. Performance measures are related to both financial performance and the achievement of defined risk management objectives.
- The table below sets out the remuneration of the Bank's Executive and Non-Executive Directors. These members of staff have been classified as 'Code Staff' as they have a material impact on the profit of the Bank.

	Total remuneration £'000	Number of beneficiaries No.
2017	1,685	12
2016	1,116	9

5. Capital Resources

The Bank manages its capital under the Capital Requirements Regulation (CRR) and Capital Requirements Directive (together referred to as CRD IV) framework which came into force on 1 January 2014. The framework is enforced in the UK by the PRA. The PRA sets and monitors capital requirements for the Bank.

The PRA's approach to the measurement of capital adequacy is primarily based on monitoring the relationship of the capital resources requirement to available capital resources. The regulator sets Total Capital Requirements (TCR) (previously referred to as Individual Capital Guidance (ICG)) for each bank in excess of the minimum resources requirement of 8%. A key input to the TCR setting process is the Bank's ICAAP.

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 ICAAP. The ICAAP represents the view on risk for the Bank and is used by the Board, management and shareholders to understand the levels of capital required to be held over the year, the medium term and to assess the reliance of the Bank against failure. The Bank submitted its last ICAAP to the PRA in March 2018. The Bank presents regular reports on the current and forecast level of capital to Executive Committee, ALCO, Risk & Compliance Committee and to Board. The key assumptions and risk drivers used to create the ICAAP are regularly monitored and reported and any material deviation from the forecast and risk profile of the Bank would mean the ICAAP would need to be reviewed.

The Bank has complied with all externally imposed capital requirements during 2016 and 2017. The Bank has elected to use the standardised approach for credit risk. Under CRD IV, the Bank must set aside capital equal to 8% of its total risk weighted assets to cover its 'Pillar 1' capital requirements. The Bank must set also set aside additional 'Pillar 2' capital to provide for additional risks. The Bank's Pillar 1 and Pillar 2A capital requirements are agreed with the PRA. This requirement is referred to as the Bank's TCR (previously (ICG)). The Bank's capital base was in excess of its TCR.

As at 31 December 2017, the Bank's capital base was made up of £75.7m of Tier 1 capital and £1.8m of Tier 2 capital. The Bank's regulatory capital consists of the following elements:

Tier 1 capital

- Tier 1 capital includes ordinary share capital, convertible loan notes, retained earnings, reserves, and deductions for intangible assets, which are included in equity but treated differently for capital adequacy purposes.

Tier 2 capital

- Tier 2 capital includes provisions for loan losses that are presently unidentified on an individual basis.

The total assets of the Bank at 31 December 2017 were £879.2m. The eligible capital resources at 31 December 2017 totalled £77.5m. The tables below set out the Bank's capital resources at 31 December 2017, reconciles these resources to the Bank's reported regulatory capital and shows the Bank's capital ratios as at 31 December 2017.

£'000	31 December 2017	31 December 2016
Tier 1		
Ordinary share capital	23,955	23,955
Retained earnings	39,352	20,283
Available for sale reserve	36	106
Deductions: Intangible assets	(520)	(509)
Total common equity Tier 1 capital	62,823	43,835
Perpetual subordinated contingent convertible loan notes	12,900	12,900
Total Tier 1 capital	75,723	56,735
Tier 2		
Add: Collective impairment allowance	1,795	1,492
Total Tier 2 capital	**1,795**	**1,492**
Total regulatory capital	**77,518**	**58,227**

£'000	31 December 2017	31 December 2016
Equity as per statement of financial position	76,243	57,244
Regulatory adjustments		
Add collective impairment allowance	1,795	1,492
Less intangible assets	(520)	(509)
Total regulatory capital	**77,518**	**58,227**

%	31 December 2017	31 December 2016
Common equity tier 1 capital ratio	11.2	10.6
Tier 1 capital ratio	13.5	13.6
Tier 2 capital ratio	0.3	0.4
Total capital ratio	**13.8**	**14.0**

The Bank's Own Funds are disclosed in the regulatory CRR format in appendix 1.

5.1. Operational Risk Capital

Operational risk is defined in section 3 of this report. The Bank identifies, assesses and monitors its operational risks via an agreed framework and methodology which is reviewed on a regular basis by the Risk and Compliance Committee. The Bank calculates its operational risk capital requirement using the Basic Indicator Approach as set out in the table below.

£'000	2015	2016	2017
Net interest income	17,526	26,682	36,036
Other income	1,016	1,997	2,923
Relevant indicator	18,542	28,679	38,959
3 year average			28,727
Basic indicator approach percentage			15%
Operational risk capital requirement			4,309

The Bank's operational risk capital requirement at 31 December 2017 was £4.3m (based on the average net income for 2015-2017).

5.2. Risk Weighted Exposure Amounts and Operational Risk Capital

The assets of the Bank are analysed by risk category and given weightings according to the level of risk entailed. The Bank's credit risk consists of counterparty credit risk and all other credit risk (this principally arises from its loans and advances to customers).

The Bank's minimum capital requirements are calculated by applying credit risk weightings to the risk weighted assets. The credit risk weighting are determined by the "Standardised Approach" as set out in the CRR. The Bank uses Moody's Investors Service as its nominated External Credit Assessment Institution (ECAI) for all standardised counterparty credit risk exposure classes.

Overview of RWA

Overview of RWA (OV1) £'000 31 December			Risk Weighted Assets*		Minimum Capital Requirements
			2017	2016	2017
	1	Credit risk (excluding CCR)	503,743	390,505	40,256
Article 438(c)(d)	2	Of which standardised approach (SA)	503,743	390,505	40,256
Article 107 Article 438(c)(d	6	Counterparty credit risk (CCR)	4,024	3,087	322
	9	Of which SA-CCR	4,024	3,087	322
Article 438(f)	23	Operational risk	53,863	35,013	4,309
	24	Of which Basic Indicator Approach	53,863	35,013	4,309
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	632	551	51
	28	Floor adjustment	-	-	-
	29	Total	**561,630**	**428,605**	**44,938**

*after the application of SME factor where appropriate

The Bank's minimum capital requirement has increased by over 30% over the past twelve months principally reflecting the growth in loans and advances to customers.

The tables below shows the Bank's exposures at 31 December 2017 by exposure class, net of provisions.

Credit risk exposure and capital requirement

Credit Risk Exposure 31 December 2017	Exposure Value £'000	Minimum Pillar 1 Capital Requirement (8% x risk weight) £'000
Government and central banks	167,402	0
Institutions	20,091	321
Secured by mortgages on commercial real-estate	344,648	24,713
Secured by mortgages on residential property	292,106	8,179
Other loans	49,668	4,303
Past due items	4,531	397
Other items	1,265	116
Balance sheet Exposure	879,711	38,029
Derivative – potential future exposure add-on	13	1
Off balance sheet commitments	84,781	2,599
Off balance sheet treasury bills	60,000	0
Total Exposure	**1,024,505**	**40,629**
Operational risk capital requirement		4,309
Credit Value Adjustment		0
Total Pillar 1 capital requirement		**44,938**

- Past due items are defined as any account which is three or more months in arrears.
- Other loans includes asset finance, unsecured and certain light refurbishment loans.
-Treasury bills relate to drawings under the Funding for Lending Scheme. The Bank has placed appropriate collateral with the Bank of England.

Credit risk exposure by type

Credit Risk Exposure 31 December 2017		Exposure Value £'000
Government and central banks		
	Repayable on demand	164,295
	Marketable securities	3,107
Banks and building societies		
	Repayable on demand	20,091
	Derivatives	13
Loans and advances to customers		690,953
Other		1,265
Off balance sheet exposures		144,781
Total Exposure		**1,024,505**

Credit risk exposure – on and off balance sheet reconciliation

The difference between the total credit risk exposures shown above of £1.024m and the total assets per the 2017 financial statements of £879.2m can be explained as follows;

31 December 2017	£'000
Total credit risk exposure (per table above)	1,024,505
Less:	
Off balance sheet customer loans and advances commitments	(84,781)
Off balance sheet treasury bills	(60,000)
Derivative potential future exposure add-on	(13)
Verified collective provision	(1,795)
Add:	
Collateral deposits adjustments to loans	796
Verified intangible assets	520
Total assets per balance sheet	**879,232**

-Treasury bills relate to drawings under the Funding for Lending Scheme. The Bank has placed appropriate collateral with the Bank of England.

5.3. Leverage Ratio

The CRD IV framework requires firms to calculate a non-risk based leverage ratio that is a supplementary measure to the risk-based capital requirements. The ratio is defined Tier 1 capital divided by the total on and off balance sheet exposures expressed as a percentage. The Bank's ratio is significantly higher than the regulatory requirement.

Further analysis of the Bank's leverage ratio calculation and disclosures set out by the EBA and Basel Committee can be found in appendix 1.

Leverage Ratio	Regulatory Minimum	2017 £'000	2016 £'000
Total Tier 1 Capital		75,723	56,735
Exposures			
Balance sheet exposure (Inc. Derivative PFE exposure)		879,724	746,565
Off balance sheet exposure		144,781	74,986
Total Exposures		1,024,505	821,551
Leverage Ratio	3%	7.39%	6.91%

6. Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's receivables from customers and investment securities. The risk of financial loss from the Bank's exposures to other financial institutions and investment securities is reported as counterparty credit risk and is reported in section 7.

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

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

The Bank specialises in providing lending for Small and Medium Enterprises (SMEs). Its lending is secured on property. The Bank lends to owner occupied businesses to invest in their own commercial premises, as well as to experienced commercial and residential property investors. It also has a growing asset finance business providing finance to SMEs for business critical assets through hire purchase and finance lease facilities.

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

All properties are individually valued and detailed property reports are produced to ensure the property represents suitable security. Affordability assessments are also performed on all loans and other forms of security are often obtained, such as personal guarantees. Loans are secured on properties solely located in the UK, concentration risks are monitored, and credit exposures are diversified by sector and geography.

6.1. Credit Risk - Exposure Values

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

£'000	2017	2016
Cash and balances at central banks	164,295	127,905
Loans and advances to banks	20,091	14,754
Debt securities	3,107	13,249
Loans and advances to customers	693,538	590,860
Total on balance sheet**	**881,031**	**746,768**
Off-balance sheet treasury bills	60,000	2,000
Commitments to lend*	84,781	72,986
Gross credit risk exposure	**1,025,812**	**821,754**
Less allowance for impairment losses	(3,584)	(2,508)
Net credit risk exposure	**1,062,228**	**819,246**

*Commitments to lend represent agreements entered into but not advanced as at 31 December.

**excludes other debtors, prepayments and fixed assets, PFE charge and is gross of cash collateral deposits

The above table represents the maximum credit risk exposure to the Bank at 31 December 2017 and 2016 without taking account of any underlying security. At 31 December 2017 the value of securities held as collateral is £1,162m (2016: £992m) of which £1,162m (2016: £992m) is in the form of property, £0.8m (2016: £0.4m) is in the form of cash deposits and the Bank also owns the title to the assets financed under its HP and Finance lease agreements.

The following table breaks down the Bank's credit risk exposure by asset class and risk weighting. The assets of the Bank are analysed by risk category and given weightings according to the level of risk entailed. Credit risk weightings are determined by the "Standardised Approach" as set out in the CRR. The Bank uses Moody's Investors Service as its nominated External Credit Assessment Institution (ECAI) for the bank's exposure class.

Standardised Approach - Exposures by asset classes and risk weights (template 20: EU CR5)
31 December 2017 £'000

	Exposure class	Risk weighting					Total credit exposure	Of which unrated
		0%	35%	100%	150%	250%		
7	Corporates			48,762			48,762	48,762
9	Secured by mortgages on immovable property		292,106	324,763			616,869	616,869
10	Exposures in default			5,420	783		6,203	6,203
11	Exposures associated with particularly high risk				21,704		21,704	21,704
16	Other items*	195		817		253	1,265	1,265
17	**Total**	**195**	**292,106**	**379,763**	**22,487**	**253**	**694,803**	**694,803**

*principally fixed assets and deferred tax

6.2. 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:

	2017		2016	
	£m	%	£m	%
Secured on property	666	96	580	98
Secured on other assets	28	4	11	2
Unsecured	-	-	-	-
Total	**694**	**100**	**591**	**100**

In addition to security over property the Bank may also take additional security in the form of Director Guarantees and cash deposits.

There has been no change in the Bank's credit risk mitigation techniques or type of lending activities in 2017. The Bank continues to focus on lending to SME customers secured on property or, in the case of finance leases and hire purchase agreements, business essential assets.

6.3 Credit Risk – Geographical Breakdown

All of the Bank's property loans are secured on UK property. The table below outlines the Bank's credit exposure at 31 December on a regional basis.

Region	2017	2016
East Anglia	4%	5%
East Midlands	18%	19%
Greater London	3%	3%
North East	5%	4%
North West	20%	22%
Scotland	4%	5%
South East	5%	5%
South West	7%	7%
Wales	7%	4%
West Midlands	8%	7%
Yorkshire/Humberside	19%	19%
Total	100%	100%

7. Counterparty Credit Risk / Liquid Assets

The Bank's counterparty credit risk appetite is set out in its Risk Appetite which is set out in section 3. The Bank's counterparty risk arises principally as a result of its Nostro accounts (held with Royal Bank of Scotland and Barclays), its Bank of England reserve account and its interest rate risk derivatives with Royal Bank of Scotland.

The selection of counterparties and the approval of limits is governed by the Bank's Counterparty Policy and involves consideration of background credit rating information as well as up to date credit reports and other market intelligence. ALCO reviews counterparty limits on a monthly basis and recommends changes to the Risk & Compliance Committee for approval. No exposure can be held with counterparties which do not have a pre-approved limit.

Credit risk weightings for treasury counterparties are determined by the "Standardised Approach" using credit quality steps as set out in the CRR.

The credit ratings and counterparties of the Bank's liquid asset exposures as at 31 December (on balance sheet) were as follows:

£'000	2017	2016
Cash and balances at central banks	164,295	127,905
Deposits at other banks		
- Rated* A or above	20,091	14,746
- Unrated	-	8
UK Government Gilts	3,107	13,249
Derivatives held for risk management purposes		
Rated* A or above	(121)	(183)

*Ratings based on Moody's long-term rating

The Bank uses two UK clearing banks with a Moody's credit rating of single-A or above for deposits, clearing services and derivatives – Royal Bank of Scotland and Barclays.

The table below sets out the Bank's counterparty credit risk exposures by regulatory portfolio and risk weight.

Counterparty Credit Risk exposures by regulatory portfolio and risk weights (template 28: EU CCR3) 31 December 2017 £'000							
	Exposure Class	Risk Weight				Total	Of which
		0%	20%	50%	100%		unrated
1	Central governments or central banks	227,402				227,402	-
6	Institutions		20,091	13		20,104	-
11	**Total**	**227,402**	**20,091**	**13**	**-**	**247,506**	**-**

The Bank has interest rate derivatives with a nominal value of £30m at 31 December 2017 (2016: £40m). The net fair value of these swaps totalled -£121k at 31 December 2017 (2016: -£183k). The Bank's derivatives are interest rate swaps to hedge its exposure to changes in the fair value of a proportion of its fixed rate deposit balances. The effectiveness of the Bank's hedging is monitored on a monthly basis. Derivative financial instruments are recognised at fair value on the Bank's balance sheet.

The fair value of derivatives designated as fair value hedges are as follows:

Fair value hedges of interest rate risk £'000	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Instrument type:				
Interest rate	-	121	-	183
Total	**-**	**121**	**-**	**183**

Credit derivatives exposures (template 33: CCR6) 31 December 2017 £'000	A	B	C
	Credit derivative hedges		Other credit derivatives
	Protection bought	Protection sold	
Notionals			
Other credit derivatives	30,000	-	-
Total notionals	**30,000**	**-**	**-**
Fair values			
Positive fair value (asset)	-	-	-
Negative fair value (liability)	121	-	-

The Bank has not had to post any collateral in respect of derivative transactions in 2017 (2016: nil).

8. Credit Quality - Impairment and Provisions

Loans and advances to customers are reviewed regularly to determine whether there is any objective evidence of impairment and assets are categorised as detailed in the table below:

Type of impairment assessment	Description
Individual impairment	Where specific circumstances indicate that a loss is likely to be incurred
Collective impairment	Impairment allowances are calculated on a collective basis, given the homogenous nature of the assets in the portfolio
Neither past due nor impaired	Loans that are not in arrears and have not been subject to forbearance solutions.
Past due but not impaired	Loans that are in arrears or where there is objective evidence of impairment, but the asset does not meet the definition of an impaired asset as the expected recoverable amount exceeds the carrying amount
Impaired assets	Loans that are in arrears or where there is objective evidence of impairment and where the carrying value of the loan exceeds the expected recoverable amount.

The table below provides information on the payment due status of loans and advances to customers at 31 December. All of our residential and commercial loans and advances are secured on UK based assets.

£'000	2017	2016
Neither past due nor impaired	667,940	575,100
Past due but not impaired:		
Up to 1 payment missed	17,949	6,911
Up to 3 payments missed	348	733
Over 3 payments missed	1,386	-
Impaired	5,915	8,116
Total	**693,538**	**590,860**
Less allowances for impairment losses	(3,584)	(2,508)
Total loans and advances to customers	**689,954**	**588,352**

Impairment provisions against loans and advances to customers are based on a period end appraisal of recoverability of all advances.

Specific provisions are made against exposures which have been identified as bad or doubtful to reduce the carrying amount, including interest in arrears. The Bank estimates the ultimate net realisable value of the loan to determine the amount of the provision. Provisions are utilised in part or in full when the extent of loss has been confirmed and there is no longer any realistic prospect of recovery.

A collective provision is made against those loans that are not identified as individually impaired. The losses are provided for as a percentage of the loan book. This percentage is based on management experience, economic and market conditions.

Impairment provisions against customer loans and advances at 31 December 2016 have been made up as follows:

£'000	Individual provisions	Collective provisions	Total provisions
Balance as at 1 January 2017	1,016	1,492	2,508
Impairment loss for the year:			
Charge to income statement	2,005	303	2,308
Write-offs net of recoveries	(1,176)	-	(1,176)
Provisions released	(56)	-	(56)
Balance as at 31 December 2017	**1,789**	**1,795**	**3,584**

Impairment provisions against customer loans and advances at 31 December 2015 have been made up as follows:

£'000	Individual provisions	Collective provisions	Total provisions
Balance as at 1 January 2016	100	1,047	1,147
Impairment loss for the year:			
Charge to income statement	986	445	1,431
Write-offs net of recoveries	-	-	-
Provisions released	(70)	-	(70)
Balance as at 31 December 2016	**1,016**	**1,492**	**2,508**

All of the Bank's customer loans and advances are UK based. The majority (over 96%) of the Bank's lending is secured on property.

The Bank classifies a loan as being in default once it is 3 or more payments behind (typically 90 days). The value of loans in default has increased over the past 12 months reflecting a small number of customers who have got into financial difficulty. The increase remains relatively small compared to the growth in total lending balances and is to be expected as the loan book matures. Overall Management continue to believe that the Bank has a high quality loan book.

Further disclosures on the Banks credit quality are included in appendix 2.

9. Interest Rate Risk in the Banking Book (IRRBB)

The Bank's exposure and risk appetite in respect to Interest Rate Risk in the Banking Book is set out in section 3.

To assess the impact of rate change the Bank's assets and liabilities 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 2016 was:

	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	More than 5 years	Non-interest bearing	Total
Assets							
Cash and balances at central banks	164,255					40	164,295
Loans and advances							
to banks	20,091						20,091
to customers	655,279	5,382	9,917	22,945	1,076	(4,645)	689,954
Debt securities				3,000		107	3,107
Other assets						1,785	1,785
Total assets	**839,625**	**5,382**	**9,917**	**25,945**	**1,076**	**(2,713)**	**879,232**
Liabilities							
Customer accounts	(687,436)	(28,993)	(53,597)	(24,728)		(3,422)	(798,176)
Other liabilities						(5,813)	(5,813)
Total equity		(12,900)				(62,343)	(75,243)
Total liabilities	**(687,436)**	**(41,893)**	**(53,597)**	**(24,728)**	**-**	**(71,578)**	**(879,232)**
Off-balance sheet items							
Notional value of derivatives	30,000	(14,000)	(11,000)	(5,000)			
Interest rate sensitivity gap	182,189	(50,511)	(54,680)	(3,783)	1,076	(74,291)	-
Cumulative gap	**182,189**	**131,678**	**76,998**	**73,215**	**74,291**	**-**	**-**

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: -£33k (2016: £463k)

-200 bps: £53k (2016: -£490k)

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

10. Asset Encumbrance

The Bank can use its assets to support collateral requirements for central bank operations, third party repurchase transactions and its interest rate derivatives. 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'. The Bank reviews all its assets against the criteria of being able to finance them in a secured form (encumbrance) but certain asset types lend themselves more readily to encumbrance. The typical characteristics that support encumbrance are an ability to pledge those assets to another counterparty or entity through operation of law without necessarily requiring prior notification, homogeneity as well as predictable and measurable cash flows. The Bank considers all its high quality liquid assets and secured customer loans and advances available to be encumbered.

As at 31 December 2017 the Bank had no encumbered assets although it had pre-positioned assets with the Bank of England as part of its Funding for Lending Scheme (FLS) membership, which may at a future date become encumbered. The Bank has not been required to post any collateral in respect of its interest rate derivatives.

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 are not recorded on the Bank's balance sheet as ownership remains with the Bank of England. As at 31 December 2017 the Bank had drawn £60m (2016: £2m) of Treasury bills under FLS. These Treasury bills are held off balance sheet and as at 31 December 2017, they had not been monetised. The Bank has pre-positioned, with the Bank of England, loan assets totalling £236m as collateral for its FLS and DWF facilities.

The following tables show the appropriate disclosures in respect of the Bank's encumbered and unencumbered assets during 2017. The tables show the median balance sheet values for the past 12 month basis as prescribed in the regulatory requirements.

- **Template A - Overview of encumbered and unencumbered assets**

Template A 2017 Rolling 12 month median £'000		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	Assets of the reporting institution	-	-			-	-		
030	Equity instruments	-	-			-	-		
040	Debt securities	-	-	-	-	-	-	-	-
050	of which: covered bonds	-	-	-	-	-	-	-	-
060	of which: asset-backed securities	-	-	-	-	-	-	-	-
070	of which: issued by general governments	-	-	-	-	13,178	13,178	13,178	13,178
080	of which: issued by financial corporations	-	-	-	-	-	-	-	-
090	of which: issued by non-financial corporations	-	-	-	-	-	-	-	-
120	Other assets	-	-			790,934	135,474		
121	of which: Central bank Reserve Account	-	-			135,474	135,474		
122	of which: Deposits at other Banks	-	-			14,756	-		
123	of which: Loans and advances to Customers	-	-			658,263	-		

- **Template B** - The Bank meets the criteria set by the PRA to waive the requirement to report Table B- Characteristics of received collateral. The Bank's Table B return would in any case have been a nil return in 2017 as we have not encumbered any assets during the period.

- **Template C – Encumbered assets/collateral received and associated liabilities**

Template C 2017 Rolling 12 month median £'000	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	-	-

2017 Rolling 12 month median £'000	Fair value of encumbered collateral received or own debt securities issued	Fair value of non-encumbered collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	-	-

- **Template D** - Disclosures required to meet the requirements of Template D – "Accompanying narrative information on the impact of the business model on assets encumbrance and the importance of encumbrance to the institution's business model" have been included in the above narrative.

11. Other Disclosure Requirements

The Bank has:
- no exposures to securitisation positions
- no trading book
- not been identified as having any global or domestic systemic importance
- all of its credit exposures in the UK.

12. Conclusion / Contacts

This Pillar 3 disclosure document has been prepared in accordance with the requirements of the CRD, CRR and the PRA, as appropriate to the size and complexity of Cambridge & Counties Bank. If a user of these disclosures requires further information please contact:

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Additional Disclosures

Own Funds, Leverage Ratio and Reconciling differences between regulatory reported values and financial statements

Own funds disclosure

Own Funds – Regulatory disclosure template 31 December 2017 £'000		
Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	
	of which: Ordinary share capital	23,955
2	Retained Earnings	39,352
3	Accumulated other comprehensive income	36
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**63,343**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
8	Intangible assets	(520)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(520)**
29	**Common Equity Tier 1 (CET1) capital**	**62,823**
Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	
31	of which: classified as equity under applicable accounting standards	12,900
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**12,900**
Additional Tier 1 (AT1) capital: regulatory adjustments		-
44	**Additional Tier 1 (AT1) capital**	**12,900**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**75,723**
Tier 2 (T2) capital: instruments and provisions		
50	**Credit risk adjustments**	1,795
51	**Tier 2 (T2) capital before regulatory adjustments**	**1,795**
Tier 2 (T2) capital: regulatory adjustments		
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-
58	**Tier 2 (T2) capital**	**1,795**
59	**Total capital (TC = T1 + T2)**	**77,518**
60	**Total risk weighted assets**	**561,633**
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	11.19%
62	Tier 1 (as a percentage of total risk exposure amount)	13.48%
63	Total capital (as a percentage of total risk exposure amount)	13.80%
64	Institution specific buffer requirement	8,144
65	of which: capital conservation buffer	1.45%
66	Of which: counter cyclical buffer	-
67	Of which: Global systemically important institution	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	3.19%

Leverage ratio regulatory disclosures

Table LRSum : Summary reconciliation of accounting assets and leverage ratio exposures		Applicable amount
1	Total assets as per published financial statements	879,232
4	Adjustments for derivative financial instruments	13
6	Adjustment for off-balance sheet items	144,781
7	Other Adjustments	479
8	Leverage ratio total exposure measure	**1,024,505**

Table LRCom: Leverage ratio common disclosure	On-balance sheet exposures	CRR leverage ratio exposures
1	On-balance sheet items	880,231
2	Asset amounts deducted in determining Tier 1 capital	(520)
3	Total on-balance sheet exposures	**879,711**
	Derivative exposures	
5	Add-on amounts for PFE associated with all derivative transactions	13
11	Total derivative exposures	**13**
	SFT exposures	
16	Total securities financing transaction exposures	-
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	144,781
19	Other off-balance sheet exposures	**144,781**
	Capital and total exposure measure	
20	Tier 1 capital	75,723
21	Leverage ratio total exposure measure	1,024,505
	Leverage Ratio	
22	Leverage ratio	7.39%

Table LRSpl: Split-up of on balance sheet exposures		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures, of which:	879,711
EU-5	Exposures treated as sovereigns	167,402
EU-7	Institutions	20,091
EU-8	Secured by mortgages on immovable properties	638,302
EU-10	Corporate	48,121
EU-11	Exposures in default	4,531
EU-12	Other exposures	1,265

High risk loans are split between Corporates and Secured by mortgages on immovable properties

Reconciling differences between regulatory reported values and financial statements

Linkages between financial statements and regulatory exposures (LI1)
31 December 2017 £'000

	A Carrying values as reported in published financial accounts	C Carrying values of items subject to credit risk framework	D Carrying values of items subject to counterparty credit risk framework	G Carrying values of items not subject to capital requirements or subject to deduction from capital
Cash and balances at central banks	164,295	-	164,295	-
Loans and advances to banks	20,091	-	20,091	-
Debt securities	3,107	-	3,107	-
Loans and advances to customers*	689,954	689,954	-	-
Other assets and prepayments	868	868	-	-
Property, plant and equipment	144	144	-	-
Intangible assets	520	-	-	520
Deferred taxation	253	253	-	-
Total assets	**879,232**	**691,219**	**187,493**	**520**
Customers' accounts	798,176	-	-	798,176
Derivative financial liabilities	121	-	-	121
Other liabilities and accruals	4,692	-	-	4,692
Total liabilities	**802,989**	**-**	**-**	**802,989**

*net of collective and specific provisions

Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)
31 December 2017 £'000

			Items subject to	
		A Total	B Items subject to credit risk framework	C Items subject to counterparty risk framework
1	Assets carrying value amount under the scope of regulatory consolidation*	880,507	693,014	187,493
2	Liabilities carrying value amount under the regulatory scope of consolidation	(796)	(796)	-
3	Total net amount under the regulatory scope of consolidation	879,711	692,218	187,493
4	Off balance sheet amounts	144,781	84,781	60,000
9	PFE - derivatives	13	-	13
10	Exposure amount considered for regulatory purposes	**1,024,505**	**776,999**	**247,506**

The Bank has no assets subject to Market risk or securitisation frameworks
*gross of collective provisions and excluding intangible assets

The following processes and interpretations have been followed to calculate the above carrying values:

- 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 after taking into account any provisions.

- Debt securities

  Where securities are actively traded in a recognised market, with available and quoted prices, these have been used to value these instruments.

- Loans and advances to customers

  The majority of the Bank's lending is via products with a variable interest rate, which it considers equivalent to a current market product rate. Therefore, the Bank considers the discounted future cash flows of these mortgages to be equal to the carrying value.

- Customers' accounts

  The fair value of fixed rate customers' accounts have been determined by discounting estimated future cash flows based on market interest rates on equivalent deposits. 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.

- Derivatives

  The fair values of derivative assets and liabilities are calculated based on the present value of future interest cash flows, discounted at the market rate of interest at the balance sheet date.

Total and average net amount of exposures (template 7 EU CRB-B) 31 December 2017 £'000		A Net value of exposures at the end of the period	B Average net exposures over The period
16	Central governments or central banks	167,402	154,278
21	Institutions	20,104	17,504
22	Corporates	48,121	39,674
23	*Of which: SMEs*	48,064	39,531
26	Secured by mortgages on immovable property	616,718	576,855
27	*Of which: SMEs*	616,718	576,855
28	Exposures in default	4,531	5,558
29	Items associated with particularly high risk	21,583	18,145
34	Other Exposures	1,265	1,132
	Off-balance sheet - lending commitments and FLS t-bills	144,781	109,884
35	Total standardised approach	**1,024,505**	**923,030**
36	Total	**1,024,505**	**923,030**

The above table includes off-balance sheet exposures in respect of the Bank's lending commitments which give rise to a credit risk exposure and the value of the PFE on the Bank's derivative portfolio.

All of the above exposures are in the UK and therefore template 8 EU CRB-C geographical exposures is not shown separately.

Additional Credit Risk Disclosures

The following table splits the Bank's loans and advances to customer by industry sector.

Concentration of exposures by industry or counterparty type (template 9 EU CRB-D) 31 December 2017 £'000		A	B	C	D	E	F	G	H	I	J	L	M	N	O	P	Q	R	S	U
		Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Information and communication	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence, compulsory social security	Education	Human health services and social work activities	Arts, entertainment and recreation	Other services	Total
13	Corporates	292	21	2,481	62	5,862	4,098	1,525	2,613	1,151	56	20,932	954	264		5	281		16,942	57,539
15	Secured by mortgages on immovable property	8,000		2,644		909	1,052	2,863	1,641	20,749	192	629,562	9,290	2,855		657	1,319		5,430	687,163
16	Exposures in default											4,531								4,531
17	Items associated with particularly high risk											25,502						-		25,502
23	Total standardised approach	8,292	21	5,125	62	6,771	5,150	4,387	4,254	21,900	248	680,527	10,244	3,119	-	662	1,600		22,372	774,735
24	Total	8,292	21	5,125	62	6,771	5,150	4,387	4,254	21,900	248	680,527	10,244	3,119	-	662	1,600		22,372	774,735

The following table shows the maturity of the Bank's assets. There has been no significant change over the past 12 months.

Maturity of exposures (template 10 EU CRB-E) 31 December 2017 £'000		A	B	C	D	E	F
		Net exposure value					
		On demand	<=1 year	>1 year <= 5 years	>5 years	No stated maturity	Total
7	Central governments or central banks	164,295		3,107			167,402
12	Institutions	20,091					20,091
13	Corporates		909	23,865	23,346		48,121
15	Secured by mortgages on immovable property		26,059	105,619	485,040		616,718
16	Exposures in default		4,531				4,531
17	Items associated with particularly high risk		21,022	561			21,583
22	Other exposures		747	248	270		1,265
23	**Total standardised approach**	**184,386**	**53,268**	**133,400**	**508,656**		**879,711**
24	**Total**	**184,386**	**53,268**	**133,400**	**508,656**		**879,711**

- Loan impairments, provisions and credit mitigation

The Bank has recorded strong growth in its lending balances since it started trading in 2012. Loans and advances to customers increased by 17% in 2017. General credit risk adjustments have grown in line with balances. Specific credit risk adjustments increased to £1.8m at 31 December 2017 reflecting a small number of cases where the customers are in financial difficulty. This increase is expected as the book grows and loans mature.

The following tables show further analysis on the split of the Bank's lending and the breakdown of loans in arrears and default and the balance of provisions.

Credit quality of exposures by exposure calcs and instrument types (template 11 EU CR1 A) 31 December 2017 £'000		A	B	C	D	E	F	G
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustments	Accumulated write-offs	Credit risk adjustment charges	Net values
		Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
22	Corporates	-	57,859	10	198	-	96	57,840
23	Of which: SMEs	-	57,802	-	198	-	86	57,793
26	Secured by mortgages on immovable property	-	688,701	107	1,542	-	294	686,873
27	Of which: SMEs	-	688,701	107	1,542	-	294	686,873
28	Exposures in default	6,203	-	1,672	-	1,176	670	4,531
29	Items associated with particularly high risk	-	25,556	-	54	-	16	25,492
34	Other exposures	-	1,265	-	-	-	-	1,265
35	**Total standardised approach**		**773,382**	**1,789**	**1,795**	**1,176**	**1,076**	**776,001**
36	**Total**	**6,203**	**773,382**	**1,789**	**1,795**	**1,176**	**1,076**	**776,001**
37	Of which: Loans	6,203	687,336	1,789	1,795	-	1,076	689,955
39	Of which: Off-balance-sheet exposures	-	84,781	-	-	-	-	84,781

Credit quality of exposures by industry or counterparty type (template 12 EU CR1-B) 31 December 2017 £'000		A	B	C	D	E	F	G
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
		Defaulted exposures	Non-defaulted exposures					(a+ b-c-d)
1	Agriculture, forestry and fishing		8,313	-	21	-	1	8,292
2	Mining and quarrying	-	21	-	-	-	-	21
3	Manufacturing	-	5,142	-	16	-	(23)	5,125
4	Electricity, gas, steam and air conditioning supply	-	62	-	-	-	-	62
5	Water supply	-	6,800	-	29	-	29	6,771
6	Construction	-	5,172	-	22	-	1	5,150
7	Wholesale and retail trade	-	4,401	-	14	-	(32)	4,387
8	Transport and storage	-	4,272	-	17	16	17	4,254
9	Accommodation and food service activities	-	22,050	128	23	-	124	21,900
10	Information and communication	-	249	-	-	-	-	248
11	Real estate activities	6,203	677,523	1,661	1,538	1,160	937	680,527
12	Professional, scientific and technical activities	-	10,271	-	26	-	20	10,244
13	Administrative and support service activities	-	3,126	-	7	-	7	3,119
14	Public administration and defence compulsory social security	-	-	-	-	-	-	-
15	Education	-	663	-	2	-	1	662
16	Human health services and social work activities	-	1,604	-	4	-	(36)	1,600
17	Arts, entertainment and recreation	-	-	-	-	-	(1)	-
18	Other services	-	22,444	-	76	-	31	22,372
19	Total	6,203	772,115	1,789	1,795	1,176	1,076	774,735

Appendix 2

Credit Quality of Exposures by geography (template 13 EU CR1-C) 31 December 2017 £'000								
		A	B	C	D	E	F	G
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values (a+b-c-d)
		Defaulted exposures	Non-defaulted exposures					
11	Total	6,203	687,335	1,789	1,795	-	-	689,954

Ageing of past-due exposures (template 14 EU CR1-D) 31 December 2017 £'000							
		A	B	C	D	E	F
		Gross carrying values					
		< 30 days	> 30 days < 60 days	> 60 days < 90 days	> 90 days < 180 days	>180 days < 1 year	> 1 year
1	Loans	15,998	3,038	348	2,151	2,314	1,520
2	Debt Securities	-	-	-	-	-	-
3	Total exposures	15,998	3,038	348	2,151	2,314	1,520

Non-performing and forborne exposures (template 15 EU CR1-E) 31 December 2017 £'000														
		A	B	C	D	E	F	G	H	I	J	K	L	M
		Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
			Of which performing but past due > 30 days and < = 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
						Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
010	Debt securities	3,107	-	-	-	-	-	-	-	-	-	-	-	-
020	Loans and advances	693,538	2,578	-	7,301	6,203	1,098	-	-	-	1,789	-	-	-
030	Off-balance-sheet exposures	84,781	-	-	-	-	-	-	-	-	-	-	-	-

Accumulated provision reflects the specific provisions.

Changes in stock of general and specific credit risk adjustments (template 16 EU CR2A) 31 December 2017 £'000		A	B
		Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1	Opening Balance	1,016	1,492
2	Increases due to amounts set aside for estimated loan losses during the period	2,005	303
3	Decreases due to amounts reversed for estimated loan losses during the period	(56)	-
4	Decreases due to amounts taken against accumulated credit risk adjustments	(1,176)	-
5	Transfers between credit risk adjustments	-	-
6	Impact of exchange rate differences	-	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-	-
8	Other adjustments	-	-
9	Closing balance	1,789	1,795
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	-	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-	-

Changes in stock of defaulted loans and debt securities (template 17 EU CR2 B) 31 December 2017 £'000		Gross carrying value defaulted exposures
1	Opening balance Defaulted loans and debt securities at 31 December 2016	7,587
2	Loans and debt securities that have defaulted since 31 December 2016	3,241
3	Returned to non-defaulted status	(734)
4	Amounts written off	(3,891)
5	Other charges	-
6	Closing balance Defaulted loans and debt securities at 31 December 2017	**6,203**

There has been no change in the Bank's use of credit mitigation techniques in 2017. The Bank uses collateral deposits from SME customers in a small number of cases as a credit mitigation method. These cash deposit totalled £0.8m at 31 December 2017 (2016: £0.4m). With the exception of these deposits, credit conversion factors are applied to the Bank's total on balance sheet exposure.

Credit risk mitigation techniques overview (template 18 EU CR3) 31 December 2017 £'000		A	B	C	D	E
		Exposures unsecured: carrying amount	Exposures secured: carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Loans				-	-
	To non-financial customers	1,322	691,692	691,692	-	-
3	Total exposure	**1,322**	**691,692**	**691,692**	**-**	**-**
4	Of which defaulted	-	-	4,531	-	-

Exposures unsecured includes £1,265k of assets represents fixed assets and other debtors
Loan values are net of specific provisions

Credit risk exposure and credit risk mitigation (CRM) effects (template EU 19 CR4) 31 December 2017 £'000							
		A	B	C	D	E	F
	Exposure Classes	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
		On balance sheet amount	Off balance sheet amount	On balance sheet amount	Off balance sheet amount	RWA	RWA density
7	Corporates	48,762	9,097	48,121	9,097	39,627	69%
9	Secured by mortgages on immovable property	616,869	71,832	616,718	71,832	422,491	61%
10	Exposures in default	6,203	-	4,531	-	4,912	108%
11	Exposures associated with a particularly high risk	21,704	3,852	21,583	3,852	35,264	139%
16	Other items*	1,265	-	1,265	-	1,449	115%
17	Total	**694,803**	**84,781**	**692,219**	**84,781**	**503,743**	**65%**

*other assets includes the Bank's fixed assets

Counterparty Risk

The following tables refer to the Bank's derivative holdings and in particular the Bank's PFE (Potential Future Exposure). PFE is a measure of counterparty risk/credit risk. It is calculated by evaluating existing trades against possible future market prices during the lifetime of the transaction.

Analysis of Counterparty Credit Risk (CCR) exposure by approach (template 25 EU CCR1)
31 December 2017 £'000

		A	B	C	D	E	F	G
		Notional	Replacement cost / current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1	Mark to market			13			13	6
2	Original exposure							
3	Standardised approach							
4	IMM (for derivatives and SFTs)							
5	*Of which securities financing transactions*							
6	*Of which derivatives and long settlement transactions*							
7	*Of which from contractual cross-product netting*							
8	Financial collateral simple method (for SFTs)							
9	Financial collateral comprehensive method (for SFTs)							
10	VaR for SFTs							
11	Total							6

Credit Valuation Adjustment (CVA) Charge (template 26 EU CCR2)
31 December 2017 £'000

		A	B
		Exposure value	RWAs
1	Total portfolios subject to the advanced method		
2	(i) VaR component (including 3*multiplier)		
3	(ii) SVaR component (including the 3* multiplier)		
4	All portfolios subject to the Standardised method	13	6
EU4	Based on original exposure method		
5	Total subject to the CVA capital charge	13	6

The Bank's Credit Valuation Adjustment capital charge has not changed significantly over the past twelve months.

The Bank has no exposure to counterparty credit risk to central counterparties as defined in template 27 EU CCR8 (exposures due to operations, margins, contributions to default funds) and has therefore not reproduced this table.

Impact of netting and collateral held on exposure values (template 31: EU CCR5 A)
31 December 2017 £'000

	A	B	C	D	E
	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Total	-	-	-	-	-

Composition of collateral for exposure to CRR (template 32: EU CCR5 B)
31 December 2017 £'000

	A	B	C	D	E	F
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral			
	Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral received	Fair value of posted collateral
Total	-	-	-	-	-	-

The Bank has not posted or received any collateral in respect of its derivative transactions

Board Committees Terms of Reference

Board of Directors

Terms of Reference

Chair	The Chairman or, in his absence, the Vice Chairman or failing him a Non-Executive Director appointed at the Board meeting.
Members	All Executive and Non-Executive Directors are members of the Board
Attendees	Company Secretary / General Counsel
Additional Invitees	Senior staff as requested to attend for specific items or to make presentations to the Board.
Quorum	Four directors in accordance with the Articles of Association.
Meeting Frequency	Ten times per annum and additional *ad hoc* meetings as required. Any required additional *ad hoc* meetings will be called in accordance with the notice provisions in the Articles of Association. Meetings schedule fixed prior to end of preceding year.
Authority derived from:	• Shareholders, who appoint the Board of Directors. • Articles of association that set out the procedures to be followed. • Statutory and regulatory framework.
Purpose of the Board	• The Board has overall responsibility for the Bank. All the powers of the Bank are vested in the Board; however the exercise of some powers is delegated to individuals through their job specifications and to various committees. The Board reviews this delegation of powers on an ongoing basis and can revoke and amend it as required. The powers authorised by delegation to committees are shown in the Appendix. • The role of the Board is to provide strategic direction for the Bank within a framework of prudent and effective controls through the regular assessment of management information which enables risks to be assessed and managed. • The Board is collectively responsible for the long-term success of the Bank and delivery of sustainable value to shareholders. It sets the strategy and risk appetite for the Bank, approves capital and operating plans presented by management for the achievement of the strategic objectives it has set and has oversight of conduct risks within an ongoing culture of maintaining good customer outcomes. • Implementation of the strategy set by the Board is delegated to the Executive Committee ("Exco") which is led by the Chief Executive Officer.

	• The Board leads the development of Bank's culture, values and standards and ensures that its obligations to its shareholders and others are understood and met. In carrying out the duties of the Board, the directors will act in accordance with all relevant and applicable legislative and regulatory rules. In particular, they will take into account the Directors' Duties contained in the Companies Act 2006 and will consider the factors listed in Section 172 of the Companies Act 2006 and any other relevant factors.
• Scope of oversight and responsibility	The Board is responsible for the approval of the following policies: • Board Governance and Control • Conflict of Interest including Gifts and Hospitality • Corporate Social Responsibility • Environment & Sustainability Policy • Expenditure Policy • Freedom of Information Policy (FOIA) • Recruitment and Selection • Whistleblowing
Minutes / Reporting	The Board must make sure that the Company keeps a record, in writing, for at least 10 years from the date of the decision recorded, of every unanimous or majority decision taken by the Board.
Directors' discretion to make further rules	Subject to the Company's Articles of Association, the directors may make any rule which they think fit about how they take decisions, and about how such rules are to be recorded or communicated to directors.
Board Effectiveness	The Board shall conduct a review of its effectiveness on an annual basis.

Summary of Delegated Authorities

The following responsibilities have been delegated by the Board to the following Committees:

Committee	Responsibilities
Culture Committee	• Implement corporate vision to be the most human bank • Responsible business operations • Focus on customer, culture, people, brand and ethical, social and environmental issues.
Audit Committee	• External auditor appointment, fees and reporting • Annual Accounts • Internal audit
Performance and Remuneration Committee	• Establishment and implementation of remuneration policy • Directors' remuneration • Staff Bonus Scheme • Staff remuneration
Nominations & Governance Committee	• Review the structure, size and composition of Board • Appointments of new directors • Directors' contracts • Monitoring governance
Risk & Compliance Committee	• Terms of Reference for the Credit and Assets & Liabilities Committees • Antifraud and corruption, anti money laundering, foreign exchange, interbank placements, interest rates, lending, large loan exposures, liquidity, risk management, trading Policies • Counterparty list authorisation • Consideration/approval of new lending outside Credit Committee Terms of Reference • Adequacy and Risk Management Systems and resources • Risk related MI • Risk register and risk oversight • New or emerging risks • Compliance • Complaints, Data Protection, IT Security, Whistleblowing Policies
Assets & Liabilities Committee	• Liquidity and Financial Risk Management, including recommending policies to Risk Committee, assessing treasury activities, ILAA, stress testing • Interest rate risk, including expectations, limits, sensitivities, MI • Treasury credit risk – counterparty list • Funding including mix/policy, contingency delegated to the Funding Group • Net interest margin monitoring
Credit Committee	• Formulation for recommendation to the Risk Committee of lending, large exposures policies and procedures • Agreement of Loan Operating Agreements, loan terms, administration procedures • Setting of lending interest rates and fees • Consideration/approval of new lending in accordance with policy
Executive Committee	• Implementation of the strategic objectives of the Bank in accordance with the Business Plan and compliance with the Company's Budget • All day to day operational issues of the Bank which are delegated to the Business Management Committee. • Reviewing draft Board papers prior to finalisation and submission to the Board

	• Creating, developing and recommending the ICAAP for Board approval • Approving the Terms of Reference and responsibilities of the Business Management Committee, the Product Committee and the Marketing Committee, and receive Minutes from these committees. • Ensuring all responsibilities are undertaken with due consideration given to the Bank's Strategic plan, its Business Plan, Board approved policies and good customer outcomes. • Formulation of the following policies for recommendation to the Board for approval: - Anti-Bribery and Corruption - Anti-Fraud - Anti-Money Laundering & Counter-Terrorist Finance - Board Governance and Control - Complaint Handling - Conduct Risk including Treating Customers Fairly - Conflict of Interest including Gifts and Hospitality - Corporate & Social Responsibility - Customer Acceptance and Identification Procedures - Data Retention - Environment & Sustainability - Expenditure Policy - FOIA Policy - IT & Data Protection - Risk Management - Recruitment and Selection - Remuneration - Staff Rules & Regulations - Tax Risk - Whistleblowing
Business Management Group	• Implementation of the strategic objectives of the Bank in accordance with the Business Plan and compliance with the Company's Budget. • Conducting of day to day operational issues of the Bank. • Initiate and manage actions required to address issues arising within any aspect of business performance, including financial, staff, customers, IT and marketing, informed by receipt of regular management information, financial results and forecasts, and wider feedback and insight • Reviewing and contributing to updates of strategic plans. • Reviewing and contributing to creation of annual budgets. • Approving the Terms of Reference and responsibilities of IT Systems Committee and to receive Minutes from this committee. • Prioritising and co-ordinating any changes to the Bank's IT systems and infrastructure. • Through governance of the IT Systems Committee: ensuring delivery of, and ongoing maintenance of, appropriate IT systems and infrastructure, including proposing to the Executive Committee any action that is required for approval. • Ensuring that the Bank can effectively meet its regulatory obligations and deliver good customer outcomes. • Considering the overall conduct risk of the bank. • Review and recommend to the Executive Committee the following policies for approval: - Anti-Bribery and Corruption - Anti-Fraud - Anti-Money Laundering & Counter-Terrorist Finance

	- Assessment of Fitness and Propriety - Complaint Handling - Conduct Risk including Treating Customers Fairly - Conflict of Interest including Gifts and Hospitality - Corporate & Social Responsibility - Customer Acceptance and Identification Procedures - Data Retention - Environment & Sustainability - Expenditure Policy - FOIA Policy - IT Policy - Data Protection - Risk Management - Recruitment and Selection - Remuneration - Staff Handbook - Whistleblowing
Business Change Committee (sub-Committee of Executive Committee)	• Monitoring and reporting on: o IT systems security, performance and outages; o IT vendor performance; o IT infrastructure capacity and scalability • Monitoring, prioritising and co-ordinating business change projects and developments.
Customer and Product Committee (sub-Committee of Executive Committee)	• Formulation of new products for recommendation to the Board • Researching appetite for new and existing products • Researching competitors for new and existing products • Agreeing, approving and recommending product pricing within the parameters approved by the Board • Research and recommend routes to market for new and existing products to the Board • Create and recommend professional marketing materials to the Board • Liaise with third party organisations for the purposes of enhancing company brand and image
Provisions Committee	• Provisions Committee is a sub-group of the Executive Committee established to monitor current and potential non-performing lending on an ongoing basis and identifies and recommends appropriate provisions for under-recoveries on those loans.

Risk & Compliance Committee

Committee Terms of Reference

Chair	A Non-Executive Director.
Members	At least three Non-Executive Directors, one of whom is the Chairman of the Audit Committee.
Attendees	• Chief Executive Officer • Chief Financial Officer • Chief Risk Officer • Chief Development Officer • Chief Customer Officer • Director of Risk and Compliance • General Counsel
Additional Invitees	• Senior staff and outside specialists may be requested to attend for specific items or to make presentations to the Risk & Compliance Committee.
Quorum	• Two members, one of whom is the Chairman of the Risk & Compliance Committee or Chairman of the Audit Committee.
Meeting Frequency	• A minimum of 8 meetings per annum. • Ad hoc meetings can be called, as required, at the request of the Chairman of the Group, a Committee member, the Chief Executive, the Chief Risk Officer or the Chief Audit Executive.
Secretary	Company Secretary
This Committee receives its authority from	• The Risk & Compliance Committee operates under delegated authority from the Board • The Risk & Compliance Committee is authorised: o to undertake and investigate any activity within its remit; and o to obtain any information it requires from any employee of the Bank and to call any employee to be questioned at its meetings as and when required.
Purpose of this Committee	The Risk & Compliance Committee will be responsible for:- • Providing 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. • Assisting on such other matters as may be referred to it by the Board. • Promoting a risk awareness culture within the Bank.
The Risk & Compliance Committee will be responsible for:-	• Providing 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.

- Assisting on such other matters as may be referred to it by the Board.
- Promoting a risk awareness culture within the Bank.

Scope of this Committee's oversight and responsibility

Risk Policy

- To review the design and implementation of risk management and compliance policy across the Bank, in particular operation of the Risk Policy Framework and the procedures for monitoring the adequacy and effectiveness of those processes.
- To review compliance with the Risk Policy Framework and risk and compliance policies, including resultant actions in respect of policy breaches;

Risk Profile

- To review the performance of the Bank relative to risk appetite and monitor any risk trends and concentrations. To review all material risk exposures and management's recommendations to monitor and control such exposures, including market, credit, operational, regulatory, conduct, compliance (including financial crime), enterprise-wide risk management, reputational, cyber, pension risk, business risk, and balance sheet risk (capital, liquidity, funding, interest rate).
- To consider the Bank's risk profile relative to current and future strategy.
- To review the due diligence of any proposed material strategic transaction (involving a merger, acquisition or disposal) prior to the Board approval of the transaction, and to monitor the risks associated with the delivery of any such transaction.
- To exercise oversight of the execution risk inherent in other material strategic programmes, receiving reports on progress from the business, Risk and Conduct and Internal Audit as appropriate.
- To receive and review General Counsel Reports on key legal risks and developments affecting the Bank;
- To consider material findings from regulatory reviews and interactions with regulators which impact on risk governance or risk management processes;
- To require management to demonstrate that prices offered to both borrowers and deposit customers take fully into account the Bank's business model and risk strategy.
- To report to the Board on its consideration of the above matters, identifying those areas where improvement is needed and make recommendations as appropriate.

Risk Appetite, Framework and Limits

- To consider and recommend for approval by the Board, the Bank's risk appetite framework, taking into account the Bank's capital adequacy and the external risk environment.
- To consider and recommend for approval by the Board, enterprise wide risk appetite for strategic risks (capital, funding and liquidity, earnings volatility, stakeholder confidence).

<u>Capital and Liquidity</u>

- To receive reports that explain the impact of crystallisation of identified risks and threats identified through rigorous bank-wide stress and scenario testing of the Bank's business and to receive reports that explain the impact of crystallisation of identified risks and threats. To consider the level of risk mitigation in place.
- To consider and recommend for approval to the Board:
    - the key vulnerabilities and scenario themes identified and expanded metrics to be used in both internal and regulatory bank-wide stress tests.
    - the results of bank–wide stress tests (including mitigants).
- To consider and recommend to the Board for approval material regulatory submissions and returns following Executive review, in particular in relation to the Internal Capital Adequacy Assessment Process; the Individual Liquidity Adequacy Assessment Process; the Recovery Plan; and the Resolution Plan.

<u>Risk and Conduct Operating Model</u>

- To review the operating model and adequacy and effectiveness of resource within Risk and Conduct (including compliance), access to information and independence from management;
- To review and monitor the effectiveness of the Chief Risk Officer.
- To review the independent assurance plans of Risk and Conduct Assurance and consider any findings relating to the adequacy and effectiveness of risk control frameworks and management action being taken in response.

<u>Risk Data Aggregation and Reporting</u>

- To oversee the implementation of the Basel Risk Data Aggregation and Risk Reporting Principles;
- To review the risk data aggregation and risk reporting framework and adequacy of resources deployed and make recommendations to the Board as appropriate; and
- To work with management to determine the risk reporting requirements for the Committee and Board so that they receive the right balance of quantitative and qualitative information.

<u>Models</u>

- To review the processes that control and validate the use of models.

<u>Remuneration</u>

- To provide advice to the Performance and Remuneration Committee ("RemCo") to enable RemCo to consider adjustments to bonuses to reflect risk management;
- To review the annual risk and conduct objectives of Executive Committee members and attendees and recommend these to the RemCo for approval;

- To review the year-end performance of individual Executive Committee members and attendees against risk objectives and advise RemCo of any specific recommendations;
- To consider significant material events/investigations and resulting accountability reviews and to advise the RemCo on robustness of approach. The Risk & Compliance Committee may express a view on appropriateness of the recommendations to the RemCo;
- To review LTIP performance measures to monitor that risk and conduct perspectives are appropriately reflected and to provide recommendations to RemCo;
- To review the effectiveness of conduct and risk management during the LTIP performance period prior to vesting and provide recommendations to RemCo.

<u>Chief Risk Officer</u>

- The Chief Risk Officer ("CRO") will report directly to the Chief Executive, with a dotted reporting line to the Risk & Compliance Committee, and a right of access to the Chairman.
- The Committee will make recommendations to the Board on the appointment of the CRO following recommendation by the CEO and the acceptance, agreement and the specific terms of the resignation or termination of contract for the CRO.
- The Committee Chairman will discuss the remuneration arrangements of the CRO with the Chairman of the RemCo.

<u>Governance and Communication</u>

- To make available its terms of reference, including the Risk & Compliance Committee's role and the authority delegated to it by the Board;
- To describe in the Bank's annual report the work of the Risk & Compliance Committee including:
    - a summary of the role of the Risk & Compliance Committee and its key areas of focus in the reporting period;
    - qualitative disclosures including the type of risk to which the Bank is exposed and how they arise, the Bank's objectives, policies and processes for managing risks, methods used to measure the risks, and changes from the previous reporting period;
    - the scope and outcome of the stress-testing programme;
    - the names and qualifications of all members of the Risk & Compliance Committee during the period;
    - the number of Risk & Compliance Committee meetings; a report on the way the Risk & Compliance Committee has discharged its responsibilities; and whether external advice was taken.

<u>Performance Review</u>

- The Committee will arrange periodic assessments of its own performance and review periodically its terms of reference and recommend any changes to the Board for approval.

Escalation	• The Risk & Compliance Committee will report to the Board, identifying any matters within its remit in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.
Minutes / Reporting	The Committee will maintain Minutes and these will be copied to the Board, together with a verbal report to each meeting of the Committee, as required.
Limitations on Authority	The Committee shall have no authority to commit the company to new areas of business activity other than where delegated to do so by the Board.
Delegated Authority	The Committee is authorised to handle any activity within its Terms of Reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
Review	The Terms of Reference for the Committee will be reviewed annually.

Audit Committee

Terms of Reference

Chairman	• Non-Executive Director
Members	• All other Non-Executive Directors • Member of the Audit Committee shall be appointed by the Board
Attendees	Additional individuals shall be invited to attend any Audit Committee meeting as required, including, but not limited to: • Chief Executive Officer • Chief Financial Officer • Chief Risk Officer • Chief Customer Officer • Chief Development Officer • The External Auditors • The Internal Auditors • General Counsel & Company Secretary
Additional Invitees	• Additional invitees or subject matter experts may be invited to attend or to present papers for approval and noting to the Committee at the request of the Chairman.
Quorum	• Two members, one of whom is the Chairman of the Audit Committee or Chairman of the Risk and Compliance Committee.
Meeting Frequency	• The Audit Committee will meet a minimum of four times per annum, with one of these meetings being held immediately prior to announcement of the annual financial statements to the Board. • Ad hoc meetings can be called, as required, at the request of the Chairman of Audit Committee, an Audit Committee member, the Chief Executive Officer, or the External or Internal Auditors.

Secretary	• Company Secretary
This Committee receives its authority from	• The Audit Committee operates under delegated authority from the Board.
Purpose of this Committee	The Audit Committee will be responsible for:- • Assisting the Board in carrying out their responsibilities relating to assuring the adequacy and effectiveness of the Bank's overall financial governance, control framework and processes, including compliance with legal, regulatory and financial reporting requirements; and • Assisting on such other matters as may be referred to it by the Board.
Scope of this Committee's oversight and responsibility	Review and challenge of the actions and judgements in relation to the financial affairs of the organisation and production of the financial statements before submission to the Board Financial Reporting • To monitor the integrity of the financial statements of the Bank (and any discussion or analysis thereof including annual and interim investor presentations) and any formal announcements relating to the Bank's actual and forecast financial performance, reviewing significant financial reporting judgements contained in them. • To review any unusual items or matters brought to its attention requiring the exercise of managerial judgement affecting the preparation of the statements and announcements. • Where requested by the Board, the Audit Committee to provide advice on whether the annual report and accounts, taken as a whole, is fair balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy. • To provide a forum for the discussion and resolution of areas of disagreement in relation to the statements and announcements, e.g. between management and the External Auditor. Accounting, Financial Reporting and Regulatory Compliance • To review the accounting policies and practices of the Bank, and to consider their compliance with regulatory requirements. • To review the controls and procedures established by management for compliance with regulatory and financial reporting requirements and with the requirements of external regulators. • To monitor the relationship with the Financial Conduct Authority and the Prudential Regulation Authority and other relevant regulatory bodies, including review of the scope and results of work conducted by the Reporting Accountants approved by the Prudential Regulation Authority and Financial Conduct Authority. Standards of Internal Control • To review the arrangements of the Bank's systems of internal controls in relation to financial management, compliance with laws and/or regulations relating to financial reporting or accounting issues and safeguarding of assets. The Audit Committee will also review the procedures for monitoring the effectiveness of such controls;

- To monitor any significant deficiencies and material weaknesses in internal controls and disclosure controls and procedures, as reported by Internal Audit and the External Auditor, and the implementation by management of appropriate remedial action; and
- To review arrangements for the receipt, retention and treatment of complaints:
  - regarding accounting, internal accounting controls or auditing matters;

    or

  - submitted directly to the Chief Executive Officer, the executive team, or the Chairman.

Internal Audit

- To review the Internal Audit Charter for IA.
- To approve the Annual Plan of IA and its budget, with reference to the appropriateness of proposed risk coverage.
- To monitor and review, at least annually, the effectiveness of IA.
- To receive and review a summary of Quality Assurance results.
- To assess and confirm the independence of the IA function.
- To receive and review IA's periodic Opinion, which reports on the overall effectiveness of the governance, risk management and internal control framework; iterative issues; and the adequacy of remediation activity.
- Review and consider any reports issued by the internal auditors and the Bank's internal Risk and Compliance function.
- Ensure the internal auditors have direct access to the Audit Committee Chair and is accountable to the Audit Committee.
- Consider the major recommendation of the internal audit investigations, management responses and any recommendations for improvement made by either the statutory external auditors or internal auditors.

External Audit

- To make recommendations to the Board, to enable it to put forward the Audit Committee's recommendations to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and the removal of the External Auditor.
- To fix the remuneration of the External Auditor as authorised by shareholders.
- To approve the terms of engagement of the External Auditor;
- To resolve any disagreements between management and the External Auditor regarding financial reporting.
- To review the scope and planning of the External Auditor.
- To confirm that, in planning its work, the External Auditor places appropriate reliance on the work of Internal Audit, such that unnecessary overlap is avoided.
- To review reports prepared by the External Auditor, including its annual management letter.
- To review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration all relevant professional and regulatory requirements.
- To review the overall financial relationship between, the Bank and the External Auditor and ensure cooperation with Internal Audit.

Audit and Non-Audit Services Policy

	• To develop and implement policy on the engagement of the External Auditor to supply audit and non-audit services (the "Policy"), taking into account relevant legislation and ethical guidance regarding the provision of audit and non-audit services by the External Auditor. • To consider and approve each audit and non-audit service to be provided by the External Auditor in accordance with the Policy. Governance and Communication • To make available its terms of reference, including the Audit Committee's role and the authority delegated to it by the Board; • To describe in the Bank's annual report the work of the Audit Committee including: - a summary of the role of the Audit Committee; - the names and qualifications of all members of the Audit Committee during the period; - the number of Audit Committee meetings during the period; - a report on the way the Audit Committee has discharged its responsibilities; - a description of the Bank's policy and procedures for the approval of audit and non-audit services and an explanation of how External Auditor objectivity and independence is safeguarded where the External Auditor provides non-audit services; and - a description of the External Auditor's fees and services. Performance Review • To arrange periodic assessments of its own performance and review periodically its terms of reference and recommend any changes to the Board for approval. Other • The Audit Committee may engage, at the Bank's expense, independent counsel and other advisers, as it determines necessary, to carry out its duties. The Audit Committee may also obtain appropriate funding, as it so determines, for payment of compensation to such advisers, to any auditors and for ordinary administrative expenses of the Audit Committee that are necessary or appropriate for carrying out its duties.
Escalation	• The Audit Committee will report to the Board, identifying any matters within its remit in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken. • The minutes of the Audit Committee will be made available to the Board. • The Audit Committee will be informed of risk matters through appropriate representation at the Board Risk Committee.
Minutes / Reporting	The Committee will maintain Minutes and these will be copied to the Board, together with a verbal report to each meeting of the Committee, as required.
Limitations on Authority	The Committee shall have no authority to commit the company to new areas of business activity other than where delegated to do so by the Board.
Delegated Authority	The Committee is authorised to handle any activity within its Terms of Reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

Review	The Terms of Reference for the Committee will be reviewed annually.

Performance & Remuneration Committee

Terms of Reference

Chair	• A Non-executive Director
Members	• Non-executive Directors
Attendees	• Chief Executive Officer • Director of HR • General Counsel
Additional Invitees	As required by Chairman: • Senior representatives from HR, Risk, Finance & Customer Experience • Independent advisers Additional invitees or subject matter experts may be invited to attend or to present papers for approval and noting at the request of the Chair.
Quorum	• Two members
Meeting Frequency	• At least 2 meetings per annum and ad hoc as required
Reports to / authority from	• Board
Purpose of this Committee	• To oversee the establishment and implementation of a remuneration policy for employees and directors, which is designed to support long term business strategy and values of the Bank as well as promote effective risk management and comply with applicable legal and regulatory requirements. • To review performance and approve remuneration arrangements as set out within its Terms of Reference.
Scope of this Committee's oversight and responsibility	<u>Executive Directors</u> • To review and make recommendations to the Board on the Directors' remuneration policy, taking into account business strategy, values and the long-term interests of the Bank, as well as the need to promote effective risk management, and comply with applicable regulation. • To review and make recommendations to the Board in respect of service contracts, performance measures, performance assessment and remuneration arrangements for the Executive Directors. As part of its review of performance measures and assessment, the

Committee will consult and receive advice from the Risk & Compliance Committee, the Culture Committee and the Audit Committee as it considers necessary or appropriate.

- To make recommendations to the Board on any termination payments for Executive Directors leaving, having regard to the terms of the service contract and reasons for termination. The Committee will ensure that any proposals relating to such payments made are fair and reasonable and recognise that failure is not rewarded and the duty to mitigate loss.

Material Risk Takers

- To approve the framework and principles that govern remuneration arrangements for MRTs who fall outside of the ExCo/High Earner population.

Bank-wide Population

- To review and approve remuneration arrangements for any individuals who fall outside of the ExCo/High Earner populations or otherwise delegate such authority to any of its members, attendees or management, as appropriate.
- To review annually and approve the Bank Remuneration Policy (including the design principles for short term incentives) taking into account any applicable regulatory requirements and other relevant guidance.
- To review and approve annual bonus pool proposals for the Bank franchises and functions, ensuring they are appropriately performance and risk adjusted. As part of the review, RemCo will consult and receive advice from the Risk & Compliance Committee, the Culture Committee, and the Audit Committee as it considers necessary or appropriate.

Review of Effectiveness of Remuneration Policy Implementation

- To determine whether an appropriate level of risk management/adjustment has been applied in connection with:
  - the setting, and assessment, of performance measures for Executive Directors
  - bonus awards
  - the assessment of vesting levels relating to LTIP awards;
- As part of the above determinations, RemCo will consult and receive advice from the Risk and Compliance Committee, the Audit Committee, the Culture Committee and the HR Function, as it considers necessary or appropriate.

- To review annually a report from management on the operation and effectiveness of the Bank Remuneration Policy.

Reporting and Disclosure

- To report to the Board after each meeting on all material issues discussed.
- To approve the Remuneration Report to Group shareholders which forms part of the Annual Report and Accounts and includes the Directors' Remuneration Policy.
- To consider and make recommendations to the Board on remuneration related shareholder resolutions.
- To be prepared, through the RemCo Chairman, to answer questions at the Annual General Meeting which relate to any matter within the remit of RemCo.
- To engage, as appropriate through the RemCo Chairman, with key stakeholders on remuneration issues.

Regulatory

- To approve the annual Remuneration Policy Statement ("RPS") to be submitted to the Prudential Regulation Authority ("PRA"). The RemCo Chairman will be available to meet with the PRA and the Financial Conduct Authority to discuss the RPS and other remuneration related matters.
- To review any other significant remuneration disclosures or notifications as required by regulation from time to time.

Performance Review

- To arrange periodic assessments of its own performance.
- To review annually these Terms of Reference and recommend any changes to the Board for approval.

External Advice

To engage, at the expense of the Bank, any external advisers, as it determines necessary, to carry out its duties.

Minutes / Reporting	The Committee will maintain Minutes and these will be copied to the Board, together with a verbal report to each meeting of the Committee, as required.
Limitations on Authority	The Committee shall have no authority to commit the company to new areas of business activity other than where delegated to do so by the Board.
Delegated Authority	The Committee is authorised to handle any activity within its Terms of Reference. It is authorised to seek any information it requires

	from any employee and all employees are directed to co-operate with any request made by the Committee.
Review	The Terms of Reference for the Committee will be reviewed annually.

Nominations & Governance Committee

Terms of Reference

Chair	Vice Chair of the Board or, in his absence, the Chair of the Board. The Chair will chair the Committee when it is dealing with the appointment of a successor to the Vice- Chair as chair of the Committee.
Members	All Non-Executive Directors
Attendees	Chief Executive Officer Director of HR General Counsel / Company Secretary
Additional Invitees	Other individuals may attend at the request of the Chairman.
Quorum	Two members, one of whom must be the Chairman or Vice Chairman.
Meeting Frequency	Two committee meetings a year
Reports to	The Board
Purpose of this Committee	The Nominations and Governance Committee will be responsible for: 1. Considering and making recommendations to the Board in respect of appointments to the Board. In addition, the Committee will make recommendations in respect of membership and chairmanship of Board Committees. 2. Monitoring the governance arrangements of the Bank and making recommendations to the Bank to ensure that such arrangements are consistent with best corporate governance standards and developing best practice. 3. Considering and making recommendations to the Board in respect of regulatory and strategic developments relevant to the markets in which the Bank operates.
Scope of this Committee's oversight and responsibility	1. To review regularly and keep the structure, size and composition of the Board under review, and make recommendations to the Board in relation to any necessary changes, having regard to the overall balance of skills, knowledge, experience and diversity on the Board.

2. To consider Board succession planning, having regard to the balance of skills, knowledge, experience and diversity needed on the Board in the future.

3. To prepare a description of the role and capabilities required for each particular Board appointment, following an evaluation of the balance of skills, knowledge and experience and diversity on the Board.

4 To lead the selection process for new directors, establishing appropriate criteria and recommending suitable candidates to the Board. Prior to making such recommendation, the chairman of any Board Committee(s) that it is proposed for the candidate to join shall be invited to meet the candidate.

5. To review periodically, and at least every three years, the structure, membership and chairmanship of Board Committees. When considering succession in relation to Board Committee chairmen, the incumbent chairman of the relevant Committee shall be consulted.

6. To make recommendations to the Board concerning renewal of terms of office of non-executive Directors after six years.

7. To make recommendations to the Board concerning re-election of directors under the UK Corporate Governance Code, having due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.

8. To monitor governance arrangements to ensure that they remain appropriate by reference to best practices in corporate governance (having regard to relevant legislation, guidelines and industry practice).

9. To make recommendations to the Board on the Bank's governance arrangements, including the establishment of policies and practices to allow the Bank to operate effectively and efficiently.

10. To oversee the arrangements for ensuring that the Directors fulfil their responsibilities under the Senior Managers Regime and make recommendations to the Board.

11. To oversee the induction, training and continuous professional development of Directors.

12. To oversee the annual evaluation of the performance of the Board and the implementation of any resulting action plan.

13. To develop a Board's diversity policy, and to review and monitor its implementation.

	14. To review and recommend to the Board for approval any corporate governance materials for inclusion in public disclosures or regulatory responses (including the Corporate Governance Report and description of the work of this Committee in the Group's annual report and accounts).
Minutes / Reporting	The Committee will maintain Minutes and these will be copied to the Board, together with a verbal report to each meeting of the Committee, as required.
Limitations on Authority	The Committee shall have no authority to commit the company to new areas of business activity other than where delegated to do so by the Board.
Delegated Authority	The Committee is authorised to handle any activity within its Terms of Reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
Review	The Terms of Reference for the Committee will be reviewed annually.

Culture Committee
Terms of Reference

Chair	Non-Executive Director
Members	All Executive and Non-Executive Directors
Core Attendees	General Counsel Director of HR Customer Experience Director Head of Marketing Core attendees will attend all CC meetings including the stakeholder engagement sessions.
Additional Invitees	Other staff members whose skills and responsibilities are relevant to the session will be invited to attend relevant sessions. External stakeholders will be invited to participate in the stakeholder engagement sessions.
Quorum	Two members.
Meeting Frequency	Two committee meetings a year Two stakeholder engagement sessions a year – format will vary with objectives, rationale and stakeholders One stakeholder engagement session each year will be a staff meeting
Reports to / authority derived from	Board
Purpose	To be the conscience of the Bank and the advocate of the stated corporate vision and purpose "To be the most human bank". It will provide the Board with recommendations and assurances around how well the Bank are acting to deliver that vision. It will support the Board in actions taken to operate as a responsible business with that purpose, capable of generating long term value for all stakeholders through a focus on customer, culture, people, brand and ethical, social and environmental (ESE) issues.
Scope of oversight and responsibility	The key areas CC will focus on are: **Customer** Oversee customer experience priorities including receiving reports on key customer metrics. Consider how the Bank is supporting and engaging with key customer segments, and actions being taken by management

	to ensure the Bank is listening to customers and meeting their needs. Oversee progress being made against competition to achieve the long term objectives for customer experience. **Culture** Receive updates on actions to drive the CCB culture, and monitor/challenge the progress on embedding plans. Oversee standards of competence and professionalism. **Brand** Oversee the action taken by management to implement the brand strategy aligning to our purpose and values and reflecting our cultural and strategic priorities. Oversee actions being taken by management to manage the Bank's reputation. **People** Develop and oversee employee initiatives to ensure the workforce is diverse and feels equipped, valued and encouraged. **ESE Issues** Receive reports on managing ESE risk. Consider sustainability reporting and disclosure. Engage with key internal and external stakeholder groups on topics and themes aligned with the sustainable banking agenda. Consider how the Bank is operating in its communities aligned with themes it has selected such as local enterprise and education. Consider the Bank's environmental footprint and impacts on long term sustainability. Consider activities being undertaken to support the environmental/societal agenda of the Bank
Minutes / Reporting	The Committee will maintain Minutes and these will be copied to the Board, together with a verbal report to each meeting of the Committee, as required.
Limitations on Authority	The Committee shall have no authority to commit the company to new areas of business activity other than where delegated to do so by the Board.
Delegated Authority	The Committee is authorised to handle any activity within its Terms of Reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
Review	The Terms of Reference for the Committee will be reviewed annually.