Cambridge & Counties Bank Limited

Capital Requirements Directive

Pillar 3 Disclosures

31 December 2019

Cambridge & Counties Bank
Growing business together

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1. Executive Summary

1.1. Introduction

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 (PRA), regulated by the Financial Conduct Authority (FCA) and the PRA, and registered under the Financial Services Compensation Scheme.

The Bank does not have any subsidiaries.

Target Markets

Lending

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

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

Deposits

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

Distribution Network

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

Financial performance

Full details on the Bank's financial results are reported in its statutory accounts which are published on its website (https://ccbank.co.uk/about-us/annualresults/). For the year ended 31 December 2019, the Bank had operating income of £43.0m and reported profit before tax of £22.5m. Total capital at 31 December 2019 was £142.3m. The Bank employed an average of 149 FTE employees during the year.

1.2. Purpose

The Pillar 3 disclosures on capital and risk management at 31 December 2019, have two principal purposes:

- To provide information on the policies and approach taken by Cambridge & Counties Bank to risk management and the maintenance of its capital resources, including details of:
  - The governance structure of the Bank; and
  - Detailed information concerning 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 PRA.

Some disclosures are included in the Annual Report and Financial Statements and are not repeated in the Pillar 3 disclosures.

2. Introduction

2.1. Legislative Framework

Cambridge & Counties Bank is subject to the European Union Capital Requirements Directive (CRD) and Capital Requirements Regulations (CRR) implemented on 01 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 three 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 risk.

Pillar 2

To calculate its Pillar 2 capital requirements the Bank 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 Supervisory Review and Evaluation Process.

Pillar 3

Pillar 3 complements Pillar 1 and Pillar 2 and sets out the disclosures that banks are required to make in order to promote market discipline through the external disclosure of its governance, capital resources, risk management objectives, remuneration 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 2018) following an update of the Pillar 3 requirements by the Basel Committee in January 2015 (update March 2018 and further consultation February 2019). These guidelines apply from 31 December 2018. The EBA guidelines advise that some disclosures are only required by global systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs), however the Bank has implemented the EBA guidelines where appropriate and proportionate to the business in line with best practice. The EBA also issue guidelines on disclosures on particular themes and these disclosure requirements have been incorporated into this document where appropriate.

The table below sets out where each table is presented.

EBA Template	Description	Location in document
-	Own Funds	Section 6
-	Leverage ratio	Section 6.2
1	EU LI – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories	Section 12
2	EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements	Section 12
3	EU LI3 – Outline of the differences in the scope of consolidation	CCB is a solo entity – Template is not applicable
4	EU OV1 – Overview of RWAs	Section 7.1
5	EU CR10 – IRB	CCB uses the standardised approach – Template 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	Section 12
8	EU CRB-C – Geographical breakdown of exposures	Section 12
9	EU CRB-D – Concentration of exposures by industry or counterparty types	Section 12
10	EU CRB-E - Maturity of exposures	Section 12
11	EU CR1-A – Credit quality of exposures by exposure class and instrument	Section 12
12	EU CR1-B – Credit quality of exposure by industry or counterparty types	Section 13
13	EU CR1-C- Credit Quality of exposures by geography	Section 13
14	EU CR1-D- Ageing of past-due exposures	Section 13
15	EU CR1 – E – Non-performing and forborne exposures	Section 13
16	EU CR2-A- Changes in the stock of specific credit risk	Section 13
17	EU CR2-B- Changes in the stock of defaulted and impaired loans and debt securities	Section 13
18	EU CR3-CRM techniques – Overview	Section 13
19	EU CR4 – Standardised approach – Credit risk exposure and CRM effects	Section 13
20	EU CR5 – Standardised approach	Section 13
21-24	IRB approach	CCB uses the standardised approach – Template not applicable
25	EU CCR1 – Analysis of CCR exposure by approach	Section 14
26	EU CCR2 - CVA capital charge	Section 14
27	EU CCR8 - Exposures to CCPs	Section 14
28	EU CCR3 – Standardised approach – CCR exposure by regulatory portfolio and risk	Section 8.4
29-30	IRB / IMM templates	CCB does not use IRB/IMM approach – Template not applicable
31	EU CCR-5A – Impact of netting and collateral held on exposure values	Section 8.4
32	EU CCR5-B- Composition of collateral for exposures to CCR	Not applicable as no collateral for CCR exposures.
33	EU CCR6 – Credit derivatives exposures	Not applicable as no credit derivatives exposures.
34-38	Market risk templates	Not applicable as CCB does not have a trading book and therefore no market risk
	LRSum : Summary reconciliation of accounting assets and leverage ratio exposures	Section 6.2
	LRCom: Leverage ratio common disclosure	Section 6.2
	LRSpl: Split-up of on balance sheet exposures	Section 6.2
	IFRS 9 Transition Template	Section 6.3
	Liquidity Coverage Ratio	Section 11

2.2. Scope of Application

All the figures, governance, objectives and policies included within this document are as at 31 December 2019 (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 2019. 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 2019 financial statements. The processes for preparing this disclosure are laid out in the Bank's Pillar 3 Disclosures policy.

Cambridge & Counties Bank Limited is not part of a group of companies and does not have any subsidiaries. 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.

2.3. Reporting

The Bank's management pack contains details of key capital and liquidity metrics and is reported monthly to the Board. The Assets & Liabilities Committee (ALCO) and Risk & Compliance Committee (RCC) consider a more detailed range of capital and liquidity metrics on a monthly basis. Management also receive daily metrics. The Bank takes appropriate actions if triggers are breached.

2.4. Publication

The disclosures are published on the Bank's website: https://ccbank.co.uk

2.5. Policy, Verification, Sign Off and Contact Details

The Bank's Pillar 3 disclosures have been verified and approved through internal governance procedures in line with the Bank's Pillar 3 Disclosure Policy. The Board reviewed and approved the disclosures in April 2020.

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Leicester
LE1 6TE

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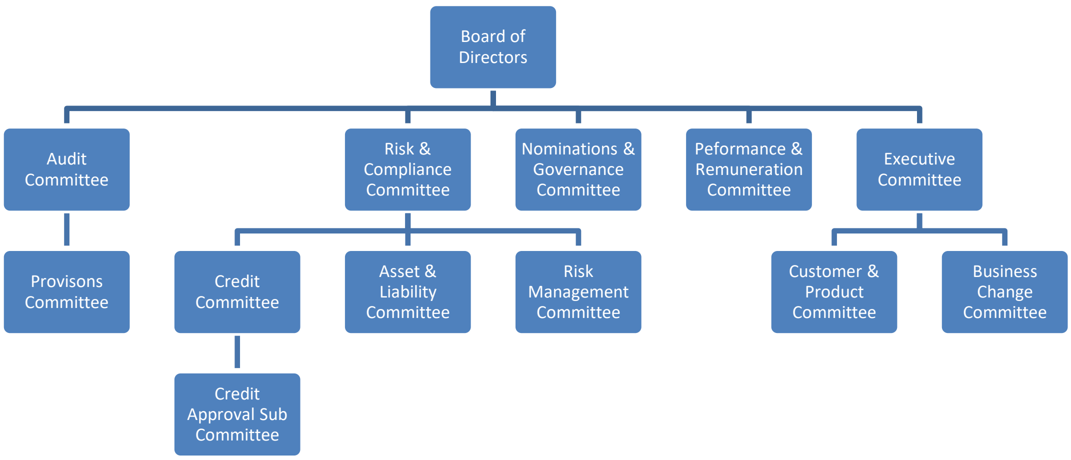
3. Governance and Committees

The Bank has an established and fit for purpose governance structure, supported by experienced Directors and Non-Executive Directors. The Bank's 'Board Governance and Control Policy' serves as an introductory guide to governance at the Bank and outlines the core responsibilities of the Board of Directors ("The Board"), the Non-Executive Directors ("NEDs") and the Executive Directors ("EDs"). This is included in the appendix.

The overall governance framework establishes a set of relationships between the Bank's Board, shareholders, management and other relevant stakeholders. The framework details the structure by which the Bank sets its strategic objectives, implements effective actions to ensure these objectives are achieved and conducts appropriate monitoring and challenge of performance. The Bank regulatory reviews its governance framework to ensure that it meets regulatory requirements including the UK Corporate Code and the EBA guidelines on internal governance.

Key to an effective governance structure is ensuring that the Bank has the appropriate delegation of authority, responsibility and decision making from Board level downwards. The Board are supported by several Board level committees, along with Executive level committees and further sub-committees where these are considered appropriate and beneficial.

During 2019, the Bank made changes to its committee structure to further enhance and support its governance with the creation of three new committees; Business Change Committee, Risk Management Committee and Credit Approval Sub-Committee. The Business Change Committee was introduced as part of the Bank's strategy to improve its change management and transformation capability by creating one committee with a holistic view of the Bank's change agenda. The Credit Approval Sub-Committee was established to focus on credit approvals allowing its parent committee, the Credit Committee, to focus on the Bank's credit risk and the Risk Management Committee was introduced to provide management oversight of the Bank's risks that were not considered at any other committee. The current (as at January 2020) committee structure of the Bank is as follows:



The Bank's Board comprises both experienced EDs and NEDs, each of whom have the relevant knowledge, skills and experience to ensure that the Board is working towards the delivery of its strategy. The NEDs provide effective challenge and oversight of the Board, working alongside the EDs to ensure that decisions regarding the future of the Bank are well informed and made in the interests of all relevant shareholders and stakeholders.

Cambridge & Counties Bank has five Executive (the appointment of the CRO as an Executive Director is at the time of writing pending regulatory approval) and six Non-Executive Directors. A summary of their experience and confirmation of any other directorships is disclosed on the Bank's website (https://ccbank.co.uk/about-us/our-directors/) in carrying out the duties of the Board, the Directors will act in accordance with all relevant and applicable legislative and regulatory rules. The Directors take into account the Directors' Duties contained in the Companies Act 2006 and the factors listed in Section 172 of the Companies Act 2006 and any other relevant requirements.

Information about the Bank's recruitment approach, including diversity, can also be found on the Bank's website (https://ccbank.co.uk/about-us/careers/).

The table below outlines the purpose and key responsibilities (as delegated by the Board) and Chairs with which each committee meets. The Bank reviews the committee structure on an ongoing basis to ensure that it remains fit for purpose and maximises the effective decision-making ability of the Board.

Committee	Chair	Purpose / Responsibilities relating to Risk Management
Board	Chairman (Simon Moore) or the Vice Chair (Paul ffolkes Davis)	• Ensuring the framework of prudent and effective controls and risk management is maintained; • Review of the effectiveness of the risk and control processes to support the Bank's strategy and objectives; • Approval of regulatory documents including the Risk Appetites, ICAAP, ILAAP.
Audit	Ian Smith: NED	• 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; • The appointment of internal and external audit and assessment of effectiveness.
Risk & Compliance	Nick Treble; NED	• 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; • Compliance with legal and regulatory requirements; • Assisting on such other matters as may be referred to it by the Board; • Promoting a risk awareness culture within the Bank; • Providing oversight of the Bank's risk and compliance functions and to receive and review reports on the Bank's compliance (including Anti-Money Laundering) with financial services regulations.
Performance & Remuneration	Caroline Fawcett; NED	• Overseeing 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 promoting effective risk management and compliance with applicable legal and regulatory requirements; • Reviewing performance and approval of remuneration arrangements as set out within its Terms of Reference.
Nominations & Governance	Vice Chair (Paul ffolkes Davis)	• To consider and make recommendations in respect of appointments to the Board as well as the membership and chairmanship of Board Committees. • To monitor the governance arrangements of the Bank making recommendations to ensure that such arrangements are consistent with best corporate governance standards and to develop best practice.
Executive	Chief Executive Officer	• Implementation of the strategic objectives of the Bank in accordance with the Strategic Plan and compliance with the Company's Budget and Risk Appetite; • All day to day operational issues of the Bank which are delegated to the Business Management group; • Reviewing draft Board papers and recommending for submission to Board; • Approving the Terms of Reference and responsibilities of the Business Management Group and the Customer & Product Committee and receive Minutes from these committees;

Committee	Chair	Purpose / Responsibilities relating to Risk Management
		• Ensuring all responsibilities are undertaken with due consideration given to the Bank's Strategic Plan, Board approved policies and good customer outcomes.
Assets & Liability (ALCO)	Chief Financial Officer (CFO)	• Control and stewardship of the Bank's balance sheet risks and capital management in executing its chosen business strategy; • Setting of limits in line with the Board's risk appetite, monitoring exposures and implementing controls across the dimensions of capital, credit, FX, funding and liquidity, and non-traded interest rate risk.
Risk Management	Chief Risk Officer (CRO)	• To oversee and monitor the risks (other than Liquidity, Capital, ALM or Credit risks) facing the Bank on a day-to-day basis • Specific responsibilities include operational risk, financial crime, conduct risk, operational resilience, legal risk and regulation. • Its key role is to provide the oversight, challenge, support and advice necessary to embed and maintain a robust risk management culture across the Bank. • To ensure that the Bank maintains an appropriate risk management culture and an effective Risk Management Framework • To review the findings of Risk & Compliance reviews and monitoring the remediation of outstanding action items • Oversight of the remediation of Internal Audit findings
Customer & Product	Chief Customer Officer	• Oversight of customer outcomes that result from Bank operations, as well as the suite of products offered, including the product design, pricing, performance and customer suitability.
Business Change	Head of Business Change	• To manage the effective delivery of the business change agenda Including the people side of change. • To prioritise the CCB Change Programme to align with business priorities and ensuring delivery to agreed timescales, scope, budget and available resources. • To assess all new business investment cases and change requests, ensuring that they are aligned with strategic business objectives and tactical priorities. • To ensure benefits realisation as a result of change investments. • Assessment, approval or recommendation of significant changes to inflight Projects. • Management of the overall risks of the CCB Change programme within acceptable appetite, including people risks of change.
Credit	Chief Lending Officer	• Manage and monitor the lending activities of the Bank on a day-to-day basis. • Formulating the Bank's lending policies, overseeing the Bank's solicitor and valuation panels and monitoring the Bank's large exposures. The committee are also responsible for agreeing the Bank's standard facility letters and terms. • Monitor current and potential non-performing lending on an on-going basis, for the purpose of identifying and agreeing appropriate provisions for under-recoveries on those loans; • Responsibility for the ongoing oversight and management of current and potential non-performing loans lies with the Credit Committee.
Provisions	Chief Financial Officer (CFO)	• The purpose of the Committee is to monitor current and potential non-performing lending on an on-going basis, for the purposes of identifying and agreeing appropriate provisions for under-recoveries on those loans. • Responsibility for the ongoing oversight and management of current and potential non-performing loans lies with the Credit Committee.

4. Risk Management Objectives and Policies

4.1. Introduction

The Bank is committed to risk management. This is achieved through the maintenance of appropriate risk strategies, frameworks, organisational structures and governance, plus embedding a strong risk culture embedded throughout the organisation.

The following chapter covers the key elements of the Bank's approach to risk management:

- The Risk Strategy
- The Risk Management Framework
- The Risk Appetite Framework
- The Basis of Risk Monitoring and Reporting
- The Principle Risk Categories and how they are managed

4.2. Risk Strategy

Risk management is at the heart of the Bank's strategic objectives, both as an end in itself and to facilitate the 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 Bank's strategy is to concentrate its lending and deposit taking activities in those areas where it has experienced subject matter experts, both in the first and second line of defence. It will also restrict its product offering to those activities where the Bank has the necessary operational capacity, systems and infrastructure to effectively manage and monitor the loans throughout their life cycle.

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

Risk management within the Bank is ultimately owned by the Board of Directors although, on a day to day basis, is delegated to the Chief Risk Officer and the wider Executive Management team. The philosophy of the Bank is that all members of staff have a responsibility for risk, supported by a dedicated Risk Function. A three lines of defence model is used to support Risk Management along with a range of Board and Management governance committees, including the Board, Risk & Compliance Committee, Risk Management Committee, Credit Committee and the Asset & Liability Committee (see the diagram in the Corporate Governance section on page 9 for details).

The Bank operates a robust Risk Management Framework, via which the risks to which it is exposed are identified, monitored and mitigated effectively. In addition to ongoing review embedded across the lines of defence (see below), this includes an annual review of the Bank's Strategy from a risk perspective and annual refresh of its Risk Appetite and Top and Emerging Risks (the latter evaluated via a workshop process for the first time in 2019).

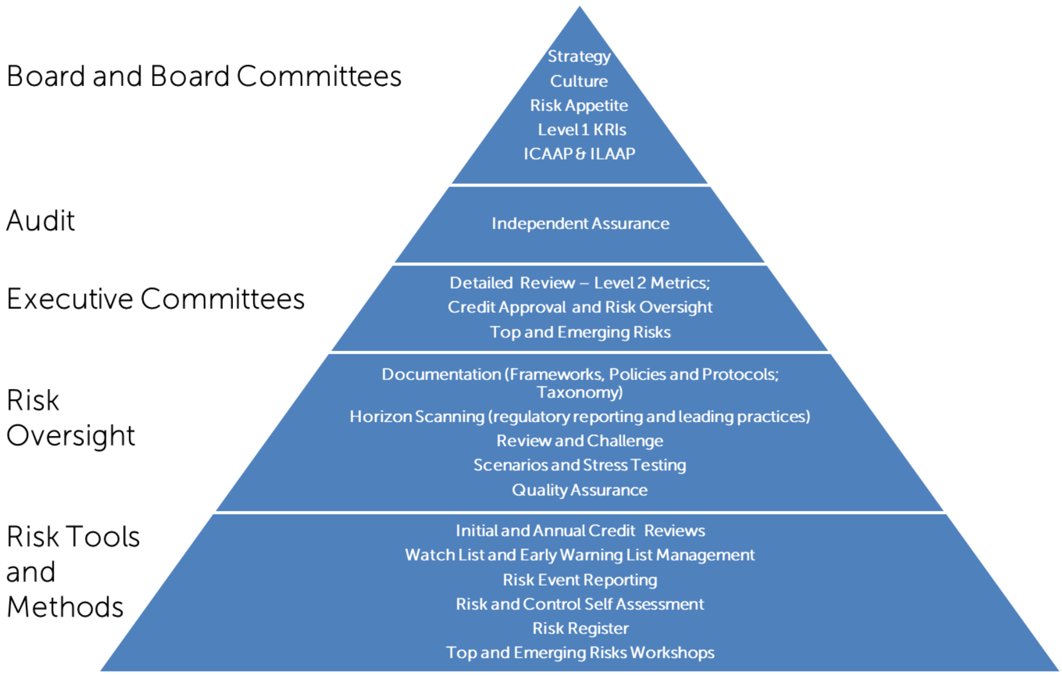
The Board's risk strategy is reflected in its Risk Appetite Statements document (RAS). This is supported by a range of quantitative Key Risk Indicators (KRIs), Risk Metrics (RMs) and Early Warning Indicators (EWIs). Together, these describe the amount of each risk type that the Bank is willing to take in pursuit of its strategic objectives.

The key elements of the Risk Management Framework are summarised below, including ensuring that the Bank sets aside a sufficient amount of capital to cover the identified risks via input to, and review of, the Bank's ICAAP and ensuring that accurate reporting is provided on an ongoing basis to reflect the Bank's risk profile and enable the Board to require management action to be taken should deterioration and/or non-compliance with appetite be detected, including consideration of the impact on capital requirements via the ICAAP process.

4.3. The Risk Management Framework

The Bank's governance structure is summarised above. Risks are reported to the appropriate executive level committee as set out above, with the remit of the committees included in section 3. This ensures that the appropriate level of scrutiny is applied, and risks are escalated appropriately to ensure that the Bank remains within its stated Risk Appetite.

The Risk Management Framework includes the following elements specifically designed to monitor risk:



The principles underlying the Bank's Risk Management Framework are:

- Governance is maintained through the effective delegation of authority from the Board down through the committee and management hierarchy to individuals;
- Risk management supports the safe delivery of the Bank's strategic plan and objectives;
- Risk management is based on a Three Lines of Defence model in which business management own and report on the risks assumed throughout the Bank and are responsible for ensuring that these are managed and controlled on a day-to-day basis - hence leveraging their specific business and risk expertise;
- The Board and business management are engaged in and promote a culture in which risks are identified, assessed and reported in an open, transparent and objective manner;
- The second line of defence (the Risk & Compliance function) is independent of the businesses and provide both oversight and challenge; and support and advice on the management of risk across the businesses;

- Risk mitigation and control activities are commensurate with the degree of risk and proportionate to the scale and complexity of the Bank's business activities; accordingly, they are capable of evolving with the business; and
- Risk management should not inhibit sensible risk taking that is critical to the Bank's success; rather it should enhance decision-making and ensure that emerging risks are identified and addressed as they arise.

The Bank's risk management, internal systems and controls encompass policies, culture, organisation, behaviours, procedures, processes and management information that together:

- Facilitate effective and efficient operations by enabling it to identify and assess current and emerging risks and understand the drivers of these;
- Allow the Bank to respond quickly, proportionately and appropriately to risks and associated control failures;
- Help reduce the likelihood and impact of poor decision-making, excessive risk-taking, human error, or deliberate circumvention of the control environment;
- Ensure the timeliness, accuracy and completeness of data and associated management information and reporting; and
- Help ensure compliance with applicable laws and regulation and internal policies.

In addition, the Risk Management framework incorporates the key tools available to the Business Areas and the Risk & Compliance function when assessing risks.

4.4. The Three Lines of Defence

The Bank manages risk using the 'three lines of defence' model, via which clear responsibilities are established for all staff in relation to risk management. It operates as follows:

Line of Defence	1st	2nd	3rd
	• Own the risk • Manage on a day to day basis • Design, implement and maintain effective controls • Align strategy with, and monitor exposure against, risk appetite • Ensure adequate resources, tools and training in place • Promote and maintain an appropriate risk culture	• Establish and communicate framework, including governance structure and appropriate documentation • Provide oversight, review and challenge to the first line via review, enquiry and discussion • Report/escalate to executive management and the Board • Facilitate the development of risk appetite, risk tools and training	• Verify independently that the framework is operating effectively • Validate the first and second line approach to risk management • Assess against regulatory developments and leading practices
Governance Committee	ExCo, ALCO, Customer & Product Co Board	RCC, RMC, Credit Committee	Audit Committee

	First Line of Defence	Second Line of Defence	Third Line of Defence
	The Business	**Risk & Compliance**	**Internal & External Audit**
Function	Ownership, responsibility and accountability for risks and controls	Monitors and facilitates the implementation of effective risk management. Provides oversight & challenge, support & advice	Provides assurance of: (i) First and second line risk management (ii) Regulatory interpretation and reporting
Embedding	The Board, via the CEO delegates to business heads day-to-day responsibility for risk management, regulatory compliance, internal control and conduct in running their business areas	The Board Risk & Compliance Committee delegates to the Chief Risk Officer day-to-day responsibility for oversight and challenge to provide assurance on the management of risk	Internal and External Audit execute independent reviews to test that controls are working effectively and remain up-to-date with current regulation

The specific responsibilities of each line of defence, including those of the Money Laundering Reporting Officer and the Data Protection Officer, are articulated in the Risk Management Policy.

First Line of Defence

Business lines are responsible for the assessment and management of the risks to which they are exposed, on a day to day basis. They have primary responsibility for identifying, measuring, monitoring, managing and controlling risks within their area of accountability. They are required to establish effective governance and control frameworks (including implementing effective systems and controls) that are compliant with Bank policies, their legal and regulatory obligations, and sound market practice; and which ensure that the Bank remains within its defined risk appetite. This includes producing Key Risk Indicators ('KRIs'), committee and Board reporting, ensuring that staff are adequately trained and the executives and senior managers providing leadership of the governance of risk as members of the relevant risk committees.

Second Line of Defence

The Risk & Compliance Function is a centralised and independent department that provides oversight and challenge of the management of risk by the business areas; and support and advice to the business areas with respect to the risk-based decisions made, the control environment established (including Bank policies), regulatory application and compliance, and the rectification of identified areas of weakness. In addition, the function is responsible for reporting performance against risk appetites to the Risk & Compliance Committee.

The Risk & Compliance Function monitor the adequacy and effectiveness of internal control, accuracy and completeness of both internal and external reporting, compliance with laws, regulations and policies; and timely remediation of identified deficiencies. This is achieved through the use of a number of tools that are central to the Risk Management Framework; namely:

- Risk Registers / Risk Taxonomy;
- Risk & Control Self Assessments;
- Risk Event and Internal Loss Registers;
- Risk Management Information (Key Risk Indicators, Risk Metrics and Early Warning indicators);
- Risk and Compliance Reviews;
- Risk Reporting;
- Credit Quality Assurance; and,

- Risk and Compliance Training.

A key role of the Risk & Compliance Function is also to provide challenge to the Bank's own assessments of its viability and solvency risk; including oversight of the ICAAP, ILAAP, Liquidity Contingency Plan and the Recovery Plan, together with the Pillar 3 Disclosures.

Third Line of Defence

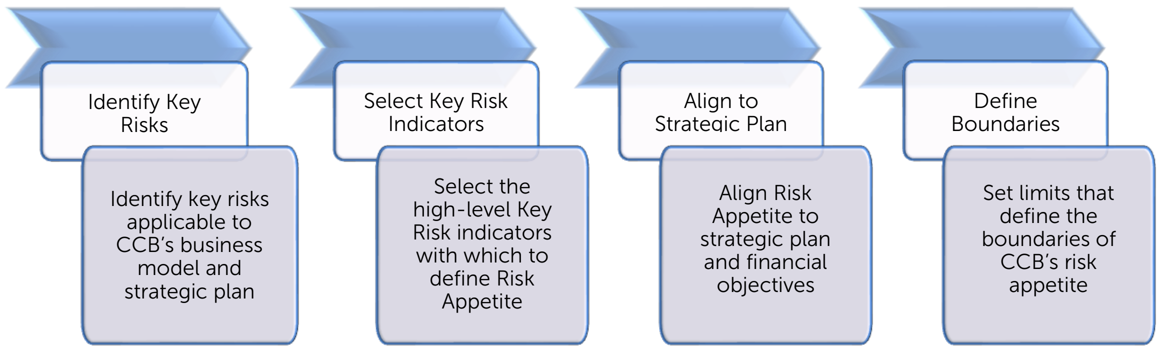
Internal audit is outsourced to Deloitte who are responsible for providing independent and objective assurance that the Bank's risk and control environment and regulatory application and compliance is working effectively and for making recommendations that improve the efficiency and effectiveness of the Bank's systems and controls. Additionally, it is expected that Deloitte provide insights to changing regulation and market practices.

KPMG, as the Bank's external auditors, are responsible for providing an independent validation of the Bank's financial performance and that it represents a true and fair view in all material aspects of its financial position consistent with prevailing accounting principles.

4.5. Risk Appetite Introduction

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

The Chief Risk Officer (CRO), in conjunction with the Executives, is responsible for interpreting the Board's Risk Appetite and recording it within Appetite Statements. The process for defining the Bank's Risk Appetite is illustrated in the diagram below:



In determining the boundaries, the Executive Committee and Board consider:

- The strategic objectives and financial performance measures as set out in the latest Strategic Plan;
- The current risk capacity as determined from the monitoring of capital and liquidity against the regulatory requirements, as well as those identified from the Banks's own ICAAP and ILAAP;
- The risk control and risk mitigation capability, guided by the risk management reports, historical financial performance and loss history; and
- The current economic and political environment.

Stress testing and scenario analysis are also used to access the financial and management capacity of the Bank to continue operating effectively under extreme but plausible (idiosyncratic and market wide) conditions.

4.6. Policies, Protocols and Procedures

Each Risk Appetite Statement should be reflected in the associated policy or protocol (Policies). The Statements will include Key Risk Indicators and form the basis of the additional Risk Metrics and Early Warning Indictors recorded in these documents. The Statements will also determine the more granular rules and guidelines, contained in the policies that must be followed to ensure compliance with the Risk Appetite. Policy Owners must ensure their policies are up-to-date and reflect the Risk Appetite Statement. Each business area manager must ensure that their procedures and processes reflect the Policies.

4.7. The Basis of Risk Monitoring and Reporting

Risk Indicators and Metrics

In defining the Board's risk appetite, wherever possible credible qualitative statements are supported by hard quantitative metrics; allowing management and the Executives to monitor the Bank's alignment with its Risk Appetite in a clear, objective manner.
The Bank has adopted a tiered structure of risk indicators and metrics.

Tier 1 - Recovery & Liquidity Contingency Plan Indicators

The Board has identified certain Key Risk Indicators as Liquidity Contingency Plan and Recovery Plan Indicators. These are referred to as "Tier 1 Indicators". They are considered as being the most relevant in determining whether the Bank needs to trigger its Liquidity Contingency Plan or Recovery Plan as they show:

- when the Bank could be approaching a Financial Stress;
- whether the Bank retains adequate liquidity resources;
- whether internal risks or the external environment threaten the Bank's viability.

The Bank's Recovery Plan Indicators are based on the EBA guidelines on Recovery Planning[1]..

[1] EBA-GL-2015-02 Guidelines on the minimum list of qualitative and quantitative recovery plan indicators 23 July 2015.

Tier 1 metrics are monitored using a Red / Amber / Yellow / Green (RAYG) status. The escalation mechanism is summarised in the table below.

Tier 2 - Key Risk Indicators (KRIs)

In addition to Tier 1 indicators, the Risk Appetite Statements also include Tier 2 Key Risk Indicators. These Key Risk Indicators are measures that assist in assessing whether the Bank is operating within the boundaries of its defined risk appetites. The escalation of issues dependant on the severity of the RAYG status is similar to the Tier 1 metrics.

Early Warning Indicators (EWIs)

Early Warning Indicators are measures that could be an indicator of potential future problems e.g. national or regional house prices. Internal EWIs are those that can be influenced directly or indirectly by the actions of the Executive and the Management. External EWIs are those indicators which reflect the prevailing economic and political climate. Although these external indicators are outside of the control of the Bank (e.g. The UK Bank Base Rate) their prevailing level is the basis of assumptions within the Bank's plans. The Board and the Executive are vigilant to unexpected movements or trends.

Monitoring of Risk Indicators and Metrics

Risk Indicators and Metrics are monitored daily or monthly (as appropriate) by the Risk & Compliance Function. When the absolute value or trend predicts a potential issue, the necessary and appropriate actions are taken.

Action in the Event of a Breach of the Liquidity Risk Appetite or Risk Metrics

The actions to be taken when Tier 1, 2 or 3 indicators have been reached are summarised in the table below.

<table>
<tr><td>Colour Code</td><td>ALL INDICATORS
Business as Usual</td><td>ALL INDICATORS
Potential Increase in Risk</td><td colspan="2">ALL INDICATORS
Approaching Risk Appetite</td><td>TIER 2 INDICATORS
Potential Breach of Risk Appetite</td><td>TIER 1 INDICATORS
Potential Invocation Trigger Point (ITPs)</td></tr>
<tr><td>Governance</td><td>ALCO</td><td>RCC</td><td colspan="2">RCC</td><td>RCC & Board</td><td>RCC & Board</td></tr>
<tr><td>Indicator Status</td><td>The Bank is generally operating within the boundaries expected in a business as usual environment</td><td>The Bank is outside the boundaries within which it normally operates, with a potential increase in Risk</td><td colspan="2">Risk Appetites / ITPs are in danger of being breached. The Bank is operating outside of acceptable boundaries</td><td>Risk Appetite Limits may be breached. The Bank is exposed to a level of risk that may not be acceptable by the Board</td><td>The Recovery Plan Invocation Trigger point may have been reached. The Bank may be exposed to a capital, liquidity or operational crisis</td></tr>
<tr><td>Action</td><td>No Action
The Bank is operating within boundaries expected</td><td>Management has discretion to temporarily operate in this zone</td><td colspan="2">Management must act immediately to reduce the risk level.</td><td colspan="2">Urgent remediation may be required. A meeting of the appropriate executive Committee must be held to address breach If appropriate Recovery reporting protocols should be followed</td></tr>
<tr><td>Reporting and Format</td><td>Standard MI – no comment</td><td>Standard MI– but comment on action with time frame / rationale for no action and time to revert to BAU level</td><td colspan="2">E-mail detailing cause, actions and time to complete remediation followed by an action plan</td><td colspan="2">E-mail detailing cause, actions and time to complete remediation followed by a detailed action plan</td></tr>
<tr><td>Timing of Reporting</td><td>Monthly</td><td>Monthly</td><td rowspan="2">Exec.
Within
24 Hours</td><td rowspan="2">RCC
Monthly</td><td colspan="2">Initial report ASAP. Detailed plan in 24 Hours</td></tr>
<tr><td>Report recipient</td><td>Risk & Compliance Committee (RCC)</td><td>Risk & Compliance Committee</td><td colspan="2">Exec, RCC & Board / where appropriate the Regulator</td></tr>
</table>

Risk 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 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 and acts as triggers to so that breaches of Risk Appetite can be avoided by adopting appropriate strategies and actions;
(v) Future trend analysis and calculation of rolling averages.

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

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

4.8. The Risk Profile

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

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Total Risk	Enterprise Risk Management Framework Strategic Plan Risk Management Committee Risk & Compliance Committee Board EXCO	The Bank takes a conservative approach to risk management, having a low risk appetite for all risk types, apart from Credit Risk, for which its appetite is moderate, operating within strict parameters. The Bank recognises that there are certain types of risk to which it does not want any exposure (e.g. fraud), but that instances can and do occur. The Bank therefore takes active steps to minimise the possibilities of such incidents arising and strives to mitigate the impact when they happen, learning from any mistakes made.	Monthly assessment by the Chief Risk Officer of the Bank's overall risk profile, based on performance against appetite in all risk categories.	The Bank monitors its overall risk profile closely via its governance structure to ensure the it always remains within Risk Appetite, in alignment with its strategy.
Strategic The risk of having an insufficiently defined or flawed strategy that does not adapt to market and business developments and/or meet the requirements and stakeholder expectations.	Enterprise Risk Management Framework Strategic Plan Risk Management Committee Risk & Compliance Committee Executive Committee Board	The Bank maintains a low appetite for Strategic Risk. The Bank aims to deliver a satisfactory return on capital to its shareholders, generating profitable returns and building gross lending balances, whilst retaining stable asset quality and maintaining a satisfactory cost of risk. This will be achieved within stated Risk Appetite and regulatory guidelines, with market leading customer service delivered, demonstrated by above average new business margins and positive customer experience. The Bank aims to be an employer of choice, ensuring that it has the right mix of skills and experience to grow the bank. The Bank works hard to protect its brand, minimising reputational risk and plays an active and responsible role in the community.	- Strategy debated at Board level Strategy Day, including 2nd line challenge - Ongoing discussion at risk committees and Board - Regular surveys of staff and customers - Ongoing review of Financial performance against budget - Media monitoring/ engagement - Demonstrations of corporate social responsibility	The Bank has a clear strategy, which is monitored effectively.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Capital Adequacy The risk that the Bank fails to hold sufficient capital to meet its regulatory obligations, support its growth plans or to absorb shocks.	Capital Management Policy Asset & Liabilities Committee Risk & Compliance Committee Executive Committee Board	The Bank maintains a low appetite for Capital Adequacy Risk. Its priority is to maintain (via retained earnings) a capital surplus above CET1 and total capital requirements sufficient to absorb any unexpected losses and costs without using regulatory buffers and ensure that its capital base can support a growing and maturing book across the economic cycle, allowing for potential downturns.	- Maintaining a capital surplus buffer over minimum regulatory requirements - Ongoing forecasting of capital requirements reported to risk committees - Annual ICAAP process, incorporating regular stress testing of the capital base in 'severe yet plausible' scenarios - Horizon scanning to ensure continued compliance with regulatory requirements	The Bank maintains and monitors a robust capital base, including a management buffer in excess of regulatory requirements.
Liquidity & Funding The risk of being unable to fund assets and meet obligations as they fall due without incurring unacceptable losses.	Asset-Liability Management Policy Savings Protocols Asset & Liabilities Committee Risk & Compliance Committee Board	The Bank maintains a low risk appetite for Liquidity & Funding Risk. It holds sufficient liquid assets to meet liabilities as they fall due and that these are maintained in a stressed scenario at all times, including satisfactory liquidity coverage and loan to deposit ratios. The Bank will ensure that it is not overly reliant upon any single savings intermediary to raise deposits.	- Measuring, managing and monitoring the risk over an appropriate set of time horizons, including intra-day - Regular re-forecasting of the liquidity positions - Monitoring strict criteria over the use of High-Quality Liquid Assets - Annual ILAAP process, including stress testing of the liquidity base in 'severe yet plausible' scenarios - Horizon scanning to ensure continued compliance with regulatory requirements	The Bank maintains and monitors its liquidity and funding requirements on a regular basis, including intra-day risk and maintaining a management buffer in excess of regulatory requirements.
Tax The risk of loss resulting from the Bank entering into any arrangements outside risk appetite including failure in any process or control for the management of tax risk which leads to any incorrect or late filing of any tax return and any tax outcome of any business activity or project which is significantly different from the expected or planned outcome..	Tax Policy Asset & Liabilities Committee Risk & Compliance Committee	The Bank maintains a low risk appetite for Tax Risk whilst acknowledging that certain factors will mean that some may need to be assumed, tax risk as a result of the increasing complexity and growth in the Bank's operations, organisational structure and product profile and changes in tax law. Nevertheless, the Bank has zero appetite for breaches of tax laws or the HMRC Code of Practice for Banks. The Bank undertakes tax planning and assumes tax risk only where it is consistent with the aims and purposes of its business operations. The Bank is transparent and open in its dealings with all tax authorities and considers any tax position or arrangement with full regard to its corporate social responsibility.	- Use of expert external advisors to minimise tax risks and provide ad hoc advice where needed - Monitoring compliance with policy and transparency of transactional activities.	The Bank has a limited exposure to Tax Risk and it is measured closely with metrics presented to the risk committees in accordance with the applicable policy.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Interest Rate Risk in the Banking Book The risk that changes in interest rates negatively impact the earnings or market value of the Bank's assets or liabilities	Interest Rate Risk in the Bank Book Policy Asset & Liabilities Committee Risk & Compliance Committee	The Bank has a low appetite for interest rate and basis risk by keeping all assets, liabilities and off-balance sheet exposures in sterling and carefully managing mismatches between tenors of loans and deposits, hedging exposures where necessary within pre-determined limits.	- Scenario analysis - Use of natural balance sheet hedges and derivatives when needed - Monitoring of pipeline, repayment profiles and product maturities. - Modelling a variety of different yield curves/interest rate paths.	Interest Rate Risk in the Bank Book is monitored via Key Risk Indicators and scenario analysis.
Market Risk The risk that changes in market rates negatively impact the earnings or market value of the Bank's assets or liabilities	Asset & Liabilities Committee Risk & Compliance Committee	The Bank does not have a trading book and has no appetite for foreign currency.	- The Risk Appetite prohibits trading book activities and offering foreign currency products.	
Credit The risk that counterparties fail to meet, in a timely manner, the commitments into which they have entered.	Credit Risk Management Framework Lending Protocols Credit Committee Risk & Compliance Committee	The Bank has a moderate appetite for Credit Risk overall, maintaining conservative parameters, including a maximum LTV of 70%, focusing on relationship management, including performance of annual reviews. It maintains lending distribution and product offerings within parameters agreed by the Board, diversified by sector and UK region, with a minimal appetite for 'speculative' lending. The Bank concentrates its lending on areas where it has experienced subject matter experts in both the first and second line of defence, supported with the necessary operational capacity, systems and infrastructure to manage and monitor the loans through their life cycle in an effective manner. It will operate within protocols, underwriting guidelines, exception limits and regulatory guidelines and manage the Early Warning Report and Watch List proactively to ensure that asset quality remains satisfactory. The Bank will not chase growth at the expense of credit and asset quality. Although the Bank recognises that through the full range of the economic cycle, some credit losses are inevitable, its robust underwriting standards aim to minimise them, with close monitoring of risk appetite on a monthly basis via a comprehensive suite of Key Risk Indicators.	- Regular modelling of funding requirements and interest rate risk analysis compliance with detailed Risk Appetite and Lending Protocol parameters - Segregation of responsibility for the management of loans and a program of underwriting from business development and sales - Use of seasoned professionals with deep subject matter expertise and experience and ongoing training - Quality Assurance checks to ensure adherence to policies and procedures - Use of credit grading models as part of the approval process, ongoing monitoring and portfolio analysis - Conducting annual reviews to ensure monitoring throughout the facility lifecycle - Close monitoring of non-performing loans, including Watch List, Early Warning Report, Forbearance and management of arrears - Detailed provisioning requirements and procedures	Credit Risk is one of the principal risks the Bank faces, given the nature of its business. The lending portfolio is closely monitored via a number of detailed metrics, including Concentration, Breaches and Exceptions, Asset Quality and Treasury Counterparty Indicators and via the use of credit grading models. Stress testing is employed to ensure that sufficient capital is maintained.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Legal, Compliance & Regulatory The risk that non-compliance with laws or regulations could give rise to fines, litigation, sanctions, reputational damage or financial loss	Compliance Framework Compliance Monitoring Framework Risk Management Committee Risk & Compliance Committee Regulatory Reporting Policy	The Bank maintains a low appetite for Legal, Compliance and Regulatory Risk. Whilst it recognises that operational errors can occur, the Bank maintains zero tolerance for reportable breaches of regulations, regulatory policy breaches, breaches of applicable laws, late responses to regulatory requests or gifts/hospitality policy breaches. The Bank strives to ensure that this always remains within the law and regulation. All material breaches are investigated and reported to the Risk & Compliance Committee in a timely manner, rule changes are implemented within the applicable regulatory timelines and staff operate within the Bank's documented policies and controls and, where applicable, industry guidelines. Whilst the Bank recognises that operational errors can occur, it has no appetite for regulatory breaches or reporting failures	- Compliance monitoring of the Bank's activities - Undertaking detailed and regular reviews of key activities and processes - Provision of advice in relation to business, product and change management requests - Ensuring appropriate registrations under the Senior Management and Certification Regime - Maintaining logs of compliance breaches and conflicts of interest - Horizon scanning to ensure continued adherence to regulatory requirements - Regular training and development of staff to ensure up to date knowledge base	Ensuring compliance with all applicable regulatory requirements in a fast-changing landscape is a challenge to which the Bank devotes considerable resources and the Compliance Framework is continually under review to ensure that it meets all requirements and is in line with leading industry practices.
Financial Crime The risk that inadequate controls relating to financial crime could give rise to fines, litigation, sanctions, reputational damage or financial loss	Financial Crime Framework Risk Management Committee Risk & Compliance Committee	The Bank maintains a low appetite for Financial Crime risk, aiming to maintain a low level of residual risk, striving to ensure that it remains within the law and regulation at all times. Whilst the Bank recognises that operational errors can occur, it maintains zero tolerance for breaches of compliance with applicable financial crime laws and regulations, deliberate facilitation of tax evasion, bribery and facilitation payments and internal fraud. All material breaches are investigated and reported to the Risk & Compliance Committee in a timely manner, rule changes are implemented within the applicable regulatory timelines and staff operate within the Bank's documented policies and controls and, where applicable, industry guidelines.	- Obtaining and using intelligence and national and international findings - Receiving reports of suspicious activity from any employee in the business - Evaluating any suspicions of money laundering/ terrorist financing - Undertaking business wide risk assessments - Customer and third-party due diligence, screening and transaction monitoring - Horizon scanning to ensure continued adherence to regulatory requirements - Regular training and development of staff to ensure up to date knowledge base	Ensuring compliance with all applicable regulatory requirements in a fast-changing landscape is a challenge to which the Bank devotes considerable resources. The Financial Crime Framework is continually under review and maintained in line with leading industry practices.
Operational The risk that events arising from inadequate or failed internal processes, people and systems or from external events cause regulatory censure, reputational damage, financial loss, service disruption and/or customer detriment.	Operational Risk Management Framework Risk Management Committee Risk & Compliance Committee	The Bank maintains a low appetite for Operational Risk. It aims to minimise incidents and losses arising from operational risk issues by maintaining a resilient infrastructure, including robust systems, employing and training the right people, minimising the impact of external events and having a framework in place to ensure operational risks are captured, monitored and mitigated, with lessons learned from mistakes. This includes clear first line ownership of operational risks, review and challenge by the second line and assurance from the third line. Focus is maintained on key risks, including outsourcing, operational resilience, model, people, cyber and technology risks. A suite of Key Risk Indicators is in place to escalate issues to senior management and the Board, regular reviews are undertaken via Risk and	- Risk and Control Self Assessments and Risk Registers - Scenario Analysis - Monitoring of Operational Risk Events - Reviewing projects and change management requests - Monitoring of the risk posed by the use of critical and outsourced suppliers - Horizon scanning to ensure continued adherence to regulatory requirements and leading practices - Regular training and development of staff to ensure up to date knowledge base	Operational Risk is one of the key risks the Bank faces. Although Operational Risk related losses have historically been low, the framework has been strengthened following an external review and ongoing enhancements are being undertaken under a new Head of Operational Risk to ensure that the Bank's Operational Risk Framework is in line with all regulatory requirements and leading practices.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
		Control Self Assessments and Operational Risk Events are captured, recorded and reviewed with actions taken to avoid recurrence.		
Conduct The risk that customers suffer loss or detriment due to failures at any stage of the customer journey, including inadequate product design, sales/marketing processes and operational delivery, data management and record keeping or the failure of its staff or key providers of services to act with integrity and treat the customers' best interests as the highest priority.	Conduct Risk Framework Customer & Product Committee Risk Management Committee Risk & Compliance Committee	The Bank maintains a low appetite for Conduct Risk, employing a strategy that is customer-centric, transparent and built on integrity, professionalism and fairness, ensuring that all its employees understand and fully operate within regulatory requirements (including the FCA Conduct Rules), The Bank's Strategic Priorities include maintaining a culture of 'doing the right thing for its customers and staff' and 'delivering clear and simple products' and are responsible for proactively managing Conduct Risk, maintaining customer interests as the highest priority	- Risk and Control Self-Assessments - Complaints monitoring and analysis - Customer surveys - Independent review of customer calls - Annual product reviews - Analysis of the 'customer journey' - Annual report from the Chief Risk Officer on Conduct issues, feeding into the remuneration policy and practice - The staff profit-sharing scheme linked to customer satisfaction	The Bank prides itself on its strong risk culture and focus on customer outcomes. A new Conduct Risk Framework is currently being implemented to ensure continued compliance with all requirements in this regard, including detailed reporting to the risk committees.
Operational Resilience Operational Resilience is the Bank's ability to prevent, respond to, recover and learn from operational disruptions.	Operational Resilience Framework & Policy Risk Management Committee Risk & Compliance Committee	The Bank maintains a low appetite for Operational Resilience Risk. It will ensure that its systems and operational capabilities are stable and resilient, and it has sufficient preventative measures in place to reduce the risk of a service failure and that it has the capabilities, in terms of people, processes and organisational culture, to adapt and recover when things go wrong. This includes having effective business continuity and disaster recovery plans in place and ensuring rapid and effective communications with the people most affected by a business disruption, especially its customer base.	- Business continuity management/disaster recovery procedures in place - Crisis Management Plan, including threat analysis - Impact tolerances set for critical services and suppliers - Communication plans and templates facilitate a rapid incident response if required - Testing of systems and processes in a range of scenarios	The Bank's Operational Resilience Framework is a key focus of management and the Board and is being continually enhanced for developments in regulatory requirements.
Securitisation Risk The risks arising from Securitisation transactions in relation to which the firm is investor, originator or sponsor, including reputational	Credit Risk Management Framework Lending Protocols Credit Committee Risk & Compliance Committee Capital Management Policy Asset & Liabilities Committee	The Bank has executed an 'Enable Guarantee' with the British Business Bank. The Enable Guarantee provides unfunded credit protection for loans covered by the guarantee. This constitutes a synthetic securitisation, which the Bank has originated. The Enable Guarantee is guaranteed by the UK Government, and the guarantee portion of the loan exposures are risk weighted at 0% (per Art. 114 of CRR). The synthetic securitisation position is deducted from Own Funds (Art.	-The pool loan exposure remains on balance sheet, whilst the accounting for the guarantee protection is off balance sheet. - Monthly reporting of the management of the overall lending performance as part of credit risk. - Monthly reporting of the management of the BBB guarantee (including exposures) is included in the monthly management pack.	The key risk is managed under Credit Risk

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
risks, to ensure in particular that the economic substance of the transaction is fully reflected in risk assessment and management decisions.	Risk & Compliance Committee Executive Committee Board	244(2)(b) of the CRR. The pool loan exposure remains on balance sheet, whilst the accounting for the guarantee protection is off balance sheet. The loans within the pool are managed and monitored in the same way as the overall portfolio, and should a loan default, would be subject to the same collections and recovery processes.	- The exposure to the guarantor is an exposure to the British Government and as such attracts a 0% risk weighting	

Emerging Risks and Uncertainties

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

Emerging Risk	Definition	The Bank's Response
Pace and complexity of regulatory change	The Bank is affected by a wide range of regulatory requirements, each of which is constantly evolving. The risks are that changes are not detected, and breaches occur and/or the magnitude of changes causes a drain on staff resources such that business growth is affected.	The Bank has a Regulatory Horizon Scanning process via which necessary changes are identified and tracked at the appropriate executive and Board committees.
Brexit and UK Political Environment (part of Macroeconomic Risk)	The constant uncertainty during 2019 made strategic planning difficult and posed a risk to business growth. This uncertainty is likely to continue throughout 2020 until there is more clarity as to the impact of Brexit.	The situation was monitored throughout the year and taken into consideration during the process of developing the Bank's 3-year strategic plan and updating its Risk Appetite Statements. Post Brexit trade negotiations will continue to affect business confidence and macro-economics, and this will continue to be monitored closely.
The lack of Operational Resilience, including failure of a critical supplier	Securing Operational Resilience is a key regulatory and operational consideration such that the Bank can prevent, respond to, recover and learn from operational disruptions. As several key IT requirements are outsourced, including the Bank's core platform satisfactory performance of its service providers is an essential part of ensuring Operational Resilience.	New Operational Resilience and Supplier Risk Management Frameworks were introduced during 2019 and continual enhancements are part of its high priority Operational Resilience and Supplier Risk Management workstreams.
Cyber	A cyber-attack, due to insufficient defences and/or training of staff, could lead to a prolonged technology outage, loss or theft of data and/or a ransom demand, resulting in financial loss and/or reputational damage to the Bank.	The Bank employs penetration testing and regular monitoring of defences as part of the measures taken to ensure Operational Resilience. The Bank has also engaged PWC to deliver its Virtual CISO function and achieved reaccreditation under the NIST Cyber Essentials program during 2019.
Climate Change	Climate change, if left unchecked, will lead to a medium/long term risk to the credit quality of the book as a result of flood risk and poor preparedness and lack of attention given to this risk by the property industry (which continues to tolerate low EPC grades) and impact on the Asset Finance and CV&S books. Both physical and transitional risks will need to be factored into risk	This is a topic that the Bank takes very seriously indeed. It provided a report to the PRA on its response to Climate Change Risk during the year, including metrics and targets. A Climate Change Steering Committee has been put in place, chaired by the Chief Executive Officer and attended by the Chief Risk Officer, reporting into the Risk & Compliance Committee. An ongoing

Emerging Risk	Definition	The Bank's Response
	appetite, Key Risk Indicators and the credit grading model calculation.	programme of responses across the Bank is currently under development.
Global pandemic	The Coronavirus (Covid-19) started at the very end of 2019 and, in addition to the threat to human life, has caused major economic disruption across the globe.	The Bank's is following the advice and guidance provided by UK Government and NHS Advice and tracking this on a daily basis. The Bank is also a member of UK Finance and actively tracking developments with its peers. The Banks has successfully invoked full remote working ensuring that all its core operations and services are fully functioning. The Bank's Crisis Management Team (CMT) continues to convene bi-weekly to monitor developments, assess the operational and people impacts, and closely monitors costs. The Board receives enhanced Management Information at regular intervals to augment the formal Governance structures. The Bank have seen a number of initial enquiries from customers, particularly in the high impacted sectors such as hospitality and leisure, beginning to feel the impacts of changing customer behaviour on their business model and seeking support to help them manage their cash flow. The Bank wishes to support customers in need of assistance, and it will consider all reasonable requests for Forbearance.

The Bank's deems the following risks as non-applicable

Principal Risk	Risk Appetite Statement
Settlement Risk Settlement risk arises where transactions in debt instruments, equities, foreign currencies and commodities are unsettled after their due delivery dates.	The Bank does not invest in debt instruments (other than gilts), equities and commodities or have exposure to foreign currency transactions and therefore settlement risk is not a risk that the Bank considers material.
Group Risk Group Risk for CCB is the risk that the financial position of the Bank may be adversely affected by its relationships (financial or non-financial) with other entities in the Bank.	CCB does not consider that it is exposed to this risk as it is a single entity.

5. Remuneration

As a Bank with less than £15bn of assets, the Bank is classified as a "Proportionality Level 3" firm for the purposes of the disclosure of remuneration under the Bank of England Supervisory Statement SS2/17 and in compliance with the CRR and the EBA guidelines on Remuneration Disclosure. The Bank has followed the regulator's guidance on materiality and proportionality.

The following disclosures meet the requirements for a Level 3 proportionality firm:

The Performance and Remuneration committee is chaired by Caroline Fawcett, an independent Non-Executive Director, and is composed entirely of NEDs and met twice during 2019. In these meetings, the committee, in carrying out its responsibility for overseeing the performance and remuneration arrangements of the Bank, discussed the performance of all Executive Directors and the Chairman.

It also reviewed pay and bonus arrangements, approving awards where appropriate based on performance and also market bench marking for salaries. The committee approved payment of the 2018 bonus scheme (paid in March 2019) and salary reviews for all staff. They also challenged and approved the performance criteria for the 2019 sales bonus scheme and new profit share scheme (payable in March 2019). The committee specifically challenged and discussed the Bank's long term incentive plan scheme, approving changes that linked it more directly to the achievement of the 3 year strategic plan targets. The committee also reviewed the Bank's remuneration policy to ensure that it remains up to date and consistent with the relevant requirements of the FCA remuneration code (SYSC 19D) and the Prudential Regulation Authority (PRA) rulebook.

Remuneration Policies

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

CCB's remuneration policy is to:

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

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

This is achieved through the application of the following six principles which are adhered when designing or implementing any aspect of remuneration:

i. The Bank offer a competitive total reward package that is designed to be motivating and compelling and is regularly reviewed against market rates;
ii. Reward is linked to employees' behaviours and values as well as achievement: the 'how' as well as the 'what';

iii. The Bank's remuneration structures are straightforward; as such they are transparent, communicated and understood by employees and all our stakeholders;
iv. There is a clear link between business, team and individual performance and reward, and people can explain when and why adjustments for performance have been applied;
v. The Bank's remuneration practices are consistent with and promote sound and effective risk management and are fully compliant with all appropriate governance, regulatory requirements and codes of practice.
vi. Our remuneration policies, packages and processes are designed to be affordable, consistent and efficient and do not limit the Bank's ability to strengthen its capital base.

Remuneration for Executive Directors

The table below summarises the remuneration policy for 2019 for Executive Directors:

Element of Remun-eration	Purpose and Link to Strategy	Operation	Maximum	Performance Targets
Salary	The Performance & Remuneration Committee and Nominations and Governance committees are committed to adhering to the Financial Services Remuneration Code, thus ensuring that the Bank has risk-focused remuneration policies: a) Reflects skills and experience over time b) Reflects the value of the individual and their role c) Provides an appropriate level of basic fixed income d) Avoids excessive risk from over reliance on variable income	Reviewed annually Takes periodic account of practices of financial institutions of similar size, characteristics and sector comparators	There is no prescribed maximum annual increase The Performance & Remuneration Committee is guided by the general increase for the broader employee population but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of a role.	An element of performance-related pay applies
Benefits	To aid retention and recruitment	Company car allowance, the provision of private medical insurance, life assurance and permanent health insurance	Not applicable	Not applicable
Bonus	Incentivises annual delivery of financial and strategic goals Maximum bonus only payable for achieving business and personal targets	Paid in cash Not pensionable	30% of salary	A combination of 50% company and 50% individual performance measures with a deferred element of amounts over 20% of salary paid over 3 years
Long Term Incentive Plan (LTIP)	Aligned to main strategic objectives of delivering sustainable growth as set out in the Bank's strategic plan	Grant will be awarded each financial year Paid in cash Not pensionable	20% of base salary	Measured over 3 years based on financial and non-financial performance measures with good and bad leaver elements

				Cancellation elements apply
Pension	Provides retirement benefits Opportunity for executives to contribute to their own retirement plan	Defined contribution	Bank contribute 10% of salary provided executives contribute a min 3% of salary. Executives salary exchange on same terms as other employees	Not applicable

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

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

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

Benefits offered to Executive Directors apply from the commencement of employment.

Changes to Schemes from 2020

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

Remuneration policy for other employees

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

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

Remuneration policy for Non-Executive Directors

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

Element of Remuneration	Purpose and Link to Strategy	Operation	Maximum	Performance Targets
Fees	– Reflects time commitments and responsibilities of each role – Reflects fees paid by financial institutions of similar size, characteristics and sector comparators	– Cash fee paid – Reviewed on an annual basis	– There is no prescribed maximum annual increase. The Performance & Remuneration Committee is guided by market rates and the general increase for the Executive Director population	– Non-Executive Directors do not participate in variable pay elements

Remuneration of Material Risk Takers

The table below sets out the remuneration of the Bank's Material Risk Takers. These members of staff have been classified as 'Code Staff' as they have a material impact on the risk profile of the Bank. There were no employees who earned in excess of €1m.

Business Area	Year to 31 December 2019	Year to 31 December 2018
No of material risk takers	32	31
Total Remuneration £m	4.3	4.1
Variable remuneration as a % of total remuneration	10%	16%
Variable remuneration £m	0.4	0.5
Amounts receivable under long term incentive schemes £m	0.0	0.1
Provision / Payments for compensation for loss of office £m	0.5	0.2

Remuneration of Staff by Business Area

The table below shows the breakdown of staff costs by Business area during 2019.

Business Area	Year to 31st December 2019	Year to 31st December 2018
Average Staff Numbers	149	143
Staff Costs (£m)		
Customer Facing	2.7	2.4
Non-Customer Facing	8.1	6.9
Total Costs	10.8	9.3

6. Capital Resources

6.1. Available Capital Resources

The Bank manages its capital under the Capital Requirements Regulation and Capital Requirements Directive (together referred to as CRD IV) which came into force on 01 January 2014. The framework is enforced in the UK by the PRA. The PRA sets and monitors minimum capital requirements for the Bank.

The Bank's policy is to maintain a strong capital base to maintain investor and market confidence and to sustain the future development of the business and throughout the period to 31 December 2019, the Bank maintained its capital resources at a level above the minimum capital adequacy requirements. 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 Bank presents regular reports on the current and forecast level of capital to the Executive Committee, ALCO, Risk & Compliance Committee and to the Board.

The Bank has elected to use the standardised approach for credit risk and the basic approach to operational risk. The Bank is not exposed to Market Risk.

The ICAAP documents the risks faced by the Bank and how it manages and mitigates those risks. It is also used by the Board and management to understand the levels of capital required to be held over the year, the medium term and to ensure sufficient capital is available to enable the Bank to survive in times of stress. The Bank submitted its most recent ICAAP to the PRA in February 2019. The key assumptions and risk drivers used in the strategic plan and ICAAP are regularly monitored and reported and any material deviation from the forecast and risk profile of the Bank requires management intervention and review of the ICAAP.

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 ICAAP is the Bank's internal assessment of its Pillar 2 capital requirements, which the PRA reviews and advises its expectations of the level of Pillar 2 capital to be held. This requirement is referred to as the Bank's Total Capital Requirement (TCR). The Bank's maintains its capital base in excess of its TCR and has complied with all externally imposed capital requirements during 2019. The PRA also monitors capital adequacy through regulatory returns.

Under the Bank Recovery and Resolution Directive (BRRD I and II), the Bank of England as resolution authority has also set a minimum capital requirement to meet the requirement for MREL. The Bank has been assigned to the 'Modified Insolvency' category. The requirement for this category is to hold sufficient MREL to cover regulatory capital (comprising Pillar 1 and Pillar 2A). The total capital required under MREL is equivalent to the Total Capital Requirements (TCR). In addition, capital is required to meet the buffers.

As at 31 December 2019, the Bank's capital base was £142.2m, all of which was Tier 1 capital. The Bank's regulatory capital consists of the following elements:

	Common Equity Tier 1 (CET1)	Tier 1 Capital	Notes
Ordinary Share Capital	✓	✓	
Retained Earnings	✓	✓	
Fair Value through other comprehensive income reserve	✓	✓	
Regulatory Adjustments	✓	✓	IFRS 9 transition relief based on a 85% transition factor for 2019
Deductions	✓	✓	Intangible assets Enable Guarantee first loss fund
Perpetual Convertible Loan Notes		✓	Additional Tier 1 capital

The total assets of the Bank at 31 December 2019 were £1,004m (31 Dec 2018 £1,032m). The tables below set out the Bank's capital resources and ratios at 31 December 2019, and how the resources reconcile to the Bank's reported statutory capital.

Own funds disclosure

	Own Funds – Regulatory disclosure template 31 December 2019 £'000	2019 £000s	2018 £000s
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts		
	of which: Ordinary share capital	44,955	44,955
2	Retained Earnings	74,296	57,252
3	Accumulated other comprehensive income	2	73
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	119,253	102,280
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
8	Intangible assets	(791)	(846)
10	Deferred tax that rely on future profitability excluding those arising from temporary differences	0	0
20c	Securitisation Positions	(1,687)	-
	Transitional adjustments on adoption of IFRS 9*	2,696	2,905
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	218	2,059
29	**Common Equity Tier 1 (CET1) capital**	119,471	104,339
30	Capital instruments and the related share premium accounts	22,900	22,900
31	of which: classified as equity under applicable accounting standards	22,900	22,900
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	22,900	22,900
	Additional Tier 1 (AT1) capital: regulatory adjustments	-	
44	**Additional Tier 1 (AT1) capital**	22,900	22,900
45	**Tier 1 capital (T1 = CET1 + AT1)**	142,371	127,239
	Tier 2 (T2) capital: instruments and provisions		
50	Credit risk adjustments		
51	Tier 2 (T2) capital before regulatory adjustments		
	Tier 2 (T2) capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 (T2) capital		
58	**Tier 2 (T2) capital**	-	-
59	**Total capital (TC = T1 + T2)**	142,371	127,239
60	**Total risk weighted assets**	619,343	621,368
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	19.29%	16.79%
62	Tier 1 (as a percentage of total risk exposure amount)	22.99%	20.48%
63	Total capital (as a percentage of total risk exposure amount)	22.99%	20.48%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a % of risk exposure amount)**	8.00%	7.38%
65	of which: capital conservation buffer	2.50%	1.88%
66	Of which: counter cyclical buffer	1.00%	1.00%
68	CET1 capital available to meet buffers (as a % of risk exposure amount)	11.29%	8.79%

*The Bank elected to apply the transitional arrangements upon the implementation of IFRS 9. This enables the impact on tier 1 capital to be phased over 5 years.

**Article 92(1) sets a CET 1 requirement of 4.5% for all institutions. This together with the capital conservation buffer and counter cyclical buffer gives a total of 8.00%.

Reconciliation of Statutory and Regulatory Capital

£'000	2019	2018
Equity as per statement of financial position	142.153	125,180
Regulatory adjustments		
Less intangible assets	(791)	(846)
Less Securitisation first loss fund	(1,687)	
IFRS 9 Transitional Adjustment	2,696	2,905
Total regulatory capital	**142,371**	**127,239**

6.2. 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 and is designed to prevent build-up of excessive leverage. The ratio is defined as Tier 1 capital divided by the total on and off-balance sheet leverage exposures expressed as a percentage. The Bank's ratio is significantly higher than the regulatory requirement.

Leverage Ratio £'000	Regulatory Minimum	2019	2018
Total Tier 1 Capital		142,371	127,239
Exposures			
Balance sheet exposure (Inc. Derivative PFE exposure)*		1,002,533	1,031,285
Off balance sheet exposure		25,468	19,849
Total Exposures		1,028,001	1,051,134
Leverage Ratio	3%	13.85%	12.10%

* Excludes intangibles, deposits held as collateral for loans and loan loss provisions for off-balance sheet loan commitments.

Leverage ratio regulatory disclosures

Table LRSum : Summary reconciliation of accounting assets and leverage ratio exposures (2019)		
	£'000	Applicable amount
1	Total assets as per published financial statements	1,004,068
4	Adjustments for derivative financial instruments	25
6	Adjustment for off-balance sheet items	25,468
7	Other Adjustments *	(1,560)
8	Leverage ratio total exposure measure	1,028,001

* Includes intangibles, deposits held as collateral for loans and on balance sheet loan loss provisions for off-balance sheet loan commitments.

Table LRCom: Leverage ratio common disclosure		
	£'000 On-balance sheet exposures	CRR leverage ratio exposures 2019
1	On-balance sheet items *	1,003,299
2	Asset amounts deducted in determining Tier 1 capital	(791)
3	**Total on-balance sheet exposures**	1,002,508
	Derivative exposures	
5	Add-on amounts for PFE associated with all derivative transactions	25
11	**Total derivative exposures**	25
	SFT exposures	-
16	**Total securities financing transaction exposures**	-
	Off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	118,345
18	(Adjustments for conversion to credit equivalent amounts)	(92,877)
19	**Other off-balance sheet exposures**	**25,468**
	Capital and Total Exposure Measure	
20	Tier 1 capital	142,371
21	Leverage ratio total exposure measure	1,028,001
	Leverage Ratio	
22	Leverage ratio	13.85%
	Choice on transitional arrangements	
EU-23	Basis of disclosure of the leverage ratio	Transitional Basis
EU-24	Amount of derecognised fiduciary items	0

*Excludes £0.065m of on-balance sheet provisions relating to off balance sheet loan commitments and is net of deposits relating to collateral for loans

Table LR Spl: Split-up of on balance sheet exposures		
	£'000s	CRR leverage ratio exposures 2019
EU-1	**Total on-balance sheet exposures, of which*:**	**1,002,508**
EU-5	Exposures treated as sovereigns	229,542
EU-7	Institutions	7,695
EU-8	Secured by mortgages on immovable properties**	599,429
EU-10	Corporate**	102,857
EU-11	Exposures in default***	14,978
	Securitisation exposures	43,470
EU-12	Other exposures	4,537

* Excludes £0.065m of on-balance sheet provisions relating to off balance sheet loan commitments and intangible assets (£0.791m) and is net of deposits relating to collateral for loans
**High risk loans are split between Corporates and Secured by mortgages on immovable properties
*** Exposures in default excludes defaults on high risk loans.
Sovereign exposures includes the Bank's cash ratio deposit of £570k

6.3. IFRS 9 Transition Template

On 1 January 2018, CCB adopted IFRS 9. The table below discloses the impact of the transition adjustment on own funds and the leverage ratio.

IFRS 9 Transitional Relief Template			
		a	e
		31/12/2019	31/12/2018
		IFRS 9	IFRS 9
Available capital (£000s)			
1	Common Equity Tier I (CET1) capital	119,471	104,339
2	Common Equity Tier I (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	116,775	101,434
3	Tier 1 capital	142,371	127,239
4	Tier I capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	139,675	124,334
5	Total Capital	142,371	127,239
6	Total Capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	139,675	124,334
Risk-weighted assets (amounts)			
7	Total risk-weighted assets	619,343	621,368
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	619,343	621,368
Capital Ratios			
9	Common Equity Tier1 (as a percentage of risk exposure amount)	19.29%	16.79%
10	Common Equity Tier1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18.85%	16.32%
11	Tier 1 (as a percentage of risk exposure amount)	22.99%	20.48%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	22.55%	20.00%
13	Total capital (as a percentage of risk exposure amount)	22.99%	20.48%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	22.55%	20.00%
Leverage ratio			
15	Leverage ratio total exposure measure	1,028,001	1,051,134
16	Leverage ratio	13.85%	12.10%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.59%	11.83%

The leverage ratio increased during the year from 12.10% to 13.85%. This was driven by an increase in the capital resources due to an increase in Tier 1 capital of £15m and a decrease in leverage RWAs of £4m.

Managing the risk of Excess Leverage (LRQua)

The risk of excessive leverage is managed through regular monitoring and reporting of the leverage ratio, which forms part of the risk appetite framework. Given that the Bank's balance sheet is focused on lending on commercial and residential property, the risk of material unexpected movements in the leverage exposure measure is limited. The Bank's leverage ratio is significantly higher than the regulatory minimum.

7. Capital Requirements

This section is divided into Pillar I and Pillar II.

Pillar I regulatory capital deals with the regulatory capital calculated for the three major components of risk that the Bank faces:

a) credit risk (including counterparty credit risk);
b) operational risk; and
c) market risk.

7.1. Pillar 1 - Risk Weighted Exposure Amounts

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, principally arising 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 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 all standardised counterparty credit risk exposure classes.

<u>Overview of RWA (OV1)</u>

Overview of RWA (OV1) £'000 31 December			Risk Weighted Assets*		Minimum Capital Requirements
			2019	2018	2019 (RWA * 8%)
	1	Credit risk (excluding CCR)	529,304	548,905	42,344
Article 438(c)(d)	2	Of which standardised approach (SA)	529,304	548,905	42,344
Article 107 Article 438(c)(d	6	Counterparty credit risk (CCR)	23	30	1
	9	Of which SA-CCR	13	13	1
	12	Of which CVA	10	17	1
Article 449(o)(i)	14	Securitisation exposures in the Banking Book (after the cap)	9,034	0	723
	18	Of which standardised approach	9,034	0	723
Article 438(f)	23	Operational risk	79,158	70,234	6,333
	24	Of which Basic Indicator Approach	79,158	70,234	6,333
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	1,823	2,199	146
	28	Floor adjustment	-	-	-
	29	Total	**619,342**	**621,368**	**49,547**

*after the application of SME factor where appropriate

The Bank's minimum capital requirement has reduced over the past 12 months principally due to the execution of the British Business Bank Enable Guarantee. This guarantee reduced the Bank's RWA by £27.5m (this reduction reflects that the commercial exposures within the guarantee pool reduce from 100% risk weighting (or the effective risk weighting of 76.19% where the SME factor applies) to 0% for the element covered by the guarantee). (

8. Credit Risk

Credit risk is the risk of financial loss as a result of a customer or counterparty failing to meet their financial obligations as they fall due. Credit risks are inherent across most of the Bank's activities and may arise from changes in credit quality, and the recoverability of loans and amounts due from counterparties. Adverse changes in the credit quality of borrowers or a general deterioration in economic conditions could affect the recoverability and value of the Bank's assets and therefore its financial performance.

The risk of financial loss from the Bank's exposures to derivative and repo instruments is reported as counterparty credit risk and is reported in section 9.

Comprehensive risk management methods and processes have been established as part of the Bank's overall governance framework to measure, mitigate and manage credit risk within the risk appetite. Credit risk is managed in accordance with lending policies, the risk appetite and risk management framework. Lending policy outlines the approach to lending, underwriting criteria, credit mandates, concentration limits and product terms. Performance against the risk appetite is reviewed regularly.

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, specific geographic locations 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 main product lines are lending secured against property, asset finance and classic car finance.

The Bank specialises in providing secured lending for SMEs. The Bank lends to experienced commercial and residential property investors as well as to owner occupied businesses to invest in their own commercial premises.

The asset finance business provides finance to SMEs for business-critical assets through hire purchase and finance lease facilities. The Asset Finance product offering includes finance for the purchase of classic cars.

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.

The Bank's exposure to credit risk (gross) is as follows:

£'000	2019	2018
Cash and balances at central banks	228,972	232,286
Loans and advances to banks	7,695	14,384
Debt securities – Gilts	-	13,350
Loans and advances to customers*	769,684	777,084
Other Exposures	5,898	3,052
Total on balance sheet*	**1,012,249**	**1,040,156**
Off-balance sheet treasury bills	76,577	106,000
Commitments to lend**	53,300	43,868
Gross credit risk exposure	**1,190,024**	**1,127,597**
Less allowance for impairment losses	(8,181)	(8,068)
Net credit risk exposure	**1,181,956**	**1,024,013**

* Gross of cash collateral deposits
**Commitments to lend represent agreements entered into but not advanced as at 31 December.

The above table represents the maximum credit risk exposure to the Bank at 31 December 2019 and 2018 without taking account of any underlying security. At 31 December 2019 the value of security held as collateral against drawn loans and exposures is £1,348m (2018: £1,339m) of which £1,286m (2018: £1,290m) is in the form of property, £0.8m (2018: £0.8m) is in the form of cash deposits and the Bank also owns the title to the assets financed under its Hire Purchase and Finance lease agreements of £62m.

Credit risk exposure and capital requirement

The following table shows the exposure values, risk weighted assets and Pillar 1 capital.

Credit Risk Exposure 31 December 2019	Exposure Value £'000		Risk Weighted Exposures £'000		Minimum Pillar 1 Capital Requirement (8% x risk weight) £'000	
Exposure Class	2019	2018	2019	2018	2019	2018
Government and central banks	229,542	245,636	0	0	0	0
Institutions	7,695	14,384	1,539	2,877	123	230
Secured by mortgages on commercial real-estate	307,313	360,400	281,499	330,083	22,520	26,407
Secured by mortgages on residential property	270,853	300,204	94,799	105,071	7,584	8,406
Corporates	102,857	81,674	91,512	71,004	7,321	5,680
Higher Risk categories	21,262	16,854	31,983	25,281	2,551	2,022
Securitisation exposures	43,470	0	9,034	0	723	0
Past due items	14,978	9,132	15,281	9,182	1,222	735
Other items	4,537	2,206	5,631	3,016	450	241
Balance sheet Exposure	**1,002,507**	**1,030,490**	**531,188**	**546,514**	**42,494**	**43,721**
Derivative – potential future exposure add-on	25	25	13	13	1	1
Off balance sheet commitments including treasury bills	129,877	149,850	8,975	4,590	718	367
Total Exposure	**1,132,409**	**1,180,365**	**540,176**	**551,117**	**43,213**	**44,089**
Operational risk capital requirement			79,158	70,234	6,333	5,619
Credit Value Adjustment			10	17	1	1
Total Pillar 1 capital requirement	**1,132,409**	**1,180,365**	**619,344**	**621,368**	**49,547**	**49,709**

- Past due items are defined as any secured mortgage or corporates account which is three or more months in arrears. Defaults in the high risk category are reported under High Risk in line with COREP requirements.
- The Corporate exposure class includes asset finance and the unsecured element of any secured loans.
- Treasury bills relate to drawings under the Funding for Lending Scheme. The Bank has pre-positioned appropriate collateral with the Bank of England.
- Exposures are net of cash collateral deposits of £0.8m.
- Exposures (including off-balance sheet exposures) are net of loan loss provisions
- Government and central bank exposures includes the Bank's cash ratio deposit of £570k

Credit risk exposure by type

Credit Risk Exposure 31 December 2019 (all numbers net of loan loss provisions)	Exposure Value 2019 £'000	Exposure Value 2018 £'000
Government and central banks		
Repayable on demand	229,542	232,286
Marketable securities	-	13,350
Banks		
Repayable on demand	7,695	14,384
Derivatives	25	25
Loans and advances to customers	760,733	768,264
Other	4,537	2,206
Off balance sheet exposures	129,877	149,850
Total Exposure	**1,132,409**	1,180,365

- Government and central bank exposures includes the Bank's cash ratio deposit of £570k

Credit risk exposure – on and off-balance sheet reconciliation

The difference between the total credit risk exposures shown above of £1,132m and the total assets per the 2019 financial statements of £1,004m can be explained as follows;

31 December 2019	Exposure Value 2019 £'000	Exposure Value 2018 £'000
Total credit risk exposure (per table above)	1,132,409	1,180,365
Less:		
Off balance sheet customer loans and advances commitments*	(53,365)	(43,868)
Off balance sheet treasury bills**	(76,577)	(106,000)
Derivative potential future exposure add-on	(25)	(25)
Add:		
Collateral deposits adjustments to loans	834	770
Verified intangible assets	791	846
Total assets per balance sheet	**1,004,067***	**1,032,088***

* Net of provisions for off-balance sheet commitments.
** Treasury bills relate to drawings under the Funding for Lending Scheme. The Bank has placed appropriate collateral with the Bank of England.

CR5 - Breakdown of exposures post-conversion factor and post risk mitigation techniques

The following table breaks down the Bank's on-balance sheet credit risk exposure (net of conversion factors and collateral) 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. The risk-weighting category is prior to the application of the SME factor to qualifying exposures.

Standardised Approach - Exposure by asset classes and risk weights (template 20: EU CR5) 31 December 2019 £'000									
	Exposure class	Risk weighting						Total credit exposure	Of which unrated
		0%	20%	35%	100%**	150%	250%		
1	Central governments and central banks	229,542						229,542	
6	Institutions		7,695					7,695	
7	Corporates				104,639			104,639	104,639
9	Secured by mortgages on immovable property			274,460	315,456			589,916	589,916
10	Exposures in default				14,372	606		14,979	14,979
11	Exposures associated with particularly high risk					21,304		21,304	21,304
	Securitised Exposures	32,738			10,732			43,470	43,470
16	Other items*				3,808		729	4,537	4,537
17	**Total**	**262,280**	**7,695**	**274,460**	**449,007**	**21,909**	**729**	**1,016,082**	**778,843**

*Principally fixed assets and deferred tax
**Weightings are before the application of the SME factor of 0.7619 where appropriate
- Exposures include both on and off balance items after the application of off balance sheet credit conversion factors
- Government and central bank exposures includes the Bank's cash ratio deposit of £570k

Standardised Approach - Exposures by asset classes and risk weights (Template 20: EU CR5) 31 December 2018 £'000									
	Exposure class	Risk weighting						Total credit exposure	Of which unrated
		0%	20%	35%	100%	150%	250%		
1	Central governments and central banks	246,146						246,146	
6	Institutions		14,409					14,409	
7	Corporates				82,186			82,186	82,186
9	Secured by mortgages on immovable property			302,469	364,754			667,223	667,223
10	Exposures in default				9,031	101		9,132	9,132
11	Exposures associated with particularly high risk					16,914		16,914	16,914
	Securitisation Exposures								
16	Other items*				816		880	1,696	1,696
17	**Total**	**246,146**	**14,409**	**302,469**	**456,757**	**17,015**	**880**	**1,037,706**	**777,151**

*Principally fixed assets and deferred tax

The decrease in the exposure primarily represents a reduction of £16m in the Bank of England reserve account, a reduction of £6.7m in Nostro balances and a reduction in customer loans and advances of £7m.

8.1. Credit Risk on Sovereign and Institutions

The Bank's credit risk appetite for counterparties is set out in its Risk Appetite which is set out in section 4. The Bank's credit risk arises principally as a result of Nostro balances, its Bank of England reserve account and its off-balance sheet T-bills drawn under the Funding for Lending Scheme with the Bank of England.

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	2019	2018
Cash and balances at central banks	228,972	246,146
Deposits at other banks		
- Rated* A or above	7,695	14,384
UK Government Gilts	-	13,350

*Ratings based on Moody's long-term rating

The Bank uses two UK clearing banks with a Moody's credit ration of Single -A or above for deposits and clearing service. These banks are National Westminster Bank Plc and Barclays Bank Plc.

8.2. Credit risk on Loans and Advances

CCB only undertakes secured lending, either via property or via asset finance. The security profile of the loan portfolio is shown below:

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

In addition to security over property the Bank may also take additional security in the form of Director Guarantees and cash deposits.
There has been no change in the Bank's credit risk mitigation techniques or type of lending activities in 2019. 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 or classic cars.

Geographical Breakdown of Secured Lending

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

8.3. Credit Quality – Past Due

CCB adopted IFRS 9 on 1st January 2018. An assessment is made of each loan's risk profile, which determines the category that the account is assigned to. Accounts are now assigned to the three stages identified below:

Type of impairment assessment	Criteria for the Stage	Provisioning Basis	Basel Exposure Class
Stage 1	All performing loans which do not feature on the watchlist. Loans which have no arrears on them.	12 month expected loss	Immoveable property, Corporate or High risk
Stage 2	The customer is at least 30 days in arrears and the arrears do not relate to administrative (e.g. incorrect standing order or direct debit) or system errors. The customer is in forbearance and does not meet the criteria to be classified as a stage 3 forborne exposure. The customer is on the Bank's watchlist. The loan has been restructured due to arrears. The underlying loan collateral is located in a particular region or sector deemed to be of higher risk by the Credit Committee where appropriate. Any other significant decline in credit quality identified by the Bank.	Lifetime Expected Credit Losses	
Stage 3	The account is over 90 days past due. The customer has been declared bankrupt. The company has been wound up or a liquidator/administrator has been appointed. The account is part of a connected exposure where the borrower meets at least one of the above criteria across any connected account. The account is in forbearance and the forbearance arrangement is considered to be 'significant'.	Lifetime loss	Past due High Risk Past Due

Impairment is individually assessed at account level using the Bank's impairment model. Accordingly, all impairment is treated as specific provisions.

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

£'000	2019	2018
Neither past due nor impaired	733,179	741,202
Past due but not impaired:		
Up to 1 payment missed	5,245	9,474
Up to 3 payments missed	4,081	13,611
Over 3 payments missed	-	75
Impaired	27,178	12,721
Total	**769,684**	**777,083**
Less allowances for impairment losses	(8,181)	(8,068)
Total loans and advances to customers	**761,503**	**769,015**

This table is produced on an accounting balance basis and exposures include accrued interest and effective interest rate adjustments.

Impairment provisions against customer loans and advances at 31 December 2019 have been made up as follows:

£'000	Not credit impaired		Credit impaired	
	Stage 1: subject to 12-month ECL	Stage 2: subject to lifetime ECL	Stage 3: subject to lifetime ECL	Total
Closing Balance at 31 December 2019	3,422	1,303	3,455	8,181
Opening Balance at 1 January 2019	2,330	2,167	3,570	8,068
Increase (decrease) in provision	**1,092**	**(864)**	**(115)**	**113**
Profit and Loss Charge	1,043	(864)	1,387	1,566
Write offs			(2,057)	(1,911)
Post Write Off Recoveries				97
Write Back of Gilt OCI	49			49
Closing Balance	**1,092**	**(864)**	**(573)**	**(345)**
Income recognition adjustment *			458	458
Adjusted P&L Charge	**1,092**	**(864)**	**(115)**	**113**
Analysis of Profit and Loss Charge				
Increase/(decrease) due to change in credit risk				
- Transfers to and from Stage 1	1,159	1,079	1.313	3,551
- Transfers to and from Stage 2	(57)	(956)	1,134	121
- Transfers to and from Stage 3	(15)	(864)	(529)	(1,408)
New loans originated	276	39	344	659
Derecognised loans	(318)	(162)	(433)	(913)
Loan commitments	47	0	0	47
Gilts Provision Write Back				
Allowance utilised in respect of write offs	0	0	(1,944)	(1,944)
Write Offs	0	0		
Total Profit and Loss Charge*	**1,092**	**(864)**	**(115)**	**113**
ECL coverage	**0.45%**	**3.35%**	**12.80%**	**0.99%**

*

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

All of the Bank's customer loans and advances are UK based. The majority of loans and advances to customers (92%) of the Bank's lending are secured on property.

Lending by product and type %	2019	2018
Real estate lending		
Residential	37%	40%
Commercial	52%	52%
Other	3%	2%
Total Lending on Property	**92%**	**94%**
Asset finance	8%	6%
Total	**100%**	**100%**

8.4. Counterparty Credit Risk

The main exposure to counterparty credit risk is through its interest rate derivatives. As per section 8.1 above on sovereigns and institutions, 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. The capital requirements are calculated based on the mark to market method for counterparty credit risk.

The Bank has interest rate derivatives with a nominal value of £5m at 31 December 2019 (2018: £5m). The net fair value of these swaps totalled -£31k at 31 December 2019 (2018: -£94k). 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 exposure value is shown below:

Exposure £'000	2019	2018
Derivatives held for risk management purposes	(31)	(94)

The table below sets out the Bank's counterparty credit risk exposures by regulatory portfolio and risk weight. The exposure reflects the Bank's Potential Financial Exposure (PFE).

Counterparty Credit Risk exposures by regulatory portfolio and risk weights (template 28: EU CCR3)

Counterparty Credit Risk exposures by regulatory portfolio and risk weights (template 28: EU CCR3) 31 December 2019 £'000							
	Exposure Class	Risk Weight				Total	Of which unrated
		0%	20%	50%	100%		
1	Central government or central banks	306,119				306,119	
6	Institutions		7,695	25		7,720	
11	**Total**	**306,119**	**7,695**	**25**	-	**313,839**	-

Government and central bank exposures includes the Bank's cash ratio deposit of £570k and off-balance sheet t-bills

8.5. Securitisation Risk: Enable Guarantee

In June 2019, the Bank executed an Enable Guarantee with the British Business Bank. The British Business Bank is an economic development bank established by the UK Government. Its objective is to promote the development and growth of small and medium size enterprises by facilitating lending to this sector. The Enable Guarantee provides unfunded credit protection for loans covered by the guarantee within the Bank's SME portfolio. The effect of the guarantee is to reduce the risk weighted assets on the guaranteed element of the loan. The Bank remains exposed to the unguaranteed portion and to a 'first loss' element of the guaranteed portion. This latter exposure constitutes a synthetic securitisation position under the CRR. The funding of the lending to SMEs is facilitated by the greater capital efficiency.

The pool of guaranteed loans is originated by the Bank and meet certain criteria including: the risk profile, loan size, purpose of the loan and nature of the borrower and is subject to size and sector limits. Further loans may be added to the pool up to a maximum amount of £50m. Newly originated, newly qualifying or further drawdowns on existing pool loans can be added, providing loan limits are adhered to, until June 2021 or until a loan defaults. The guarantee will continue for those loans already covered, until they have been repaid. The guarantee can be terminated via a clean-up call, once the aggregate value of the remaining facilities falls below 10% of the maximum facility limit.

The total pool exposure at year end was £43.7m, of which the guaranteed portion of the qualifying was 2018: £32.7m.

At the year end, no loans covered by the guarantee were impaired and no losses were recognised in respect of these loans. The loans within the pool are managed and monitored in the same way as the overall portfolio, and should a loan default, would be subject to the same collections and recovery processes.

The UK Government guarantee the Enable guarantee, resulting in a 0% risk weighting (Article 114(4) of the CRR) which is applied to the guaranteed portion of each loan. The unguaranteed exposure is risk-weighted under the standardised approach under CRR, based on the particular exposure class. The synthetic securitisation position is deducted from Own Funds (Article 244(2)(b) of the CRR. The deduction at the year-end was £1.7m. The pool loan exposure remains on balance sheet, whilst the accounting for the guarantee protection is off balance sheet. The fees associated with the guarantee are reported as operating expenses within the income statement.

8.6. Market Risk Capital

The Bank does not have a trading book and is not exposed to commodity or foreign exchange risk positions and accordingly is does not have a requirement for market risk capital.

8.7. Operational Risk Capital

Operational risk is defined in section 4 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 & Compliance Committee. The Bank calculates its operational risk capital requirement using the Basic Indicator Approach as set out in the table below.

£'000	2017	2018	2019
Net interest income	38,431	44,425	42,908
Other income	528	310	50
Relevant indicator	38,959	44,735	42,958
3 year average			42,217
Basic indicator approach percentage			15%
Operational risk capital requirement			6,333

The Bank's operational risk capital requirement at 31 December 2019 was £6.333m (based on the average total income for 2017-2019).

9. Pillar 2

The Pillar 2 capital framework is designed to ensure that banks have adequate capital to cover the risks in their business, divided into two elements:

a) Pillar 2A – Risks which are not fully met under the Pillar I capital requirements such as concentration risk and interest rate risk in the banking book, and,
b) Pillar 2B – Risks to which banks may become exposed over a forward-looking planning horizon.

The above capital requirements are calculated as part of the Bank's ICAAP (internal capital adequacy assessment process). The ICAAP is assessed by the PRA, under the 'Supervisory Review and Evaluation Process (SREP) who set a TCR. The Bank's capital must exceed the TCR at all times.

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

The Bank defines interest rate risk in the banking book as the risk of loss arising from changes in interest rates associated with banking book items.

The key interest rate risk drivers that are assessed by the Bank are listed below:

- Repricing Risk. The risk of loss from movements in the overall direction of interest rates and relative movement in rates at different maturities on the yield curve;
- Basis Risk. The risk of loss as a result of the balance sheet being adversely affected by the movement in differing index rates.
- Prepayment and Optionality Risk. The risk that an asset or liability repays more quickly or slowly than originally anticipated resulting in a repricing mismatch.
- Swap spread Risk. The risk of loss as result of a dislocation in rates between liquid assets (within the Treasury portfolio) and swaps.

CSRBB refers to any kind of asset/liability spread risk of credit-risky instruments that is not explained by IRRBB and by the expected credit/jump to default risk. CCB does not hold a portfolio of credit-risky securities therefore there is no exposure to credit spread risk

The Bank's assesses the IRRBB in a number of ways:

a) Calculating the Economic Value Impact of a 200bps shift in interest rates on a parallel basis. This value is calculated on a monthly basis and reported to ALCO. The Bank is implementing the scenarios set out in EBA guidance 'Guidelines on the Management of Interest Rate Risk arising from Non-Trading Book Activities' in 2019.
b) In accordance with EBA/GL/2018/02 the Bank considers any potential changes in their economic value (EV) and future earnings capacity that could arise from adverse movements in interest rates. The Bank also measures the impact by considering the six scenarios, including the 200 bp parallel shift up and down, the pivotal yield curve steepener and flattener and the 300 bp short-end yield curve shift up and down.
c) 25 bp parallel yield curve ship up and down.

Interest-rate risk is mitigated as far as possible using natural hedges where these exist on the balance sheet, and derivative instruments where required and as appropriate. Natural hedges arise where matching tenor and rate bases occur during the ordinary course of business. Customer products that facilitate this include Fixed Rate Bonds on the liabilities side and Asset Finance lending on the assets side. They also include UK Gilts in the HQLA portfolio.

To assess the impact of rate changes and to ensure the Bank has sufficient funds to ensure that liabilities can be met as they fall due, 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 2019 was:

31 December 2019 £'000	Within 3 months	More than 3 but less than 6 months	More than 6 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Cash and balances at central banks	228,972						228,972
Loans and advances							
Banks	7,695						7,695
Customers	707,269	9,916	9,996	41,336	2,081	(9,095)	761,503
Other assets						5,898	5,898
Total assets	**943,936**	**9,916**	**9,996**	**41,336**	**2,081**	**(3,197)**	**1,004,068**
Off Balance Sheet Derivatives				5,000			5,000
Liabilities							
Customers' accounts	(644,281)	(25,458)	(90,175)	(89,679)		(4,856)	(854,449)
Other liabilities						(7,466)	(7,466)
Total equity		(22,900)				(119,253)	(142,153)
Total liabilities	**(644,281)**	**(48,358)**	**(90,175)**	**(89,679)**	**-**	**(131,575)**	**(1,004,068)**
Off-balance sheet items: Notional value of derivatives	(5,000)						(5,000)
Interest rate sensitivity gap	294,655	(38,442)	(80,179)	(43,343)	2,081	(134,772)	0
Cumulative gap	**294,655**	**256,213**	**176,034**	**132,691**	**134,772**	**0**	**0**

Government and central bank exposures excludes the Bank's cash ratio deposit of £570k

The Bank considers a 200 basis points ("bps") movement to be appropriate for scenario testing given the economic outlook and industry expectations as at 31st December 2019 and estimated that a +/- 200bps movement in interest rates would have impacted the present values of interest flows as follows:

Basis point scenario*	2019 £m	2018 £m
+200bps	1,9	1,5
-200 bps	-2.1	-1.6

*A positive figure represents an increase in the present value of interest flows net interest income

The Bank assesses the 200 basis point and EVE shift on a monthly basis, with increased frequency during periods of uncertainty.

9.2. Pillar 2B

In order to internally assess capital required under Pillar 2B, the Bank stress tests its business model, considering both internally identified risks and the major risk sources identified in the PRA rulebook. The Bank evaluated a macro-economic downturn scenario based on the PRA annual cyclical scenario (ACS) flexed for the type of business undertaken by the Bank.

A bank's Pillar 2B capital requirement consists of the capital conservation buffer, the Countercyclical buffer and, if set, a PRA Buffer which is based on the results of the Bank's stress testing.

Capital Conservation Buffer

Under CRDIV, a capital conservation buffer is required, which is designed to absorb losses during periods of economic stress. As at the 31st December 2019, the capital buffer is 2.5%.

Counter Cyclical Buffer Disclosures

Financial institutions are required to hold additional capital to prevent the build-up of systemic risk during periods of high credit growth as a disincentive to growth and to create additional loss absorption capability. The Financial Policy Committee at the Bank of England sets the applicable rate for credit exposures in the UK, where 100% of the Banks exposures are located. The counter cyclical buffer was 1% as at 31 December 2019. On 11 March 2020 the buffer was reduced to 0%.

Counter Cyclical Buffer – credit exposures requirement

Row	Coun-try	General Credit Exposures £000s	Trading Book Exposures £000s	Securitisation Exposures £000s	Total Exposures £000s £000s	Own Funds General Credit Exposures £000s	Own Funds Securitisat-ion Exposures £000s	Total Own Funds £000s	Own Funds Requirement Weights %	Counter Cyclical Capital Buffer Rate %
10	UK	1,097,774	0	43,651		5,311	90	5,402	100.0%	1.0%

- The Bank uses the standardised approach for calculation of risk weighted assets
- The exposure includes derivative exposures which are held on the liability side of the balance sheet.

The Own fund requirement for countercyclical buffer requirements relates to the Bank's general credit exposures only as the Bank has no exposures in a trading book. Total Counter Cyclical Buffer requirement

Row	2019 £000s	2019 £000s
010	Total risk exposure amount	619,343
020	Institution specific countercyclical buffer rate	1.00%
030	Institution specific countercyclical buffer requirement	6,193

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 2019, the Bank had encumbered assets under the British Business Bank Enable Guarantee.

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 2019 the Bank had drawn £77m (2018: £106m) of Treasury bills under FLS. These Treasury bills are held off balance sheet and as at

31 December 2019, they had not been monetised. Under this scheme, the assets are reported as encumbered.

Additionally, the Bank has pre-positioned loan assets under the Discount Window Facility (DWF), these are not encumbered.

The Bank has not been required to post any collateral in respect of its interest rate derivatives.

The following tables show the appropriate disclosures in respect of the Bank's encumbered and unencumbered assets during 2019. The tables show the median balance sheet values for the past 12 months basis as prescribed in the regulatory requirements.

Template A - Overview of encumbered and unencumbered assets

The values in this report are based on medians of the quarter end exposures. The encumbered assets represent assets encumbered under the British Business Bank Enable guarantee and assets encumbered (but not monetised) under the Funding for Lending Scheme.

Template A 2019 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	194,304	132,483			783,527	190,608		
030	Equity instruments	-	-			-	-		
040	Debt securities	-	-	-	-	-	-	-	-
050	of which: covered bonds	-	-	-	-	-	-	-	-
060	of which: asset-backed securities	-	-	-	-	-	-	-	-
070	of which: issued by general governments	-	-	-	-	-	-	-	-
080	of which: issued by financial corporations	-	-	-	-	-	-	-	-
090	of which: issued by non-financial corporations	-	-	-	-	-	-	-	-
120	Other assets	194,304	132,483			783,527	190,608		
121	of which: Central bank Reserve Account	-	-			190,608	190,608		
122	of which: Deposits at other Banks	-	-			11,476	-		
123	of which: Loans and advances to Customers	194,304	132,483			575,718	-		

Template B – Collateral Received

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 2019 as CCB did not have any monetised encumbered assets during the period.

2019 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 C – Source of Encumbrance - Encumbered assets/collateral received and associated liabilities

2019 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	-	-

11. Liquidity

The Banks's management of liquidity and funding risks aims to ensure that at all times there are sufficient liquid assets, covering both amount and quality, to cover cash flow mismatches and funding fluctuations, to retain public confidence and to meet financial obligations as they fall due, even during episodes of stress.

This is achieved through management and stress testing of business cash flows, setting appropriate risk limits to maintain a prudent funding mix and maturity profile, and maintaining sufficient levels of high quality liquid assets and appropriate encumbrance levels. The risk appetite set by the Board is translated into a set of liquidity risk limits and also defines the size and mix of the liquid assets.

The management of liquidity and funding is undertaken through a comprehensive risk framework which includes its policy, strategy, limit setting and monitoring, stress testing and robust governance controls. Further details can be found in the Bank's statutory accounts for the year ending 31 December 2019. CCB comfortably exceeds the regulatory minimum for the LCR ratio.

LCR Ratio		
LCR regulatory minimum	31/12/2019	31/12/2018
100%	463%	331%

The Bank's HQLAs, managed by its Asset & Liability Management (ALM) function, predominately comprise reserves held at the Bank of England (2019: £229m, 2018: £232m) and off-balance sheet T-bills drawn through the Bank of England's Funding for Lending Scheme totalling £77m (2018: £106m).

The Bank has maintained high levels of liquidity throughout 2019 in order to manage any uncertainty surrounding market sentiment relating to Brexit, and to provide the balances which will enable it to continue unwinding the Funding for Lending Scheme facility, avoiding the need to compete in the market at a time when rates may become inflated.

There is limited exposure to on-balance sheet exposure to derivatives (£25k) (interest rate swaps which are used for risk management purposes to hedge fixed rate savings products) and CCB does not have a trading book, so there is no exposure to market risk.

The Bank does not have exposure to foreign currency risk at the 31 December 2019 and does not offer any foreign currency denominated accounts.

The Bank's liquidity cover ratio (LCR) calculation for Q4 2019 is summarised below:

Quarter ending: £m		Q4 2019
21	Liquidity Buffer – HQLA	297.1
22	Total Net Cash Outflows	64.2
23	Liquidity Coverage Ratio (%)	462.8%

12. Additional Disclosures

Template 1: EU LI1 - Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

31 December 2019 £'000	A	B	C	D	G
	Carrying values of items				
	As reported in published financial accounts	Under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the counterparty credit risk framework	Not subject to capital requirements or subject to deduction from capital
Cash and balances at central banks	228,972	228,972	228,972		
Loans and advances to banks	7,695	7,695	7,695		
Debt securities	0	0	-		
Loans and advances to customers*	761,503	761,503	761,503		
Other assets and prepayments	1,224	1,224	1,224		
Property, plant and equipment	3,154	3,154	3,154		
Intangible assets	791	791	-		791
Deferred taxation	729	729	729		
Total assets*	**1,004,068**	**1,004,068**	**1,003,278**	**0**	**791**
Customers' accounts	854,449	854,449	-	-	854,449
Derivative financial liabilities	31	31	-	31	
Current tax liabilities	1,595	1,595	-	-	1,595
Other liabilities and accruals	5,840	5,840	-	-	5,840
Total liabilities	**861,915**	**861,915**	**-**	**31**	**861,884**

*Net of specific provisions
Government and central bank exposures excludes the Bank's cash ratio deposit of £570k

Column e (carrying value of items subject to the securitisation framework) and column f (carrying value of items subject to the market risk framework) are omitted as there are no exposures in these categories.

Template 1: EU LI2 - Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

31 December 2019 £'000		A Total	Items subject to	
			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*	1,003,213	1,003,213	-
2	Liabilities carrying value amount under the regulatory scope of consolidation	(834)	(834)	-
3	Total net amount under the regulatory scope of consolidation	1,002,379	1,002,379	-
4	Off balance sheet amounts**	129,942	129,942	-
9	PFE - derivatives	25	-	25
10	**Exposure amount considered for regulatory purposes**	**1,132,346**	**1,132,321**	**25**

The Bank has no assets subject to Market risk or securitisation frameworks
*Excludes on-balance sheet provisions for off-balance sheet commitments' and excluding intangible assets

**net of on balance sheet loan provisions

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

Category	Process and interpretations
Cash and balances at central banks	These represent amounts with an initial maturity of less than 3 months and are held at amortised cost in the Bank's balance sheet
Loans and advances to banks	These represent amounts with a maturity of less than 3 months, and are held at amortised cost in the Bank's balance sheet
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. Loans are initially measured at fair value plus direct transaction costs, and subsequently at their amortised cost using the effective interest rate method.
Debt securities	Where securities are actively traded in a recognised market, with available and quoted prices, these have been used to value these instruments.
Customers' accounts	The majority of customer deposits balances are held at amortised cost on the Bank's balance sheet. £5m of fixed rate deposits are held at fair value as these are hedged using interest rate derivatives.
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.

Template 7: EU CRB-B

This table shows the total and average net value of the exposures by exposure class for both on and off-balance sheet exposures.

Total and average net amount of exposures (template 7 EU CRB-B) 31 December 2019 £'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	305,549	300,317
21	Institutions	7,695	11,299
22	Corporates	112,216	92,058
23	Of which: SMEs	101,835	81,627
26	Secured by mortgages on immovable property	622,436	666,081
27	Of which: SMEs	622,436	666,081
28	Exposures in default	14,979	14,693
29	Items associated with particularly high risk	21,349	20,978
34	Other Exposures	5,608	3,742
34	Securitisation	10,775	10,153
35	**Total standardised approach**	**1,100,608**	**1,119,320**
36	**Total**	**1,100,608**	**1,119,320**

The above table includes off-balance sheet exposures in respect of the Bank's FLS t-bills, lending commitments which give rise to a credit risk exposure and takes into account the collateral, and the benefit of the BBB enable guarantee. The value of the PFE on the Bank's derivative portfolio which is held on the liability side of the balance sheet is also included. Government and central bank exposures excludes the Bank's cash ratio deposit of £570k

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

13. Additional Credit Risk Disclosures

EU CRB-C - Geographical Breakdown of Exposures

This template is not disclosed as all exposure are in the UK.

EU CRB-D – Concentration of exposures by industry or counterparty type

The following table splits the Bank's loans and advances to customer by industry sector. This table includes both on and off-balance sheet exposures net of provisions and is after application of collateral.

Concentration of exposures by industry or counterparty type (template 9 EU CRB-D)

31 December 2019 £'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	Public administration and defence,	Education	Human health services and social work activities	Arts, entertainment and recreation	Other services	Total
13	Corporates	710	388	2,660	11	10,614	3,489	5,149	4,815	2,968	76	44,297	2,438	19,447	-	12	138	1,312	13,598	112,122
15	Secured by mortgages on immovable property	5,691	-	4,577	-	3,941	1,585	3,637	580	17,696	661	572,281	4,789	2,795	-	46	1,183	-	2,641	622,103
16	Exposures in default	-	-	-	-	-	302	109	-	532	-	13,284	99	652	-	-	-	-	-	14,978
17	Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	21,357	-	-	-	-	-	-	-	21,357
23	Total standardised approach	6,401	388	7,237	11	14,555	5,376	8,895	5,395	21,196	737	651,219	7,326	22,894	-	58	1,321	1,312	16,239	770,560
X	Securitisation	998	0	704	0	0	0	1,682	0	2,423	0	33,829	1,288	0	0	515	2,031	0	0	43,470
24	Total	7,399	388	7,941	11	14,555	5,376	10,577	5,395	23,619	737	685,048	8,614	22,894	0	573	3,352	1,312	16,239	814,030

EU CRB-E – Maturity of exposures

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 2019 £'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	229,542					229,542
12	Institutions	7,695					7,695
13	Corporates		8,712	49,381	44,764		102,857
15	Secured by mortgages on immovable property		69,292	95,954	412,920		578,166
16	Exposures in default		1,653	1,559	11,767		14,979
17	Items associated with particularly high risk		21,262				21,262
	Securitisation		666	203	42,601		43,470
22	Other exposures		3,808		729		4,537
23	**Total standardised approach**	**237,237**	**105,393**	**147,097**	**512,781**		**1,002,508**

The table above excludes intangible assets and on-balance sheet loan loss provisions relating to off-balance sheet loan commitments. Exposures are net of collateralised deposits. Government and central bank exposures includes the Bank's cash ratio deposit of £570k.

Loan impairments, provisions and credit mitigation

Loans and advances to customers reduced by £7m in 2019, whilst credit risk adjustments increased 1% to £8.1m.

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.

Template 11 - EU CR1A – Credit quality of exposures by exposure class and instrument

Credit quality of exposures by exposure calcs and instrument types (template 11 EU CR1) 31 December 2019 £'000		A	B	C	D	E	F	G
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumu-lated write-offs	Credit risk adjustment charges of the period	Net values
		Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
20	Central governments or central banks		306,119	-			0	306,119
21	Institutions		7,695	-				7,695
22	Corporates	-	115,047	2,373		97	487	112,674
23	Of which: SMEs	-	104,640	2,358		97	528	102,282
26	Secured by mortgages on immovable property	-	624,426	2,037			(238)	622,389
27	Of which: SMEs	-	624,426	2,037			(238)	622,389
28	Exposures in default	17,928		2,950		1,863	(625)	14,978
29	Items associated with particularly high risk	9,041	12,956	639			307	21,358
	Securitisation Exposures		43,651	181				43,470
34	Other exposures	-	4,537	-		-		4,537
35	Total standardised approach	26,969	1,114,431	8,180	-	1,960	(69)	1,133,220
36	Total	**26,969**	**1,114,431**	**8,180**	**-**	**1,960**	**(69)**	**1,133,220**

- This table includes off balance sheet exposures.
- Government and central bank exposures includes the Bank's cash ratio deposit of £570k.
- The effect of collateral is not netted off exposures in this table.
- Write-offs are net of post-write off recoveries. Counterparty credit risk is covered in further tables in section 13

Template 12: EU CR1-B – Credit quality of exposures by industry or counterparty types

Credit quality of exposures by industry or counterparty type (template 12 EU CR1-B) 31 December 2019 £'000		A	B	C	D	E	F	G
		Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accum-ulated write-offs	Credit risk adjustment charges	Net values
		Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
1	Agriculture, forestry and fishing	-	7,424	24	-	-	9)	7,424
2	Mining and quarrying	-	389	1	-	-	(3)	389
3	Manufacturing	-	7,983	43	-	-	22	7,983
4	Electricity, gas, steam and air conditioning supply	-	11	-	-	-	-	11
5	Water supply	-	14,203	40	-	-	14	14,203
6	Construction	709	4,949	431	-	215	414	5,658
7	Wholesale and retail trade	139	10,571	133	-	-	56	10,710
8	Transport and storage	-	4,318	17	-		(1)	4,318
9	Accommodation and food service activities	563	23,215	129	-		60	23,778
10	Information and communication	-	739	2	-	-	(11)	739
11	Real estate activities	-	1,908	71	-	1,641	(7,589)	1,908
12	Professional, scientific and technical activities	24,123	666,960	6,355	-	-	6,324	691,084
13	Administrative and support service activities	178	8,563	126	-	110	66	8,741
14	Public administration and defence compulsory social security	1,257	21,685	770	-	-	770	22,942
15	Education	-	574	1	-	-	1	574
16	Human health services and social work activities	-	3,360	8	-	-	(9)	3,360
17	Arts, entertainment and recreation	-	1,318	6	-	-	3	1,318
18	Other services	-	15,205	24	-		5	15,205
19	Total	**26,969**	**793,375**	**8,181**	**-**	**1,966**	**113**	**820,345**

Template 13: EU CR1-C – Credit Quality of Exposures by geography

Credit Quality of Exposures by geography (template 13 EU CR1-C)
31 December 2019 £'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					
1	UK/Total	26,969	1,114,729	8,180	-	-	-	1,133,245

All exposures are based in the UK.

Template 14: EU CR1-D – Ageing of past-due exposures

Ageing of past-due exposures (template 14 EU CR1-D)
31 December 2019 £'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	Total
1	Loans	7,394	2,706	3,840	2,558	6,530	1,439	24,467
2	Debt Securities	-	-	-	-	-	-	
3	Total exposures	7,394	2,706	3,840	2,558	6,530	1,439	24,467

Template 15: EU CR1-E – Non-performing and forborne exposures

Non-performing and forborne exposures (template 15 EU CR1-E)
31 December 2019 £'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 perform -ing 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	-	-	-	-	-	-	-	-	-	-	-	-	-
020	Loans and advances	769,684	4.338	5,070	26,969	26,969	26,969	10,563	4,660	191	3,455	721	834	
030	Off-balance-sheet exposure	53,365	-	-	-	-	-	-	65	-	-	-	-	-

Accumulated provision reflects the specific provisions.

Template 16: EU CR2-A – Changes in the stock of general and specific credit risk adjustments

Changes in stock of general and specific credit risk adjustments (template 16 EU CR2A) 31 December 2019 £'000		A	B
		Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
1	**Opening Balance**	**8,068**	**-**
2	Increases due to amounts set aside for estimated loan losses during the period	2,896	-
3	Decreases due to amounts reversed for estimated loan losses during the period	(913)	-
4	Decreases due to amounts taken against accumulated credit risk adjustments	1,960	-
9	**Closing balance**	**8,181**	**-**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	96	-

Template 17 EU CR2 B - Changes in stock of defaulted loans and debt securities

Changes in stock of defaulted loans and debt securities (template 17 EU CR2 B) 31 December 2019 £'000		Gross carrying value defaulted exposures
1	**Opening balance Defaulted loans and debt securities at 1 January 2019 under IFRS 9**	**12,706**
2	Loans and debt securities that have defaulted since 31 December 2018	22,406
3	Returned to non-defaulted status	(66)
4	Amounts written off	(1,960)
5	Other charges	(6,117)
6	**Closing balance Defaulted loans and debt securities at 31 December 2019**	**26.969**

Changes in stock of defaulted loans and debt securities (template 17 EU CR2 B) 31 December 2018 £'000		Gross carrying value defaulted exposures
1	**Opening balance Defaulted loans and debt securities at 1 January 2018 under IFRS 9**	**5,906**
2	Loans and debt securities that have defaulted since 31 December 2017	9,289
3	Returned to non-defaulted status	(279)
4	Amounts written off	(1,033)
5	Other charges	(1.177)
6	**Closing balance Defaulted loans and debt securities at 31 December 2018**	**12,706**

Other charges include changes in balances for accounts that have remained in default throughout the year, as well as the closing balances for accounts that have redeemed (either through forced or voluntary sales).

The higher value of new defaults in 2019 compared to 2018 is principally due to one large exposure. The Bank's provision release in 2019 was significantly higher than in 2018 reflecting the successful resolution of a number of defaulted exposures.

Credit Risk Mitigation

Template 18: EU CR3 – CRM techniques - Overview

This table shows the use of Credit Risk Mitigation (CRM) techniques, broken down by loans and debt securities. The exposures secured by financial guarantees represents loans included within the British Business bank Enable Guarantee. The Bank does not use credit derivatives. The exposures secured value is net of cash deposits held as security totalling £0.8m.

Credit risk mitigation techniques overview (template 18 EU CR3) 31 December 2019 £'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	Total Loans*	313,895	718,042	718,042	43,470	-
2	Total Debt Securities		-	-	-	-
3	**Total exposure**	**313,895**	**718,042**	**718,042**	**43,470**	**-**
4	Of which defaulted	-	23,514	23,514	-	-

'* Total loans includes other assets, such as prepayments and other debtors.

Template 19: EU CR4 – Standardised approach – Credit risk exposure and CRM effects

Credit risk exposure and credit risk mitigation (CRM) effects (template EU 19 CR4) 31 December 2019 £'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
1	Central governments or central banks	229,542	76,577	229,542	0	0	0%
6	Institutions	7,695	25	7,695	25	1,551	20%
7	Corporates	105,746	9,301	102,857	1,783	92,882	83%
9	Secured by mortgages on immovable property	580,458	43,968	578,167	11,749	383,840	62%
10	Exposures in default	17,928	-	14,978	-	15,281	102%
11	Exposures associated with a particularly high risk	21,901	96	21,262	42	31,955	150%
	Securitisation	43,651	-	10,732	-	9,034	84%
16	Other items*	4,537	-	4,537	-	5,631	124%
17	**Total**	**1,011,458**	**129,967**	**969,770**	**13,599**	**540,174**	**49%**

*Other assets include fixed assets.
Government and central bank exposures includes the Bank's cash ratio deposit of £570k

This table includes both on and off-balance sheet exposures. Exposures are gross of impairment. The RWA calculation includes the effect of credit conversion factors.

14. Counterparty Risk

The following tables refer to the Bank's derivative holdings and in particular the Bank's Potential Financial 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.

Template 25: EU CCR1 - Analysis of Counterparty Credit Risk (CCR) exposure by approach

Analysis of Counterparty Credit Risk (CCR) exposure by approach (template 25 EU CCR1) 31 December 2019 £'000		A	B	C	D	E	F	G
		Notional	Replace-ment cost/ current market value	Potential future credit exposure	EEPE	Multi-plier	EAD post CRM	RWAs
1	Mark to market			25			25	13
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							13

Template 26: EU CCR2 – CVA capital charge

Credit Valuation Adjustment (CVA) Charge (template 26 EU CCR2) 31 December 2019 £'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	25	2
EU4	Based on original exposure method		
5	**Total subject to the CVA capital charge**	**25**	**2**

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

Template 27: EU CCR8 – Exposure to Central Counterparties (CCPs)

The Bank has no exposure to counterparty credit risk with central counterparties as defined in template 27 EU CCR8 (exposures due to operations, margins, contributions to default funds).

Template 28: EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk

Please see section 8.4 for this table,

Template 31: EU CCR5-A – Impact of netting and collateral held on exposure values

	Impact of netting and collateral held on exposure values (template 31: EU CCR5 A) 31 December 2019 £'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
1	Derivatives	25	-	25	-	25
4	Total	**25**	**-**	**25**	**-**	**25**

Template 32: EU CCR5- B – Composition of Collateral for exposures to Counterparty Credit Risk

The Bank only has derivatives in this category but has not received or place collateral on these exposures.

Composition of collateral for exposure to CRR (template 32: EU CCR5 B) 31 December 2019 £'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	-	-	-	-	-	-