Cambridge & Counties Bank Limited

Capital Requirements Directive
Pillar 3 Disclosures
31 December 2015

Cambridge & Counties Bank
Growing business together

Contents

1. Introduction

1.1. Purpose

This document provides information on the policies and approach taken by Cambridge & Counties Bank (or 'the Bank') to risk management and the maintenance of its capital resources. It includes details of:

- The approach to risk management, including policies and objectives;
- The governance structure of the Bank, including Board and Committees; and
- Information quantifying the Bank's assets and capital resources.

1.2. Business Overview

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

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

The Bank is authorised by the Prudential Regulation Authority, regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is registered under the Financial Services Compensation Scheme.

- Lending

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

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

- Deposits

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

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

For the year ended 31 December 2015 Cambridge & Counties Bank had operating income of £18.5m and employed an average of 82 employees during the year.

1.3. Legislative Framework

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

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

(i) 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 and the Basic Indicator Approach (BIA) for operational risks.

(ii) Pillar 2

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

(iii) Pillar 3

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

1.4. Scope of Application

All the figures, governance, objectives and policies included within this document are as at 31st December 2015 (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 2015. 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 the Internal Audit function and approved by the Board. The disclosures are not subject to external audit; however, some of the information within the disclosures also appears in the audited 2015 financial statements.

The processes for preparing this disclosure are laid out in the Bank's Pillar 3 policy.

PRA number: 579415

The registered office of the Bank is:

42 Castle Street, Cambridge, CB3 0AJ.

Cambridge & Counties Bank Limited is not part of a Group of companies. This report therefore relates to just Cambridge & Counties Bank Limited.

1.5. Directors

Cambridge & Counties Bank has 4 Executive and 5 Non-Executive Directors. A summary of their experience and confirmation of any other directorships is disclosed on the Bank's website (www.ccbank.co.uk).

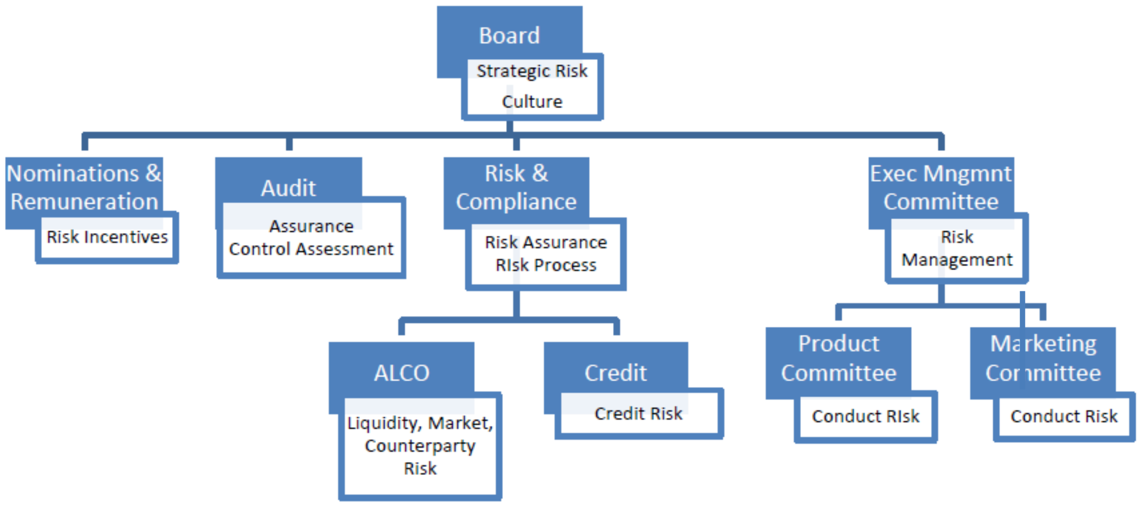
Our recruitment policy for selection of all staff, including Directors, can also be found on the Bank's website (www.ccbank.co.uk). This policy covers both recruitment and diversity.

2. Governance and Committees

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

The Board comprises of four Executive Directors and five Non-Executive Directors and sets the Bank's corporate objectives, strategy and risk appetite. The Board ensures that the Bank has sufficient liquidity and capital resources and closely monitors financial results, budgets and forecasts as well as providing oversight of current and future activities. The Board meets every month.

The Board's risk and governance structure is outlined below;



2.1. Audit Committee

During 2015 the Audit & Compliance Committee revised its responsibilities. The Audit Committee remains responsible for the oversight of the Bank's control processes with Compliance now being the responsibility of the Risk Committee.

Composition and meetings: All members of the Audit Committee are Non-Executive Directors. Executive Directors and other senior executives attend as required by the Chairman. The Chairman of the Committee is an independent Non-Executive Director.

The Committee meets at least four times a year where both internal and external auditors attend. Part of each meeting takes place without the Executive Directors being present if so required.

Responsibilities:
The Committee will:

Non-Audit Services
a) Consider and recommend for approval the Non-Audit Services policy

External Audit
a) Hold annual meetings with the External Auditors
b) Consider the appointment (and on an annual basis the re-appointment) of the External Auditors to the Bank and review their performance.

c) Recommend the audit fee and terms of engagement to the Board.
d) Consider the Bank's policy in relation to non-audit services.
e) Consider objectivity/independence and obtain confirmation from the auditors.
f) Review audit plan and scope of audit work
g) Review the draft annual accounts and audit report.
h) Review any management points identified by the auditors.

Internal Audit

i) Establish an overall work programme for the Internal Audit function.
j) Review and discuss all reports produced by Internal Audit.

Control Environment

k) Review and assess the effectiveness of the Bank's control environment

Key issues reviewed in 2015: During the year the Committee reviewed and monitored the progress of the Bank's transition from UK GAAP to International Financial Reporting Standards (IFRS), reviewed the 2014 Report and Accounts, and received, reviewed and commented on reports from the External and Internal Auditors on the outcome of their work.

2.2. Risk & Compliance Committee

During the year the Risk Committee took on additional responsibility for the oversight of the Bank's compliance activities.

Composition and meetings: The Risk & Compliance Committee is comprised of all Executive and Non-Executive Directors of the Board and the Director of Risk & Compliance. The Chairman of the Committee is an independent Non-Executive Director. The committee met 10 times in 2015 and is scheduled to meet at least twice every quarter.

Responsibilities:

The principle objectives of the Committee are to identify, control and manage the risks inherent in the Bank (including conduct / compliance risk) ensuring that these risks are fully documented for approval, and to recommend to the Board an appetite of risk statement.
Other responsibilities include:

a) To review the Risk Register.
b) To Approve the Terms of Reference and responsibilities of the Credit Committee and the Assets & Liabilities Committee (ALCO) and receive minutes from these Committees.
c) Consider and recommend for approval by the Board the following policies:
    - Anti-Bribery & Corruption
    - Anti-Fraud
    - Anti-Money Laundering & Counter Terrorist Finance
    - Complaint Handling
    - Conduct Risk
    - Counterparty
    - Customer Acceptance & Identification Procedures
    - Foreign Exchange
    - Interest Rate Risk in the Banking Book
    - IT & Data Protection
    - Lending
    - Liquidity
    - Pillar 3
    - Risk Management
    - Trading

d) To approve any recommendations made by ALCO for amendments to the authorised list of counterparties and limits, to initiate any changes to this list and instruct ALCO to act accordingly.

e) To assess and sanction lending recommendations made by the Credit Committee that fall outside any limits contained within the lending policy.
f) In order to consider these risks, to understand the strategies and business/corporate objectives, and the key factors used to measure performance.
g) To ensure that the Risk Management systems, including people and processes, are appropriately resourced.
h) To approve risk related Management Information to be supplied to the Board. To liaise with Board members to ensure that Management Information is in the required format and the content is sufficiently robust to enable the Board to make informed decisions.
i) To ensure that the Bank has a culture that promotes openness and challenge.
j) To ensure that the Bank has a culture that embeds the principles of good customer outcomes and Treating Customers Fairly (TCF), and to provide oversight and Conduct Risk and TCF related management information to the Board.
k) To consider whether the Board is fulfilling its risk oversight obligations and to recommend any training needs, either for individuals or for the whole Board.
l) To consider any emerging or inter-related risks that may impact the Bank and any training requirements as a result.
m) To ensure there is a satisfactory relationship with and between other areas of the business e.g. Strategy, Risk, Controls, Compliance, Remuneration and Resources.
n) Establish the overall work programme of the Compliance function
o) Review and discuss all reports produced by the Compliance function.

Key issues reviewed in 2015: During the year the Committee received regular updates on the Bank's key risks, approved changes to the Bank's lending policies, reviewed and approved the Asset Finance lending policies and approved a revised risk appetite statement as part of the annual strategy review.

In addition, the Committee received regular reports from the Credit and ALCO Committees, and considered revisions to the Bank's Lending Policy. Key regulatory documents such as the Bank's Individual Capital Adequacy Assessment Process (ICAAP), Individual Liquidity Adequacy Assessment Process (ILAAP), Contingency Funding Plan (CFP), and Recovery & Resolution Plan (RRP) were also considered, all of which were then approved by the Board. The Committee also approved a new Target Operating Model for the Bank's Risk & Compliance function.

Two of the executive committees, the Credit Committee and the Assets & Liabilities Committee (ALCO) report to the Risk & Compliance Committee.

2.3. Nominations & Remuneration Committee

Composition and meetings: The Nominations & Remuneration Committee is comprised solely of the Non-Executive Directors. The Committee meets as required, but at least annually.

Responsibilities:
The Committee will:

a) Review the structure, size and composition required of the Board.
b) Consider the appointment of new Executive and Non-Executive Directors.
c) Prepare all new Directors and Executive Management contracts and/or remuneration arrangements.
d) Review of all Directors and Executive Management's remuneration arrangements.
e) Oversee and implement the operation of the Annual Bonus Scheme and any discretionary bonus payments.
f) Review annually all staff remuneration levels together with the Chief Executive Officer.
g) Ensure all responsibilities are undertaken with due consideration given to the Bank's Strategic Plan, its Business Plan, Board approved policies and conduct risks, specifically those associated with remuneration.

h) Consider the Remuneration policy for recommendation to the Board for approval.

The Board decides fees payable to Non-Executive Directors.

Key issues reviewed in 2015: During the year the Committee reviewed the performance appraisals of the Executive Directors; approved the 2014 bonus awards as well as making recommendations on the appointments of new Executive Directors

2.4. Executive Management Committee

Composition and meetings: The Committee is chaired by the CEO and made up of all directors, excluding NEDs. The Committee holds meetings at least monthly, the minutes of which are submitted to the Board.

Responsibilities:
The Executive Management Committee ensures that the activities of the Bank are co-ordinated, that issues arising in one part of the business are examined for their impact on the Bank overall and that, where required, ongoing changes are made to stay within the framework of the Business Plan. It is subject to the overall control of the Board.

Three executive committees; the Marketing Committee, the Product Committee and the Business Change Committee report to the Executive Management Committee.

3. Risk Management Objectives and Policies

The Bank regards the monitoring and controlling of risk as a fundamental part of the management process and accordingly involves its most senior people in developing risk policy and in monitoring its application. The Board has ultimate responsibility for setting the Bank's risk appetite, agreeing a risk management policy and developing a risk management framework. The Board believes that the policies and risk management processes are adequate with regard to the Bank's profile and strategy.

A detailed analysis of key risks has been considered as part of the assessments of liquidity and capital adequacy and is documented in the Individual Liquidity Adequacy Assessment Process ("ILAAP") and the Internal Capital Adequacy Assessment Process ("ICAAP") documents, which are approved by the Board.

The Board has delegated the management of the systems of internal control to senior management who have adopted a "Three Lines of Defence" approach to the operational management of the Bank. This approach ensures that staff are aware of their responsibilities and that an effective segregation of duties is in place across the Bank.

- First line of defence – operational management. The Bank's managers are in the best position to assess and manage the risk exposures within their departments and teams. Operational oversight is provided by the Executive Management Committee.

- Second line of defence – risk and compliance functions. The second line of defence is responsible for the quantification, analysis and reporting of all risks. These functions are operationally independent from the business managers, and can therefore uphold the principles and policies of the Bank. They provide oversight of the first line functions and can independently report to Risk & Compliance and/or Audit Committees any policy breaches or control issues.

- Third line of defence – internal audit. Internal audit is entirely independent of the operational functions of the Bank, and reports directly to the Audit Committee. The function is outsourced to Deloitte LLP to ensure further independence. Their role is to assess the Bank's control environment and provide the Audit Committee with an independent view of the effectiveness of the Bank's systems and controls.

The internal control systems can only provide reasonable and not absolute assurance against material misstatement or loss.

The Director of Risk & Compliance assesses the principal risks; challenges the operational managers and provides assurance to the Board that the Bank is managing its risks and operating within its appetite for risk. Risk reports are provided to the Board via the Risk & Compliance Committee. The Bank's Risk & Compliance function operates independently and reports to the Bank's Chief Risk Officer who is an Executive Director.

3.1. Risk Oversight, Monitoring and Management

Oversight and direction from the Board remains central to the risk management process. The Board ensures, through its sub-committees, that appropriate policies, procedures and processes are implemented across the business to control and monitor the risk exposures which arise from the Bank's operations.

Regular management information presented to the Board ensures that the management of risk is aligned to the Board's risk appetite and that unacceptable risk exposures are identified and, where possible, mitigated.

In addition to the on-going assessment of known risk exposures, the quarterly updating of the risk register combined with a forward looking assessment from the Risk & Compliance Committee ensures that new risks are adequately captured and monitored.

The Board is ultimately responsible for the risk management process and defines, through its risk appetite statements, the acceptable levels of risk exposure that should be taken in the delivery of the Bank's strategic objectives. As noted above, the Board's oversight of risk is supported by the structure of sub-committees. Each of the sub-committees provides a forum for the direction and challenge of the Bank's management, whilst monitoring business performance and risk exposures.

In order for Cambridge & Counties Bank to fulfil its strategic plan, in line with the objectives of the Bank's shareholders, the Board of Directors is committed to maintaining a sound risk management culture within the Bank. To this end, they have established a definition of the Bank's risk appetite to limit the total level of the Bank's risk exposure. The risk appetite is a set of overarching and supporting statements that are used to ensure that the management and staff of the Bank understand the level of risk that is acceptable to the Board.

As well as limiting the total level of risk exposure taken on by the business, the Bank's risk appetite is a way of articulating the Board's level of risk tolerance to our key external stakeholders and regulators.

The Bank's risk appetite is kept under review and is subject to a formal re-approval at least annually. The latest update to the risk appetite statement was completed in November 2015.

The Bank's Overarching Risk Appetite Statements are as follows:

3.1.1. A zero tolerance for unexpected loss

In order to fulfil the objectives of the Bank's shareholders and to maintain confidence in the Bank, the Board operates the business in such a way as to avoid unexpected losses that prevent the execution of the Bank's dividend strategy. In this way, unexpected losses can be absorbed without affecting the Bank's capital adequacy or the delivery of expected returns to shareholders.
The Board recognises that, through the full range of the economic cycle, the Bank is exposed to external factors which could negatively affect its profitability. However the Board's aim is that the Bank should maintain planned shareholder returns throughout the economic cycle, without threatening the Bank's capital adequacy.

3.1.2. The maintenance of capital above regulatory limits at all times

The Bank will, at all times, maintain a level of capital above the prevailing regulatory limits. In order to ensure that limits are not breached, the Board specifies a series of Early Warning Indicators (EWIs) that enable the Board and management to predict and mitigate any potential capital shortfalls. In the event that the EWIs indicate that regulatory capital is in danger of falling below acceptable levels, additional management actions will be initiated to ensure that regulatory limits are maintained.

3.1.3. The maintenance of adequate liquidity

The Bank will hold sufficient liquidity of an appropriate quality to ensure that all liabilities can be met as they fall due under normal market conditions and under a range of stress scenarios. In order to ensure that limits are not breached, the Board specifies a series of EWIs that enable the Board and management to predict and mitigate any potential liquidity shortfalls. In the event that the EWIs indicate that liquidity is in danger of falling below acceptable levels, additional management actions will be initiated to ensure that regulatory limits are maintained.

3.1.4. The protection of the Bank's customers

The Bank will ensure that it delivers fair customer outcomes at all times and will ensure that customers are treated fairly, responsibly and with respect. The Bank, therefore, has a zero tolerance for any breaches of laws or regulations relating to the Bank's products, services or the treatment of its customers.

3.1.5. Regulatory Compliance

The Bank will comply fully with all relevant laws and regulations and will engage with its regulators in an open and cooperative manner. The Bank, therefore, has a zero tolerance for any event that may lead to regulatory sanction.

3.2. The Bank's Supporting Statements of Risk Appetite

3.2.1. Capital Risk

In order to ensure that the Bank retains sufficient capital resources to meet capital requirements the Bank's capital position will be assessed on a monthly basis and reported to the Risk & Compliance Committee.

In the event that capital is in danger of falling below acceptable levels, additional management actions will be initiated to ensure that regulatory limits are maintained. Actions to be taken in relation to each of the rating bands will be detailed in the Bank's Recovery Plan.

3.2.2. Credit Risk

The Bank's primary aim is to lend money to small and medium sized enterprises. The Bank has a low tolerance for credit losses but recognises that some losses are inevitable in any lending portfolio. The Bank will seek to maintain a balance between a low tolerance for losses and the need to maintain adequate margin.

In line with this risk appetite, the Bank's lending will be spread across two primary business lines:

- Lending fully secured against land and buildings
- Asset finance lending

Unsecured lending or lending against other asset classes is not permitted (apart from the small number of legacy loans already on the Bank's books or in exceptional circumstances). All lending will be supported by rigorous in-house underwriting.

In order to support the above aims, the Board of Directors have implemented a series of product, geographical, industry and sectoral limits. These limits are laid out in the Bank's Lending Policy which is subject to annual approval by the Board. The Lending Policy also specifies those assets that are acceptable as security. No lending outside of Lending Policy criteria is permitted without the specific approval of the Bank's Board.

Credit losses can threaten the Bank's ability to maintain profitability and, if uncontrolled, can also damage the Bank's solvency. As such, the Bank's appetite for credit risk directly supports the first and second of the overarching risk appetite statements.

3.2.3. Operational Risk

The Bank has a low tolerance for operational losses and seeks to run its business in such a way that operational losses are avoided at all times. The Board of Directors recognises that some operational losses are inevitable and therefore ensures that all losses of greater than £5,000 are logged, investigated and subject to root-cause analysis.

The Board also requires that the Bank's management undertake regular risk assessments, with the results being logged in the Bank's risk register which is reviewed by the Risk & Compliance Committee on a quarterly basis.

In order that unforeseen operational losses do not threaten the Bank's solvency, the Bank undertakes an annual operational risk stress testing exercise to ascertain the necessary level of capital to be held to cover operational risk. The results of this stress testing are documented in the Bank's Individual Capital Adequacy Assessment Process (ICAAP) document.

As operational losses can adversely affect profitability and the service of customers, the Bank's appetite for operational risk directly supports the first and fourth of the overarching risk appetite statements.

Operational risk requirements are laid out in the Bank's Risk Management Policy.

3.2.4. Liquidity Risk

It is a fundamental requirement that a Bank maintains, at all times, sufficient liquid assets to ensure that it can meet its liabilities as and when they fall due.

As such, the Board has adopted the following statement of its liquidity risk appetite:
"The Bank should hold sufficient liquidity resources, in terms of quantum and quality, to be able to repay liabilities as they fall due for a period of 90 days under the circumstance set out in the Bank's Liquidity Risk Appetite Stress Test."

The period of 90 days gives the Board sufficient time to explore all reasonable options for the recovery, or failing that, the resolution of the Bank in accordance with its Contingency Funding Plan and Recovery and Resolution.

Liquidity requirements and resources are assessed daily. Additionally, available liquidity will also be rated against the requirements of the CRD IV Liquidity Coverage Ratio (LCR). As a further protection of the Bank's long-term viability, the Bank also maintains a Deposit to Loan ratio of at least 100% at all times. The ratio is also assessed daily.

In addition to this the Board will specify a series of EWIs that enable the Board and management to predict potential liquidity shortfalls. In the event that the EWIs indicate that liquidity is in danger of falling below acceptable levels, additional management actions will be initiated to ensure that regulatory limits are maintained and that the stressed outflows can continue to be met.

Full details of the Bank's liquidity management processes and the liquidity EWIs can be found in the Bank's ILAAP document and in the Bank's liquidity policy and Contingency Funding Plan.

3.2.5. Treasury Counterparty Risk

The Bank has a zero tolerance for losses relating to the failure of treasury counterparties. As such, the Bank will only invest in institutions that meet minimum credit quality criteria.

In order to meet this appetite, ALCO recommends a list of approved counterparties, with associated limits for approval by the Risk & Compliance Committee. Such counterparties and limits are reviewed by ALCO on a monthly basis as part of ALCO's standing agenda. When situations dictate, limits may be removed altogether by ALCO or the Risk & Compliance Committee.

The list of approved counterparties and limits will show short-term and long-term ratings with acknowledged rating agencies [Moody's Investor Services (Moody's); Fitch Ratings and Standard and Poor's].

No short term exposure (defined as having a residual maturity of more than or equal to three months) will be held with a counterparty with a short term rating issued by Moody's of lower than P-2.

No long term exposure (defined as having a residual maturity of more than three months) will be held with any counterparty with a Moody's long term rating of less than A3.

No limit for an individual counterparty or group of related counterparties, will exceed 100% of the Bank's capital except for limits to zero risk-weighted Central Banks and Sovereigns.

The Bank's appetite for treasury counterparty risk directly supports the first and third of the overarching risk appetite statements.

Full details of the Bank's counterparty management processes can be found in the Bank's counterparty policy.

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

The Bank will take necessary steps to protect its earnings and market value from fluctuations in interest rates. It does this by hedging its assets and liabilities using on and off balance sheet hedging strategies. The current historically low level of UK base rate reduces the Bank's exposure to basis risk, although certain UK rates could potentially reduce to zero or beyond. The Bank's interest rate risk exposure is monitored by ALCO on a monthly basis. It monitors its exposure to changes in interest rates based on two measures:

- Repricing Risk

In order to meet its overall objective, the Bank will not tolerate interest rate positions which, subject to a 200bps positive or negative parallel shift in the relevant yield curve, give rise to a positive or negative impact to earnings of greater than 2.0% of total capital.

In order to ensure that the overall risk limit of 2% does not mask mismatched positions within individual time-brackets, the Bank also sets a limit of 2% of capital for any gains or losses within a range of time brackets, under the same +/- 200bps parallel shift.

- Basis Risk

In terms of Basis Risk, the bank will apply a stress test in which all mismatched legs are subject to a 0.25% rate shift to the Bank's detriment. The Bank's appetite limit is that no individual mismatch position should cause more than a 2% negative impact to capital and that, cumulatively, the Bank's net and absolute mismatch positions should also not be impacted by more than 2% of capital under this 0.25% stress.

The Bank's appetite for IRRBB directly supports the first and second of the overarching risk appetite statements.

Full details of the Bank's processes and limits can be found in the Bank's IRRBB policy.

3.2.7. Conduct of Business Risk

Cambridge & Counties Bank is committed to working together with its customers to provide straightforward, no-nonsense products that will help small to medium sized businesses reach their full potential.

The Bank, therefore, has a zero tolerance for any breaches of laws or regulations relating to the Bank's products, services or the treatment of its customers.

Oversight of Conduct of Business Risk is provided by both the Audit Committee and the Risk & Compliance Committee. Regular Conduct Risk and Compliance MI is provided to both committees.

As conduct risk failures can lead to regulatory fines or sanctions, as well as a failure to achieve the Bank's business plan, the Bank's appetite for Conduct of Business Risk directly supports the first and fourth of the overarching risk appetite statements.

Full details of the Bank's processes and limits can be found in the Bank's Conduct Risk policy.

3.2.8. Market Risk

The Bank does not operate a trading book and therefore has a zero tolerance for losses relating to market risk. Any exposures relating to foreign exchange risk are matched or hedged and are subject to tight limits laid out in the Bank's Risk Management Policy and overseen by the Bank's Assets & Liabilities Committee.

The Bank's appetite for market risk directly supports the first of the overarching risk appetite statements.

3.3. The Embedding of Risk Appetites within the Business

3.3.1. Strategic Planning

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

3.3.2. Risk Limits

The Bank's risk appetite statements, both overarching and supporting, are linked to the day-to-day running of the business through individual limits which are managed through policy statements under the oversight of the Board and its sub-committees.

3.3.3. Management Information

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

4. Remuneration

As a firm with less than £15bn of assets, the Bank is classified as a "Tier 3" firm for the purposes of the disclosure of remuneration under the Capital Requirements Regulations (CRR). In compliance with the requirements as laid out in the PRA Supervisory Statement LSS8/13 'Remuneration standards: the application of proportionality' the Bank has taken note of the regulator's guidance on materiality and proportionality.

The period covered by this declaration is from 01 January 2015 through to 31 December 2015.

Tier 3 disclosure requirements can be expressed as follows:

- The Nominations & Remuneration Committee is responsible for designing and implementing the reward structure of the Bank. The committee ensures that effective risk management is a key component of remuneration and incentive structures. Membership is restricted to Non-Executive Directors only.
- The committee's terms of reference describe the committee's responsibilities. These are set out in section 2.3 of this report.
- The Nominations & Remuneration Committee meets annually to distribute the variable remuneration from an aggregated pool of reserves.
- The Board of Cambridge & Counties Bank is committed to adhering to the Financial Services Remuneration Code, thus ensuring that the Bank has risk-focused remuneration policies, which are consistent with and promote effective risk management and do not expose the Bank to excessive risk. This is done in a manner which is appropriate to the Bank's size, internal organisation and the nature, scope and the complexity of its activities.
- Cambridge & Counties Bank ensures that its remuneration policies, practices and procedures are clear and documented. To record those policies, practices and procedures, and assess its compliance with the Code, the Bank's Remuneration Policy is reviewed annually to take account of any changes to policies, practices and procedures and is approved by the Nominations & Remuneration Committee.
- The Bank's remuneration policy is structured in such a way as to ensure that there is a clear link between pay and performance. Performance measures are related to both financial performance and the achievement of defined risk management objectives.
- The table below sets out the remuneration of the Bank's Executive and Non-Executive Directors. These members of staff have been classified as 'Code Staff' as they have a material impact on the profit of the Bank.

	Total remuneration	Number of beneficiaries
	£'000	No.
2015	850	9
2014	928	8

5. Capital Resources

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

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

The Bank's policy is to maintain a strong capital base to maintain investor and market confidence and to sustain the future development of the business. The Board manages its capital levels for both current and future activities and documents its risk appetite and capital requirements during stress scenarios as part of the ICAAP. The ICAAP represents the view on risk for the Bank and is used by the Board, management and shareholders to understand the levels of capital required to be held over the year, the medium term and to assess the reliance of the Bank against failure.

The Bank submitted its last ICAAP to the PRA in March 2016. The Bank presents regular reports on the current and forecast level of capital, as well as the results of the stress scenarios to ALCO, Risk & Compliance Committee and to Board. The key assumptions and risk drivers used to create the ICAAP are regularly monitored and reported and any material deviation from the forecast and risk profile of the Bank would mean the ICAAP would need to be reviewed.

The Bank has complied with all externally imposed capital requirements during 2014 and 2015. The Bank has elected to use the standardised approach for credit risk. Under CRD IV the Bank must set aside capital equal to 8% of its total risk weighted assets to cover its 'Pillar 1' capital requirements. The Bank must set also set aside additional 'Pillar 2' capital to provide for additional risks.

As at 31 December 2015, the Bank's capital base was made up of £40.6m of Tier 1 capital and £1.4m of Tier 2 capital. The Bank's regulatory capital consists of the following elements:

Tier 1 capital

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

Tier 2 capital

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

The total assets of the Bank at 31 December 2015 were £517,949k. The eligible capital resources at 31 December 2015 totalled £42,054k. The tables below set out the Bank's capital resources at 31 December 2015, reconciles these resources to the Bank's reported regulatory capital and shows the Bank's capital ratios as at 31 December 2015.

£'000	31 December 2015	31 December 2014
Tier 1		
Ordinary share capital	22,955	18,455
Retained earnings	6,422	(1,040)
Available for sale reserve	11	39
Deductions: Intangible assets	(681)	(681)
Total common equity Tier 1 capital	28,707	16,773
Perpetual subordinated contingent convertible loan notes	11,900	-
Total Tier 1 capital	40,607	16,773
Tier 2		
Subordinated debt	400	800
Preference share capital	-	7,500
Add: Collective impairment allowance	1,047	595
Total Tier 2 capital	1,447	8,895
Total regulatory capital	**42,054**	**25,668**

£'000	31 December 2015	31 December 2014
Equity as per statement of financial position	41,288	24,954
Regulatory adjustments		
Add subordinated debt	400	800
Add collective impairment allowance	1047	595
Less intangible assets	(681)	(681)
Total regulatory capital	**42,054**	**25,668**

%	31 December 2015	31 December 2014
Common equity tier 1 capital ratio	10.5	8.7
Tier 1 capital ratio	14.8	8.7
Tier 2 capital ratio	0.6	4.6
Total capital ratio	**15.4**	**13.3**

The 2015 capital ratios assume the verification of 2015 profits and reserves as at 31 December 2015

- The subordinated debt which has a nominal value of £2,000,000 was acquired as part of the acquisition of the net assets of Pensions Bank Limited on 8 June 2013. It carries an interest rate of 9.5% above base rate and matures in August 2016.
- In September 2015 the Bank authorised the creation and issue of 50,000,000 £1 perpetual subordinated contingent convertible loan notes. Cambridgeshire County Council subscribed for 11.9m of these notes on 30 September 2015. Interest on these securities is due and payable only at the sole discretion of the Bank.

5.1. Operational risk capital

Operational risk is the risk of loss arising from inadequate or failed internal processes. 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. This is determined in relation to the Bank's net income averaged over the previous 3 years. The Bank's operational risk capital requirement at 31 December 2015 was £631k (based on the average net income for 2012-2014)

5.2. Risk weighted exposure amounts & operational risk capital

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 all standardised credit risk exposure classes.

The tables below shows the Bank's exposures at 31 December 2015 by exposure class, net of provisions.

<u>Credit risk exposure and capital requirement</u>

Credit Risk Exposure 31 December 2015	Exposure Value £'000	Minimum Pillar 1 Capital Requirement (8% x risk weight) £'000
Government and central banks	78,956	0
Multilateral development banks	10,394	0
Institutions	10,805	174
Secured by mortgages on commercial real-estate	199,883	14,105
Secured by mortgages on residential property	207,424	4,426
Other loans	7,511	834
Past due items	146	7
Other items	534	103
Balance sheet Exposure	515,653	19,649
Off balance sheet commitments	56,875	1,548
Off balance sheet treasury bills	10,000	0
Total Exposure	582,528	21,197
Operational risk capital requirement		631
Total Pillar 1 capital requirement		**21,828**

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

<u>Credit risk exposure by type</u>

Credit Risk Exposure 31 December 2015		Exposure Value £'000
Government and central banks		
	Repayable on demand	62,121
	Marketable securities	16,835
Multilateral development banks		
	Marketable securities	10,394
Banks and building societies		
	Repayable on demand	10,740
	Derivatives	65
Loans and advances to customers		414,964
Other		534
Off balance sheet commitments		66,875
Total Exposure		582,528

Credit risk exposure – on and off balance sheet reconciliation

The difference between the total credit risk exposures shown above of £582,528k and the total assets per the 2015 financial statements of £517,949k can be explained as follows;

31 December 2015	£'000
Total credit risk exposure (per table above)	582,528
Less:	
Off balance sheet customer loans and advances commitments	(56,875)
Off balance sheet treasury bills	(10,000)
Derivative potential future exposure add-on	(50)
Add:	
Collateral deposits adjustments to loans	2,346
Total assets per balance sheet	**517,949**

The tables below shows the Bank's exposures at 31 December 2014 by exposure class, net of provisions. This was prepared under UK GAAP, as can be seen by the balance sheet reconciliation below.

Credit risk exposure and capital requirement

Credit Risk Exposure 31 December 2014	Exposure Value £'000	Minimum Pillar 1 Capital Requirement (8% x risk weight) £'000
Government and central banks	141,600	0
Multilateral development banks	14,387	0
Institutions (add derivatives + 50?)	9,796	157
Secured by mortgages on commercial real-estate	146,726	11,738
Secured by mortgages on residential property	104,479	2,925
Past due items	1,770	212
Other items	1,288	103
Balance sheet Exposure	420,046	15,135
Operational risk capital requirement		291
Total Pillar 1 capital requirement		**15,426**

- Past due items are defined as any account which is three or more months in arrears.
- Other loans includes asset finance, unsecured and certain light refurbishment loans.

Credit risk exposure by type

Credit Risk Exposure	Exposure Value £'000
Government and central banks	
Repayable on demand	123,500
Marketable securities	18,100
Multilateral development banks	
Marketable securities	14,387
Banks and building societies	
Repayable on demand	9,796
Loans and advances to customers	252,975
Other	1,288
Off balance sheet commitments	58,074
Total Exposure	**478,120**

Credit risk exposure – on and off balance sheet reconciliation

The difference between the total credit risk exposures shown above of £478,120k and the total assets per the 2015 financial statements of £417,935k can be explained as follows;

31 December 2014	£'000
Total credit risk exposure (per table above)	478,120
Less:	
Off balance sheet customer loans and advances commitments	(58,074)
Total assets per 2014 UK GAAP balance sheet	**420,046**
IFRS adjustments for restated 2014 comparatives	(2,111)
Total assets per balance sheet	**417,935**

5.3. Leverage Ratio

The CRD IV framework requires firms to calculate a non-risk based leverage ratio that is a supplementary measure to the risk-based capital requirements. The ratio is defined Tier 1 capital divided by the total on and off balance sheet exposures expressed as a percentage. The reported ratio is reported quarterly and takes the average of the 3 month ends during the period. The Bank's ratio is significantly higher than the regulatory requirement. The leverage ratio increased in 2015, principally as a result of the issue of the Tier 1 convertible loan notes and the growth in profitability of the bank. The leverage ratio is reported in the Risk pack presented at the monthly Board meetings.

Leverage Ratio	Regulatory Minimum	2015 £'000	2014 £'000
Total Tier 1 Capital		36,707	16,773
Exposures			
Balance sheet exposure		521,617	417,985
Off balance sheet commitments		61,153	58,074
Total Exposures		582,770	476,059
Leverage Ratio Q4 2015	3.0%	6.30%	3.52%

- Assumes 2015 capital and reserves have been verified as at 31 December 2015.
- The 2014 leverage ratio is calculated as at 31 December 2014 rather than being a quarterly average due to the restatement of our 2014 financial results under International Accounting Standards.

6. Credit Risk Reporting

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's receivables from customers and investment securities.

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

During the underwriting process the Bank's Credit and Business Development teams keep the customer fully informed of the progress of their application. If the application is unsuccessful the Bank ensures that the customer is provided with a full explanation of the Bank's rationale for declining the loan request.

The Bank's lending policy is fully explained to customers as part of the application process. As part of the underwriting process the Bank undertakes an independent valuation of the property being proposed as security. The Bank has a series of loan to value policy limits which are applied against all loan applications.

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

6.1. Credit risk - exposure values

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

£'000	2015	2014
Cash and balances at central banks	62,121	123,500
Loans and advances to banks	10,740	9,796
Debt securities	27,229	32,536
Derivatives held for risk management*	-	18
Loans and advances to customers	417,410	250,932
	517,500	416,782
Commitments to lend**	56,875	58,074
Gross credit risk exposure	**574,375**	**474,856**
Less allowance for impairment losses	(1,147)	(708)
Net credit risk exposure	**573,228**	**474,148**

*Net asset only

**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 2015 and 2014 without taking account of any underlying security. At 31 December 2015 the value of securities held as collateral is £737m (2014: £477m) of which £735m (2014 £475m) is in the form of property and £2m (2014: £2m) is in the form of cash deposits.

6.2. Credit risk – security

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

	2015		2014	
	£m	%	£m	%
Secured on property	415.8	100	250.5	100
Secured on other assets	1.4	-	-	-
Unsecured	0.2	-	0.4	-
Total	417.4	100	250.9	100

In addition to security over property the Bank may also take additional security in the form of Director Guarantees and cash deposits. Collateralised deposits at the end of 2015 totalled £2.3m (2014: £2.3m)

6.3. Credit risk – maturity profile

The table below analyses the Bank's contractual undiscounted cash flows of its financial assets.

At 31 December 2015		Contractual cash flows		
	Total	Less than 3 months	3 months to 1 year	Greater than 1 year
Assets				
Cash and balances at central banks	62,121	62,121		
Loans and advances to banks	10,740	10,740		
Loans and advances to customers	416,263	8,823	23,013	384,427
Debt securities	27,229	10,394	6,776	10,059
Derivatives	15			15
Total	516,368	92,078	29,789	394,501

At 31 December 2014		Contractual cash flows		
	Total	Less than 3 months	3 months to 1 year	Greater than 1 year
Assets				
Cash and balances at central banks	123,500	123,500		
Loans and advances to banks	9,796	9,796		
Loans and advances to customers	250,224	1,330	5,810	243,084
Debt securities	32,536	5,173		27,363
Derivatives	39			39
Total	416,095	139,799	5,810	270,486

6.4. Credit risk – geographical breakdown

All of the Bank's property loans are secured on UK property. The table below outlines the Bank's credit exposure at 31 December 2015 on a regional basis.

Region	2015	2014
East Anglia	6%	5%
East Midlands	22%	27%
Greater London	4%	2%
North East	5%	6%
North West	21%	21%
Scotland	3%	4%
South East	4%	7%
South West	5%	3%
Wales	5%	1%
West Midlands	7%	7%
Yorkshire/Humberside	18%	17%
Total	**100%**	**100%**

6.5. Credit risk – counter party risk / liquid assets

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. The assessment of counterparties includes ensuring that exposures have limits on their original terms, operating as a subset of the overall limit. 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 and published by the PRA in December 2013.

The credit ratings and counterparties of the Bank's liquid asset exposures as at 31 December 2015 were as follows:

£000	2015	2014
Cash and balances at central banks	62,121	123,500
Deposits at other banks		
- Rated* A or above	10,715	9,621
- Unrated	175	175
UK Government Gilts	16,835	18,150
European Investment Bank bonds	10,394	14,385
Derivatives held for risk management purposes**		
Rated* A or above	(14)	18

*Ratings based on Moody's long term rating

**Net assets

The Bank uses two UK clearing banks with credit ratings of at least A or above for deposits, clearing services and derivatives. The unrated deposit relates to an exposure with Kaupthing Singer & Friedlander (KSF). KSF was a financial services provider offering corporate and investment banking to small and medium-sized companies which the UK government put into administration on 8 October 2008 in response to the failure of its parent as a result of the financial crisis of 2007/8. This exposure arose as a result of Cambridge & Counties Bank acquiring the assets of Pensions Bank in June 2012. Pensions Bank had a £1m money market deposit with KSF at the time it was put into administration (the Bank has a provision of £150k against this exposure).

The Bank's derivatives are interest rate swaps to hedge its exposure to changes in the fair value of its fixed debt securities. The effectiveness of the Bank's hedging is monitored on a monthly basis as set out in its Treasury Policy. Derivative financial instruments are recognised at fair value on the Bank's balance sheet. The fair value of derivatives designated as fair value hedges are as follows:

Fair value hedges of interest rate risk	2015		2014	
£'000	Assets	Liabilities	Assets	Liabilities
Instrument type:				
Interest rate	15	29	39	21
Total	**15**	**29**	**39**	**21**

The nominal value of the derivatives at the 31 December 2015 was £16.5m.

7. Credit quality - Impairment and Provisions

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

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

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

£'000	2015	2014
Neither past due nor impaired	411,311	240,488
Past due but not impaired:		
Up to 1 payment missed	2,538	8,098
Up to 3 payments missed	567	284
Over 3 payments missed	-	793
Impaired	2,994	1,269
Total	**417,410**	**250,932**
Less allowances for impairment losses	(1,147)	(708)
Total loans and advances to customers	**416,263**	**250,224**

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

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

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

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

£'000	Individual provisions	Collective provisions	Total provisions
Balance as at 1 January 2015	113	595	708
Impairment loss for the year:			
Charge to income statement	81	452	533
Write-offs net of recoveries	-	-	-
Provisions released	(94)	-	(94)
Balance as at 31 December 2015	**100**	**1,047**	**1,147**

Impairment provisions against customer loans and advances at 31 December 2014 have been made up as follows:

£'000	Individual provisions	Collective provisions	Total provisions
Balance as at 1 January 2014	15	163	178
Impairment loss for the year:			
Charge to income statement	98	432	530
Write-offs net of recoveries	-	-	-
Provisions released	-	-	-
Balance as at 31 December 2014	**113**	**595**	**708**

All of the Bank's customer loans and advances are UK based and made to Small and Medium sized Enterprises. The majority (over 99%) of the Bank's lending is secured on property.

In addition to the above provisions relating to the Bank's loans and advances to customers, the Bank also has a provision of £150k relating to its exposure to Kaupthing Singer & Friedlander (KSF).

8. Asset Encumbrance

The Bank can use its assets to support collateral requirements for central bank operations and third party repurchase transactions. Assets that have been set aside for such purposes are classified as 'encumbered assets' and cannot be used for other purposes. All other assets are defined as 'unencumbered assets'.

As at 31 December 2015 the Bank had no encumbered assets although it had pre-positioned assets with the Bank of England as part of its Funding for Lending Scheme (FLS) membership which may at a future date become encumbered.

The Bank 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 2015 the Bank had drawn £10m of t-bills under the Funding for Lending Scheme (FLS). These t-bills are held off balance sheet and as at 31 December 2015 they had not been monetised. The Bank has pre-positioned the required value of loans as collateral.

The following tables show the appropriate disclosures in respect of the Bank's encumbered and unencumbered assets for the year ended 31 December 2015.

31 December 2015 £'000	Carrying amount of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	0	515,653	515,653
Loans on demand	0	72,861	72,861
Debt securities	0	27,229	27,229
Loans and advances to customers	0	414,964	414,964
Other assets	0	599	599

31 December 2015 £'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	0	0

31 December 2015 £'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	0	0

9. Other disclosures requirements

The Bank has:

- No exposures to securitisation positions
- No trading book

The Bank has not been identified as having any global systemic importance.

10. Conclusion / Contacts

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

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