Cambridge & Counties Bank

Built on understanding

Annual report & financial statements 2022

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Strategic Report

Strategic Report

Summary of Key Performance Metrics

Profit before tax
£28.5m
2021: £18.5m

Cost to income ratio
43.8%
2021: 51.0%

Cost of risk
47bps
2021: 38bps

Impairment coverage
1.6%
2021: 1.5%

Total Equity
£185m
2021: £164m

Common Equity Tier 1 capital ratio
20.7%
2021: 19.9%

Gross lending balances
£1,055m
2021: £993m

Total capital ratio
23.6%
2021: 23%

Customer deposit balances
£1,103m
2021: £1,026m

Liquidity Coverage Ratio
361%
2021: 287%

Return on Capital Employed ROCE
12.6%
2021: 9.5%

Net interest margin
4.5%
2021: 3.8%

Gross new lending
£310m
2021: £323m

Definitions:
Gross new lending – new loans drawn down during the period
Net interest margin - net interest income / average interest earning assets (at the start and end of the period)
Cost:income ratio – total operating costs / total operating income
Cost of risk – loan loss impairment charge / average gross lending balance (at the start and end of the period)
Impairment coverage – impairment provisions / gross loans and advances to customers
Common equity tier 1 capital ratio – ordinary shares and reserves (common equity) / risk weighted assets (at the reporting date)
Total capital ratio – all forms of capital (CET 1 and AT1) / risk weighted assets (at the reporting date). All capital ratios include IFRS9 transitional relief
Return On Capital Employed (ROCE) – Profit after tax / Total equity (Retained Earnings + Ordinary Shares + AT1 capital)

Chair's statement

Overview

Cambridge & Counties Bank celebrated its tenth anniversary in 2022, posting a record set of results despite many worldwide headwinds. In 2012 the Bank rose, phoenix like, from the chaos following the 2007/8 financial crash, aiming to be a straightforward bank servicing small and medium sized enterprises by providing tailored financing and a home for the cash resources of smaller businesses and others. That it is now a mature, profitable and robust provider of services to the SME sector, punching its weight as a Specialist Bank, is a testament to the foresight of its founders and the skill, energy and commitment of its people over the last ten years.

Our people's energy and commitment has seldom been tested more thoroughly than by the now familiar cocktail of geo-political instability, economic setbacks as a result of the Ukrainian War, and continuing environmental concerns, from all of which Cambridge & Counties is far from immune.

However, as the rest of this Annual Report shows, notwithstanding the unpropitious backdrop, the Bank's performance has held up well and it is continuing to make strides in growing its business, with strong advances in customer loans, deposits and profitability.

The key to the Bank's continuing success in difficult times is a forensic focus on its chosen sectors of real estate lending and asset finance for SMEs across the UK. Our strategy of going to market through well managed relationships with brokers and borrowers continues to deliver good growth and robust returns. A key component of servicing those relationships is smart manual underwriting supported by well-honed customer service and strong credit risk management models and tools. We have invested significant sums in both, the benefits of which are explored further in the following sections.

Our capital base remains strong as we re-invest our significant trading profits, giving us some of the strongest capital ratios in the Specialist Bank sector. We believe that a continuing strong capital base is a source of competitive advantage and are seeing benefits as a flight to quality takes place in the market.

As noted above, the strong performance reported in the following pages would not have been possible without the commitment and hard work of our excellent people. Led by Donald Kerr and the senior executives, our team has moved on from the pandemic, returning to more normal working routines, whilst taking advantage of the best of the hybrid working model. I would like to pay a particular tribute to all of the team and to thank them for their unstinting efforts during the last year.

Future Strategy

The Bank remains committed to its strategy of servicing the SME market with manually underwritten focused products in real estate and asset finance. Our rolling three-year plan shows that continuing with this strategy will deliver sustainable profitable growth for Cambridge & Counties.

As part of this growth plan, we continue to improve the technology underpinning our manual underwriting processes, further developing our customers' experience when dealing with the Bank by making access to

Celebrating record results in our 10th anniversary year

our products easier, and by speeding up transactions. In doing so, we are mindful of the Financial Conduct Authority's initiative which makes much more explicit the duty of financial institutions to ensure a good outcome for their customers. This initiative aligns closely with our own view of the importance of looking after our customers' interests as a natural part of an effective and sustainable business model and we are supportive of it.

An important element of the success of Cambridge & Counties from early days has been a recognition of the importance of good environmental, social and governance (ESG) standards and reporting. The Bank achieved carbon neutral plus status in 2019, putting it at the forefront of the drive to a sustainable future. As part of our continuing commitment to be a responsible bank we are exploring membership of B Corp, a global initiative which helps companies to better understand and manage their environmental and social impact. More information on our sustainability work is given in the relevant sections later in the Annual Report.

Our Senior Team

At the end of September Simon Moore retired as Chair after ten years' service as a non-executive director and Chair of the Bank. Simon joined the Board in 2012 and became Chair in 2016. He led the Board very effectively through a period of significant growth, making a huge contribution to establishing the Bank as a significant player in the Specialist Bank sector, ensuring always that the Bank's strategy was clearly defined and articulated, whilst developing its leadership team and management structures, so that the required skills were in place to deliver the strategy. Simon also ensured that the Board demanded high values and standards of behaviour across the organisation. The Bank owes him a great debt of gratitude for his contribution as Chair over the last six years and, as his successor, I am extremely fortunate to inherit a strong Board and executive team which is well equipped to lead the Bank through its next phase of development. We will miss Simon's wisdom and perspicacity and wish him well and every success in the next phase of his career.

We are also sorry that Simon Lindley, our Chief Development Officer, decided to retire at the end of the year. Simon brought to the Bank over thirty years' experience in financial services business development and property lending and played a major part in building Cambridge & Counties' market position and commercial success. He was an integral part of the senior executive team and his measured, thoughtful and balanced contribution to the team, combined with his sure touch in generating good business will be much missed. We all thank Simon for his major contribution to the Bank's success and wish him a happy and fulfilling retirement.

Mike Peck has joined the Board as our new Audit Committee Chair. Mike was a senior audit partner at KPMG, working in the financial sector with some of the UK's major financial institutions as his clients. He brings a wealth of experience of banking in the UK and Middle East and is a very welcome addition to the Board.

Conclusion

Cambridge & Counties enters 2023 in good shape. A combination of a robust capital base, good underlying systems, strong relationships with brokers and customers, and deep knowledge of the SME market and its associated risks, means that we are well positioned to capitalise on the opportunities that exist in the market, notwithstanding continuing headwinds, which are likely to make this a tough year for the UK economy. The remainder of the Annual Report explores these themes, describing the Bank's progress through 2022 and our future plans.

Patrick Newberry
Chair
30 March 2023

Chief Executive Officer's Review

Overview

Post Covid-19, we at Cambridge & Counties are committed to play our part in supporting the UK economic recovery through continued lending to SME customers in our chosen markets:

- Building on our core foundation of a people led approach, investing in our front-line relationship management teams, developing, and growing our talent pipeline;
- Investing in infrastructure developments to simplify and automate our end-to-end lending processes, accelerating access to finance for our customers; and
- Leveraging our manual underwriting to navigate a macroeconomic outlook that became increasingly uncertain over the course of the year, while continuing to monitor our customer portfolio for any adverse impacts.

Against a continued volatile economic backdrop, 2022 has seen us successfully deliver on each of those commitments and we continue to demonstrate the strength and resilience of our business model. The battle to control inflation and return the UK economy to a sustainable growth trajectory will be challenging, and we anticipate that the continued impact of high energy costs, supply chain disruption, and the rising cost of living will have a sustained impact on our customers and our people.

Performance

We delivered an excellent financial performance this year benefitting from higher rates in this more uncertain environment generating a profit before tax of £28.5m (2021: £18.5m) driven by record interest income of £76m (2021: £55m) and a 32% increase in net interest income, resulting in a sustainable 12.6% Return On Capital Employed (ROCE) (2021: 9.5%) to our shareholders.

With the external uncertainty we moderated our new business volumes while still delivering growth. New business generated a 6% increase in loans and advances to £1,055m (2021: £993m) with our manual underwriting maintaining resilient asset quality given the higher external interest rate trajectory. As customers reassess their investment priorities in this challenging macroeconomic environment, our focus continues to be on lending responsibly whilst also helping our customers navigate the challenges they face. We remain alert to the pressures on our customers from rising inflation and interest rates and have increased our impairment provision coverage ratio of 1.6% (2021: 1.5%).

Underlying operating costs of £25.9m increased 13% on prior year as planned, reflecting investment in our infrastructure, automation, and servicing capacity, and in our people skills and capability. We anticipate our investment and efficiency savings will partially mitigate the continued inflationary pressures with early enhancements already contributing to an improvement in the Bank's cost income ratio of 44% (2021: 51%).

We also take a robust approach to liquidity management and funding, as we focus on diversity of funding sources and a prudent maturity profile. This enables us to protect, grow and sustain our business model. We have invested in our deposit servicing capability and retain our multichannel acquisition model to attract customer deposits. We attract steady inflows into our notice accounts and fixed rate savings products, maintaining a funding ratio of 87% and a Liquidity Coverage Ratio (LCR) of 361% whilst delivering a 4.5% Net Interest Margin (NIM) (2021: 3.8%).

We take a prudent approach to managing our financial resources. A fundamental part of our business model is ensuring we have a strong capital position which allows us to grow, invest and meet all regulatory requirements. The Bank's balance sheet remains robust with a strong total capital ratio of 24% (2021: 23%) and a Core equity Tier 1 ratio (CET1) of 21% (2021: 20%), significantly above the applicable minimum regulatory requirements and our peer competitors.

Our business performed well in 2022 and continued to demonstrate our financial resilience, notwithstanding the unusual events of the year.

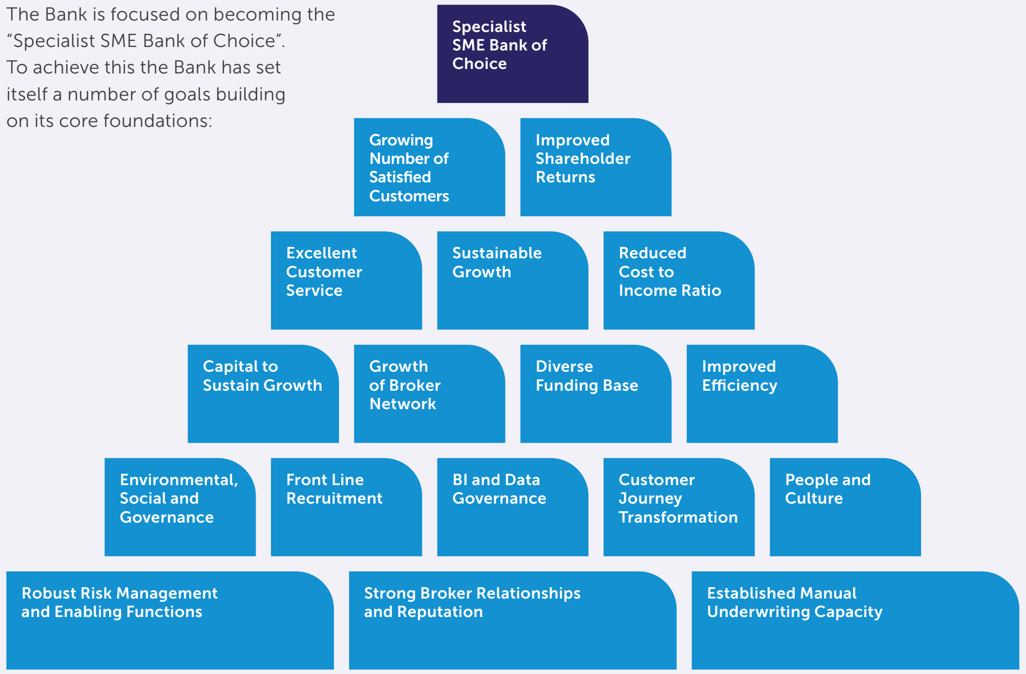
Strategy

Our strategy is set against an uncertain economic backdrop. The Board's strategy is one of sustainable organic growth servicing the SME (Small and Medium Enterprises) market without material uplift in risk.
Our strategic objectives are:

- to continue to invest in our customer engagement strategy and geographical footprint to maintain our high customer service and satisfaction levels, and service underserved markets;
- to develop our lending products to meet climate change challenges and help support our customers ensure their properties are energy efficient; and
- use proven technology to support our colleagues' interactions with brokers and customers.

We continue to deliver against our strategic priorities to become the specialist SME Bank of choice. Our multi-year investment programme to drive improvement in our customer journey transformation, alongside enhanced business intelligence and data governance are progressing well, delivering improved customer service, and enabling us to protect our business in an evolving

The Bank is focused on becoming the "Specialist SME Bank of Choice". To achieve this the Bank has set itself a number of goals building on its core foundations:



external landscape. Enhanced efficiency reduces our cost: income ratio, and future-proofs our income generation capabilities underpinning improved shareholder returns. We are seeing tangible benefits from these investments.

The key elements of execution are significantly within our control. Our focus is now on the opportunities this creates for continued growth in our customer base, our people, and our financial strength.

Overall, we have the right strategy and are executing on the key components that will underpin our delivery of consistent returns and profitable growth over the coming years.

Supporting our customers and our people

Our focus on supporting our customers and servicing their needs through a personal approach builds on our deep understanding of their requirements and is evidenced by the growing number of satisfied customers and broker partners. We continue to enjoy over 90% customer satisfaction. Our success continues to be underpinned by our manual underwriting criteria and disciplined pricing. We consistently apply these criteria throughout the economic cycle allowing us to offer high service levels and target relevant flexible solutions to underserved SME customers through our network of brokers. During 2022 we invested in our front-end customer servicing technology, simplifying the customer journey, and streamlining our internal processes to generate faster lending decisions and access to funding solutions for our customers. Our ongoing transformation programme continues to deliver efficiencies and capacity to help mitigate the impact of rising inflation and allowing us to continue to improve our customer experience. Our deposit offerings continue to provide market leading returns to businesses, charities, clubs, societies and associations – increasingly underserved markets – as well as retail customers through a network of Deposit Intermediaries.

We remain focused on supporting the SME market, continuing to be nominated and recognised by the National Association of Commercial Finance Brokers (NACFB) for our services (Business Bank of the Year, Commercial Mortgage Lender of the Year, Specialist Lender of the Year) and by Business Moneyfacts for our products (Best Service from a Commercial Mortgage Provider, Best Service from an Asset Based Finance Provider, Best Business Fixed Rate Deposit Account Provider, Innovation in the SME Finance Sector). This year, we have conducted a further review of potential growth opportunities, expanding our geographical footprint and reach through the investment in 8 new business relationship managers across our commercial real estate team, a new Head of Asset Finance, an additional Asset Finance relationship manager and 3 asset finance lending support officers, extending our product offering to include fixed rate products, supported investment in our ESG ambitions, advancing finance to fund EPC improvement initiatives, increased funding of electric vehicles, and continuing to generate a strong pipeline of business opportunities aligned with our business model.

Supporting our customers and servicing through a personal approach

The Bank has an important role to play in helping people and businesses transition to a lower carbon future and this responsibility is a key priority. For the third year running, the Bank has been independently accredited as Carbon Neutral Plus. I am pleased with the significant progress we continue to make in developing our ESG agenda. We were awarded the 'Socially Responsible Business of the Year' by Embark CSR. Notwithstanding the progress we have already made, we remain at the beginning of a long journey and recognise there is more to do to develop our indirect scope 3 emissions, transition plans, targets and metrics. This also includes our ability to address challenges around data and modelling as we continue to work alongside our customers and suppliers, to enhance our understanding and capabilities. The pursuit of B-Corp accreditation embodies how we embed our wider stakeholder impacts and community considerations in everything we do.

Outlook

We delivered a strong performance in 2022, and none of this would be possible without the contribution and commitment of our people, and the extensive experience they each bring to the business. I extend my enormous thanks to each one. Our proven and resilient business model and experience in navigating the economic conditions, enables the Bank to face into the continuing challenging economic environment from a position of strength. Whilst UK inflation and interest rates are likely to peak in H1 2023, we remain alert to the impact of these on the wider financial market conditions, on our customers, and our people.

The regulatory landscape for financial services sector is also set to undergo important changes in the years ahead with the introduction of the FCA's (Financial Conduct Authority) new Consumer Duty and Basel 3.1. Our customer focus, high standards of governance and commitment to responsible business practice mean that the Bank is well-placed to deliver on this to continue to improve outcomes for customers.

The Bank remains well capitalised, with strong liquidity and an asset backed lending portfolio. We have retained an appropriate credit loss provision which reflects our economic forecasts and scenario weightings, to provide a robust level of coverage across our loan portfolio. We are confident we can deliver our strategy, building on the investment we have made over the past couple of years and the momentum created in 2022 and are well-placed to continue delivering on our track record of profitability and growth. We are excited about the prospects for the Bank; we have the right strategy, business model and people to deliver on this potential.

Donald Kerr
Chief Executive Officer
30 March 2023

Our Purpose and Business Model

Purpose statement

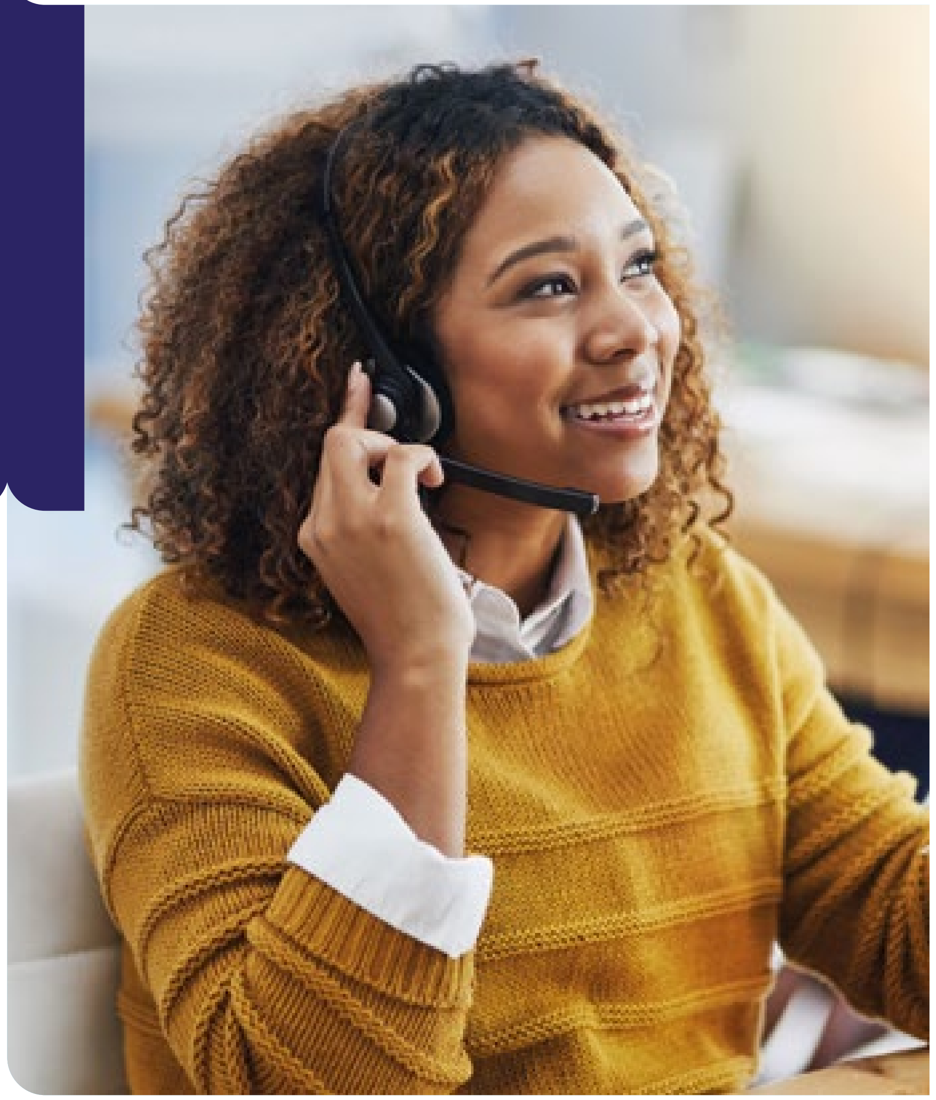
Cambridge & Counties Bank is a UK Bank that specialises in providing lending and deposit products for Small and Medium Enterprises (SMEs).

Ownership

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

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

Investing in infrastructure to accelerate customers' access to finance



We have a simple and proven Business Model

Distribution network

Cambridge & Counties Bank provides lending products through a network of relationship managers who deal via business introducers as well as directly with customers. We seek to be straight forward and easy to deal with in our interactions with introducers and deliver a banking experience that attracts and retains customers. The Bank delivers a range of savings accounts via the internet, post, and savings intermediaries.

Lending

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

The Bank provides finance for businesses to acquire essential assets such as equipment, plant, machinery, and 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. We offer a range of deposit accounts that are available directly to business customers. These accounts are also available to retail customers through a network of Deposit Intermediaries. Business customers include several broader organisations such as charities, clubs, societies, and associations.

Section 172 Companies Act 2006 Statement

Statement by the directors in performance of their statutory duties

The Board of directors of Cambridge & Counties Bank Limited consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1) (a-f) of the Companies Act 2006) in the decisions taken during the year ended 31 December 2022.

Stakeholder engagement

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

Stakeholder	Description	Engagement
Shareholders	The Bank has two shareholders each holding 50% of the Bank's ordinary share capital	Both shareholders have Non-Executive Director representatives on the Board and Board sub-committees and are therefore fully involved in the decision making of the Bank. In addition, Board members meet with both Shareholders outside of Board meetings on a regular basis to enable the Board to understand the Shareholders expectations.
Customers	The Bank has around 9,000 deposit customers and 1,500 lending customers	The Bank undertakes regular activity to gather customer feedback. The results of which are shared with staff and the Board, and incorporated into its future business development plans. The Bank engages with lending and deposit intermediaries who introduce business to the Bank as well as having regular dialogue with customers. Customer support remains a key strategic priority for the Bank in its response to the current economic uncertainty. During the year, the feedback from engagement with customers and intermediaries has been used by the Board to understand the appetite for future development and investment, in core systems and our strategy for developing a green loan or deposit product offering.
Employees	The average number of people employed by the Bank during the year was 206	The Bank undertakes an annual internal staff survey as well as participating in industry wide culture surveys undertaken by the Financial Services Culture Board (FSCB). We continue to record consistently high participation rates in our employee engagement survey (73%) and record strong scores. The Bank has a staff forum which meets monthly and is chaired by the Bank's CEO. As a result of staff feedback at the staff forum, we have introduced new green benefits. We have introduced a salary sacrifice for the purchase of electric cars and are implementing a similar scheme for electric bicycles. The Board reviews the employee staff survey results and receives regular reports from the CEO on the activities of the Employee Forum. The Board approved a one-off payment in July of £1,000 for all employees (below Executive level) to help support staff with the current increased cost of living expenses such as energy and food. During the year the Board has had regular updates on employee issues, including the effectiveness of the Bank's hybrid working practices.
Suppliers	Business and individuals who provide services and goods which the Bank uses to deliver its products to its end customers	Management regularly meets with the Bank's key suppliers, particularly those providing important business services and information technology systems. The Bank pays over 95% of suppliers within 30 days and is planning to further improve its supplier payment process in 2023 with the implementation of a new purchasing system. The Bank is also actively engaging with property valuers to incorporate their views on climate change considerations into the Bank's lending protocols.

Stakeholder	Description	Engagement
Regulators	The Bank is regulated by the PRA (Prudential Regulation Authority) and FCA (Financial Conduct Authority)	The Bank's senior management are committed to fostering open and honest engagement with its Regulators in line with the cornerstone principle of the UK regulatory environment. The CEO, CFO and CRO meet regularly with the Bank's PRA Supervisory team through the framework of 'proactive engagement and continuous assessment' meetings and report on key themes discussed through committee and Board meetings as appropriate. The CRO reports to the Board Risk & Compliance Committee on material matters of regulatory liaison, and the Bank's assessment of the quality of the relationship with each Regulator. In addition, the Chair, Senior Independent Director and Chair of Risk maintain a direct relationship with the Bank's Regulators on key themes as appropriate.
Communities	The geographic locations in which the Bank has offices, employees, and customers	The Board support the Bank's membership of several local trade bodies such as Chamber of Commerce and Business Networking groups in the regions in which it operates, including sponsoring an Environmental Impact award. In consideration of the challenges on charities following the impact of Covid-19 and the cost of living crisis, the Board has chosen to maintain the Bank's current level of activity and support for local communities. Further details of the Bank's activities in local communities is set out on page 20 – Supporting our Local Communities. The Board receives regular updates on the Bank's delivery of these activities and how the Bank supports the local community.

Decisions made during the year

The Board reaffirmed the Bank's current strategy, business structure, dividend policy and capital structure during 2022. The Bank's strategy has remained broadly unchanged since it started trading in 2012 and has resulted in balance sheet assets exceeding £1bn, delivering profit before tax in excess of £28.5m pa.

The Board has assessed the future operating environment for the business and expects continued growth in profits, and ongoing investment in people and systems. The Bank's strategic objectives remain unchanged. The Bank plans to continue to grow and bring its products and services to a wider geographical footprint and expand its lending activities into new asset classes where the existing capacity and capability of the Bank can be brought to bear, realising niche opportunities in markets that offer earnings at a level accretive to those achieved in the core businesses.

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

- Macroeconomic environment (bank base rate and property valuations) and the impact of Covid-19 and the Ukraine conflict on the UK economy,
- Credit cycle impacts closely aligned to the above and the risk of material property price erosion;
- Changes in competition and market demand;
- Challenges with supply chains and cross-border restrictions and the consequential impact on trading businesses;
- Liquidity costs, greater commoditisation, and the continued rise in deposit brokers in both the retail and SME markets;
- Long term trends in technology investment including IT data security and cyber security threats;
- Operational Resilience including the impact of Supplier/Outsourcing Risks;
- Geopolitical headwinds and post Brexit financial services equivalence arrangements, trade negotiations, and the effects on UK business confidence; and
- The increased focus on climate change risk.

The number of newly launched niche specialist banks, together with an increase in the non-banking participation in the asset finance market, has over the past few years also had a significant effect on lending margins. This has inevitably continued to put pressure on the Bank's gross lending margins. We continue to ensure that our customers enjoy rates that compare well with those that are currently on offer in the market. Margin compression is expected to continue, although we remain confident that following the expansion of our geographic footprint across the country, and investing in our relationships with our broker introducers, we will meet our growth appetite at margins commensurate with the Board's credit risk appetite.

Other non-financial disclosures

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

Strong capital base is a source of competitive advantage

Carbon Neutral Plus status for the third year running

Environmental, Social and Governance

Introduction

The environmental, social and governance (ESG) agenda is a key focus for the Board, with regular debate and reports received from the Executive relating to environmental, community, and wider industry issues. The Bank's governance policies and processes are set out in detail on pages 42–73.

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

Reducing our environmental impact

Climate change is a significant challenge facing society, with a growing focus for all stakeholders, and the Bank continues to maintain a proactive approach to its environmental responsibilities.

In 2022, the Bank returned to a hybrid working pattern, supporting remote working for up to 50% of the working week. This has led to new considerations of the impact upon the environment of a hybrid working pattern and how to mitigate the environmental impact of both maintaining an office environment on a full-time basis and supporting remote working. We have begun work to understand the environmental impact of remote working, changes to travel patterns of employees and more limited use of office space. The Bank achieved its plans to be carbon neutral across its head office site in Leicester in 2019, and from 2020 has maintained its Carbon Neutral Plus status.

The Bank is currently focusing on understanding the potential impact on its loan security values and customers' investments from increased flooding, as well as potential new legislation relating to minimum Energy Performance Certificate (EPC) gradings. Through 2022, the Bank has continued its analysis on properties subject to a high flood risk and has identified 143 properties out of a total of over 2,972 properties where the Bank has exposure to a property in a high flood risk area. Work is now underway to understand the potential impact of that risk and how it might materialise. Properties financed by the Bank have a range of EPC gradings, with 94% having an EPC rating at E or above. The Bank is now contacting customers with property EPC grades of F and G to understand their proposals for the property.

The Board is proud of the engagement and commitment of our people in reducing the Bank's environmental impact and achieving carbon neutrality. Core to our colleague engagement is the active "Green Team", which is a cross-function team of Bank employees who volunteer to internally promote the green agenda facilitating numerous communications, initiatives and activities focusing on upcycling, recycling, and health and wellness, to help protect the wider ecosystem.

Environmental information

The Bank is committed to being a responsible user of resources and continues to consider ways in which it can reduce its environmental impact. This section reflects the Bank's emissions as required by the UK Streamlined Energy and Carbon Reporting (SECR) Regulations for a 'large unquoted organisation'.

In calculating our emissions, we have followed the latest Department for Environment, Food and Rural Affairs (DEFRA) guidance released in 2013 and the 2019 Department for Business, Environment & Industrial Strategy (BEIS) UK Government environmental reporting guidance. We have calculated our emissions using the most up to date 2022 emission factors developed by DEFRA and BEIS.

In relation to our organisational boundary, we have used the financial control approach. In relation to operational scope, we have measured our scope 1, 2 and certain scope 3 emissions.

The Bank's **governance policies and processes** are set out in detail on pages 42–73

The table below sets out our emissions in respect of Scope 1, 2 and 3. Scope 1 covers direct emissions from owned or controlled sources, of which the Bank has none. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling. Scope 3 includes all other indirect emissions that occur in the Bank's value chain.

Total emissions in 2022 were 67.9 tonnes of CO_2e, a decrease of 14.8% since the prior year (2021). In comparison to our baseline year (2019), our Scope 1 and 2 emissions have reduced by 41.8%. As we have improved at capturing our scope 3 emissions, these have shown an increase of 47.5% over the same period. Employee-owned grey fleet travel contributed the largest element of the Bank's emissions with 47.6% of the total in the year. Home-workers emissions decreased in the year as a result of improved data collection processes.

We have defined our intensity ratio as scope 1, 2 and 3 emissions in tonnes of CO_2e per £m of income as this is a common business metric across the banking sector. For completeness, we have also provided the ratio of scope 1, 2 and 3 emissions in tonnes of CO_2e per employee.

The Bank has qualified for the Carbon Neutral Plus status for the third year due to offsetting 100 tonnes of CO_2 emissions through the UK Tree Planting project, buddied with the VCS verified Reduced Deforestation (REDD) project around the world. The Bank has in total offset 400 tonnes of CO_2e emissions over the past 4 years. The carbon credits were supplied by Carbon Footprint Ltd from the VSC 981 project. Details of this project with full project documentation is available on Verra's website

https://registry.verra.org/app/projectDetail/VCS/981.

Scope	Activity	2019 tCO_2e[1]	2020 tCO_2e	2021 tCO_2e	**2022 tCO_2e**
Scope 1	No operations	–	–	–	–
Scope 2	Leicester – electricity generation and transmission & distribution[2]	14.52	8.83	7.34	8.45
Scope 2 Sub Total		**14.52**	**8.83**	**7.34**	**8.45**
Scope 3	Home-workers	n/a	44.05	44.36	15.75
	Grey Fleet	31.21	3.18	16.67	32.33
	Sheffield site	n/a	2.77	10.97	9.07
	Bristol site	n/a	0.94	0.31	1.99
	Water (and wastewater)	n/a	n/a	n/a	0.29
Scope 3 Sub Total		**31.21**	**50.94**	**72.31**	**59.43**
Total emissions as tonnes of CO_2e		45.73	59.77	79.64	67.88
Tonnes of CO_2e per employee[3]		0.28	0.32	0.40	0.32
Tonnes of CO_2e per £m		1.07	1.58	1.61	0.89
Carbon Offsetting					
Verified Carbon Offsets		(100)	(100)	(100)	(100)

1 Tonnes of carbon dioxide equivalent.
2 This includes a small amount of Scope 3 emissions from transmission and distribution.
3 Based on employee headcount as at the end of each financial year.

Supporting our local communities

2022 saw ever increasing challenges upon local communities created by the cost of living crisis and the challenges following the Covid-19 pandemic. The Bank remained committed to focusing its efforts on supporting local communities through a blend of monetary donations and practical help through colleagues' time and energy. In 2022, the Bank donated more than £37,500 to charities and good causes, including matched funding of £5,000 in support of colleagues fundraising efforts. As a result of this we were proud to be awarded 'Socially Responsible Business of the Year' by Embark CSR as part of their inaugural Leicester Giving Day.

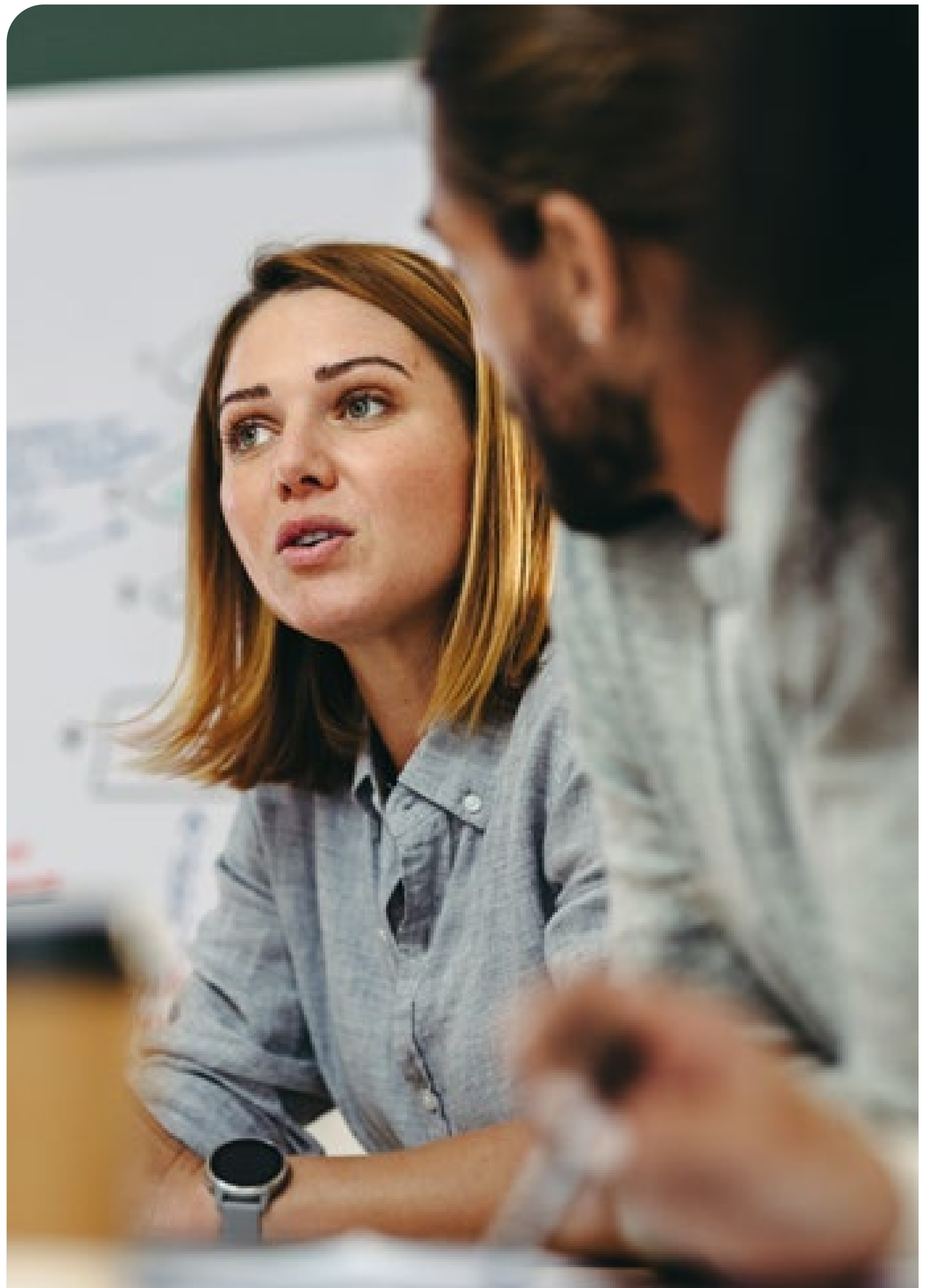
Our contributions to our local community included:

- Continued support of the IGNITE programme, which is run by the National Space Centre and inspires children and families in Leicester by getting them excited about space and creating related pathways through education and into employment;
- Involvement with the East Midlands Chamber of Commerce where we continued our sponsorship of the Leicestershire Environmental Impact award for the second consecutive year;
- Enabling the Green Gym with The Conservation Volunteers (TCV), which is part of Rolleston Primary School in Glen Parva;
- Ongoing work with Leicestershire Cares supporting a number of initiatives from Interview techniques, Eggstravaganza and their Bags of Hope for Christmas initiative, that sees festive essentials delivered to disadvantaged vulnerable groups in our local community;
- Continued work with the Leicestershire and Rutland Community Foundation, which has included funding for Soft Touch Arts, where the Bank's support has funded an Enterprise Project to help young adults find a way of putting their passion for arts into related employment; and
- Participating in the 'We Care Food Bank' collection across our offices.

The Bank also has a number of employees that are active members in the organising and running of local charities, including the Treasurer of Age UK Leicestershire & Rutland.

Treating businesses fairly and helping our customers grow

The Bank is committed to treating businesses fairly and helping them grow through prompt payment of invoices and are pleased to confirm an improved performance with 98% of suppliers being paid within 30 days for the year ending 31 December 2022 (2021: 99%) reflected in the Bank's '2022 Fast Payer Award' from the Good Business Pays Community Interest Company.



Developing a Diverse and Inclusive workplace

Diversity and inclusion remain at the heart of the Bank's culture, being one of the founding principles on which we have built and grown the Bank over the last 10 years. We are actively promoting equality for all regardless of age, gender, ethnicity, religion, disability, sexual orientation, education, or other characteristics that may result in people being marginalised.

We believe that the individual differences and the contributions of everyone in our team enables us to work effectively together to deliver great customer experiences. This underpins our strategy of actively attracting, employing and retaining a diverse and adaptable team. Our aim is that our workforce will be truly representative of all sections of society and that each employee feels respected and able to give their best. We promote equality and fairness for everyone who has contact with the Bank, regardless of whether they are actual or potential customers, employee members, suppliers or other stakeholders. The Bank believes that greater diversity leads to wider thinking and skill sets, creating increased innovation and ultimately, better customer service.

Having committed in 2021 to a three-year plan to further develop our inclusive workplace, we are proud of the progress we made in 2022 towards successfully achieving that plan. We have 5 core pillars within the plan which have been, and continue to be, actively worked on:

- **Data and reporting** – having robust data is an issue for many firms due to the reliance of self-disclosure by colleagues. Through talking to our colleagues about what we are trying to achieve and why, providing several routes for confidential disclosure, in 2022 we have increased our self-disclosure to 90%, covering a wider range of characteristics including experiences, education and socio-economic backgrounds as well as the protected characteristics. We believe we now have a core basis on which to report and properly measure our progress across the whole subject of diversity, informing our plans to become more inclusive as we continue our growth;
- **Recruitment and selection** – A key part of our strategy is widening our recruitment sources and attracting people who are underrepresented in Financial Services (FS) and/or would not consider or have easy access to the industry. The focus on increasing direct recruitment, actively considering the wording of our adverts and sourcing from non- traditional paths is beginning to increase the diversity of candidates. We know that including the need for banking experience excludes capable and skilled candidates who have diverse thinking and experience, and therefore our focus has been on defining required skills and behaviours to attract candidates with transferable skills rather than seeking only people with FS experience. As a result, in 2022, 57% of roles have been filled from our own direct recruitment advertising and 12% of roles were filled through colleague referrals. We are actively working to build relationships with organisations that support and represent under-represented groups in FS (disability, race, background) as well as local schools and colleges to attract apprentices straight from secondary education;
- **Voice** – as the Bank has grown, we recognise the importance of increasing the opportunity for everyone to be heard. We have continued with our internal annual colleague survey, frequent 'pulse' surveys, as well as our bank-wide monthly All Colleague Meetings; these provide the opportunity for colleagues to raise questions, ideas and concerns. In 2022, we participated again in the FSCB survey, with our results continuing to be positive. The Bank continues to record consistently high participation rates and strong scores in all its surveys. In 2022 we widened the use of colleague working groups, providing more colleagues with opportunities to get involved with shaping how the Bank develops and operates. We already had active Green and Charity teams as well as the more formal Colleague forum, all of which continued to evolve in 2022. Specific working groups set up in 2022 have resulted in changes to our maternity, paternity and adoption pay, a new performance management process, as well as leading our celebration of events such as black history month, Pride and various religious celebrations;

- **Policies and procedures** – throughout 2022, we have continued to review people policies and procedures to ensure that they promote our beliefs and stance on inclusivity. We confirmed our hybrid working arrangements, with colleagues able to work up to 50% of their time at home, developing the infrastructure and management practices required to effectively support this way of working. This approach has been welcomed by colleagues who provided positive feedback in our internal colleague survey. In 2022, the Performance & Remuneration Committee decided to equalise benefits so that the Bank's benefits package is the same for all colleagues regardless of grade or position. The Board also committed actively to supporting colleagues with the cost-of-living challenge, making one off payments to all staff below Executive level in July 2022 and making pay awards of 3% in April 2022. There has been no change to our variable pay schemes during the year, and the majority of colleagues benefitted from the Bank's discretionary profit-sharing scheme capped at 10% of basic salary. The Board pays close attention to the Bank's culture and key people measures, including turnover rates, sickness levels and time taken to fill vacancies. All of these remain positively low, although we have been mindful of the increase of mental health concerns and as a result have extended our support to colleagues by providing additional counselling services, training for managers and adjustment to working arrangements to support individuals;
- **Talent and growth** – the Bank's 'grow our own' strategy supports our diversity and inclusion ambitions, advocating that all colleagues have a development plan that supports them to be successful in their role and achieve their potential whilst enabling the Bank to have strong internal succession in place. Gender diversity is one element of our inclusivity strategy. In 2022, five years after signing the Women in Finance Charter, we achieved our pledge to increase women in senior management with 32% female representation in senior management, 30% on our Board, and 33% of our Executive Committee being female. Whilst we are proud of this, it is not enough, and our journey continues as we seek to achieve female representation at all levels of senior management to 40% by 2025 and 75% female representation on our apprentice, intern and graduate programmes. In 2022, we reduced our Gender Pay Gap to 26% and have committed to targets to reduce our Ethnicity Pay Gap by a third over the next three years.

Diversity and inclusion remain at the heart of our culture

Culture

Overview

Mindful that the culture of an organisation is key to how customers and other stakeholders are treated, the Board plays a vital role in the leadership, development, and oversight of the Bank's culture. We know that it is our culture that has enabled us to differentiate ourselves as the specialist SME Bank of choice. Our culture is reflected in everything we do: we value building and maintaining strong relationships, using our expertise, being open, caring, and down to earth – a culture that enables us to understand and support our customers, colleagues and communities in which we live and work. The Board regularly reviews and considers how the culture evolves with the Bank's growth as well as reviewing the cultural indicators to assess how it is embedded across the organisation.

Activity

During the year, the Bank has focussed on creating a cultural design framework that will underpin the Bank's strategy and provide a basis for future review and measurement. This has been linked to the results of our staff engagement surveys, our work with the Financial Services Culture Board, and our customer and broker engagement surveys.

We have also focussed on refining the constituent parts that drive the Bank's culture, by:

- being responsive to the cost of living crisis and how we remunerate staff;
- maintaining our representative forums that allow colleague engagement;
- reviewing our approach to hybrid working arrangements;
- renewing our commitment to local charities and communities;
- refreshing our benefits and rewards system to improve and better align benefits to colleagues needs including improvements to maternity, paternity, and adoption leave.
- implementing our inclusion and diversity plan; Continuing to support colleagues develop their competency through the learning and development of skills, knowledge and behaviours;
- reviewing the Bank's cultural rituals, norms and artefacts; and
- Board evaluation of how they visibly lead and advocate the culture.

Financial Performance

Macroeconomics

2022 has seen the impacts of higher energy costs, global supply chain shortages, the conflict in Ukraine as well as post Covid-19 and Brexit effects resulting in a significant deterioration in the UK economic outlook.

The Bank of England increased bank base rate by 3.25% to 3.5% during 2022 with further increases expected in 2023 as the Monetary Policy Committee seeks to reduce UK inflation.

The Bank remains committed to supporting its customers and staff through the current difficult economic environment.

Prudential framework

The prudential framework has remained relatively unchanged during 2022. The implementation of CRRII took place from the 1 January 2022, with the key change from the Bank's perspective being the implementation of the Net Stable Funding Ratio (NSFR) ratio. The Bank's NSFR at the end of December 2022 was 134%, above the 100% minimum regulatory requirement.

The Bank's strong capital base has enabled it to meet the higher capital requirement set for all Bank's as a result of the Counter Cyclical buffer increasing to 1% in December 2022. The Bank is also ready and able to manage the further 1% increase in this buffer that is expected to be implemented in July 2023.

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

Financial review

- The Bank has delivered a strong financial performance in 2022 despite the deteriorating economic environment evidenced during the year.
- Net Interest income increased by £14m compared to the prior period as a result of the growth in customer loans and advances and an increase in the net interest margin. Whilst pricing in both the lending and deposit markets remains competitive, the increases and the timing of bank base rate rises, the mix of the Bank's loans and deposits in terms of fixed and variable rates enabled the Bank to increase its NIM to 4.5% (2021: 3.8%) and maintained a strong liquidity position with an LDR of 94% and reported an LCR of 361% at the year end.
- The Bank's loans and advances to customers continue to perform with low levels of defaults despite the deteriorating economic conditions. The Bank is cognisant of the economic uncertainty and this has resulted in its impairment loss charge increasing from £3.5m to £4.8m in 2022. Balance sheet provisions increased from £14.8m to £16.9m reflecting the growth in loan balances, and an increased impairment coverage ratio of 1.6% (2021: 1.5%).
- Recognising that the Bank's people are its key differentiator in achieving its service levels and customer support, the Board maintained their commitment to invest in infrastructure, capacity, and capability to ensure that the Bank continues to develop the skills and expertise it needs to support both the current business demands and future growth aspirations. The average number of employees increased by 13% to 206 during the year. Despite the continued investment in the business, the Bank reduced the cost income ratio from 51.0% in 2021 to 44% in 2022.
- Despite the challenging conditions the Board are pleased with the Bank's performance delivering Profit after tax of £23.2m (2021: £15.5m) and ROCE of 12.6% (2021: 9.5%).
- The Bank continues to maintain a strong liquidity and capital position. At the end of December 2022, the Bank held liquid assets of over £331m with an LCR of 361%, significantly above the regulatory requirement of 100%. The Bank's total capital ratio was 23.6% at the end of December with a CET1 ratio of 20.7%. The Bank's leverage ratio was 13.9%, significantly above the regulatory limit of 3.25%.
- The Board are committed to continuing to support our customers and the SME market through the current economic downturn. Despite the less favourable operating environment the Board are planning for continued growth in the Bank's balance sheet as well as ongoing investment in its people and systems.

The Bank's performance is presented on a statutory basis and structured consistently with the key elements of the business model explained on page 13. The 2022 financial statements have been prepared under UK-adopted international financial reporting standards (IFRS). The Bank's primary financial statements are reported on pages 84–87, with a summary of these shown below. There have been no changes in the Bank's accounting policies in 2022.

The Bank's **primary financial statements** are reported on pages 84–87

Summary Income Statement £'000	2022	2021
Interest income	75,977	55,335
Interest expense	(16,753)	(10,408)
Net interest income	59,224	44,927
Other income	28	23
Total Operating Income	**59,252**	**44,950**
Operating expenses (including depreciation)	(25,940)	(22,936)
Impairment charge	(4,773)	(3,524)
Profit Before Tax	**28,539**	**18,490**
Taxation charge	(5,337)	(3,024)
Profit After Tax	**23,202**	**15,466**
Summary Balance Sheet £'000	**2022**	**2021**
Liquid assets	331,023	289,588
Loans and advances to customers	1,037,710	977,834
Other assets	7,812	7,449
Total Assets	**1,376,545**	**1,274,871**
Customer deposits	1,103,256	1,025,520
Central Bank facilities	78,000	78,000
Derivative financial liabilities	1,010	254
Other liabilities	9,433	7,280
Shareholders' funds	184,846	163,817
Total Liabilities and Equity	**1,376,545**	**1,274,871**
Key Performance Metrics	**2022**	**2021**
Gross new lending	£310m	£323m
Net interest margin	4.5%	3.8%
Cost:income ratio	44%	51.0%
Cost of risk	47bps	38bps
Common Equity Tier 1 capital ratio	20.7%	19.9%
Total capital ratio	23.6%	23.0%
Liquidity Coverage Ratio	361%	287%
Return On Capital Employed (ROCE)	12.6%	9.5%

Definitions:
Gross new lending – new loans drawn down during the period
Net interest margin – net interest income / average interest earning assets (at the start and end of the period)
Cost:income ratio – total operating costs / total operating income
Cost of risk – loan loss impairment charge / average gross lending balance (at the start and end of the period)
Impairment coverage – impairment provisions / gross loans and advances to customers
Common equity tier 1 capital ratio – ordinary shares and reserves (common equity) / risk weighted assets (at the reporting date)
Total capital ratio – all forms of capital (CET 1 and AT1) / risk weighted assets (at the reporting date)
All capital ratios include IFRS9 transitional relief
Return On Capital Employed (ROCE) – Profit after tax / Total equity (Retained Earnings + Ordinary Shares + AT1 capital)

Continued growth in our customer base, our people and financial strength

Loans and liquid assets

The Bank's balance sheet reflects good growth in each of its Real Estate Finance, Asset Finance and Classic Cars & Sports vehicle loan portfolios in 2022. Gross Loan balances increased by £62m to £1,055m (2021: £993m), an increase of 6% as customers continued to invest in UK property assets and finance their business aspirations.

The Bank's portfolio of £942m (2021: £900m) commercial loans is secured on property, lending to experienced commercial and residential property investors as well as to owner occupied businesses to invest in their own commercial premises.

The Bank 's Asset Finance business provides finance for businesses to acquire essential assets such as equipment, plant, machinery, or vehicles using hire purchase and finance lease facilities. The Bank's customer exposures increased from £54m to £71m during 2022. The Bank also provides finance for the purchase of classic cars and sports vehicles using hire purchase and finance lease products which increased from £36m to £42m in 2022.

All of the Bank's Asset Finance and Classic Car & Sports Vehicle loans are set at a fixed rate with the majority of its Real Estate loans linked to bank base rate.

The Bank's liquidity portfolio comprises high quality liquid assets, primarily cash reserves at the Bank of England, International Bank Reconstruction and Development Bank and European Investment Bank bonds which are available and accessible to meet potential cash outflows.

A key regulatory measure of liquidity adequacy is the LCR, which is designed to assess the short-term resilience of the Bank's liquidity risk profile. The Bank monitors liquidity daily to ensure it has sufficient funds available to meet maturing liabilities and uses a range of metrics to monitor this. The Bank's liquidity position remains robust with a 361% LCR (2021: 287%). The LCR increased during the year reflecting the growth in the Bank's liquid assets which was funded by a higher proportion of direct acquired customer balances as well as an increase in the tenor.

Sources of funding

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

The Bank grew its deposit portfolio during the year within the Board's funding and liquidity risk appetite from £1,026m to £1,103m, to support the lending activity. The Bank has made good progress in delivering against its strategic goal of increasing the value of deposit balances acquired through the direct channels with less reliance on Deposit aggregators for new funds.

The cost of funds increased during the year reflecting increases in the rates offered across the market as well as higher forecasts for UK bank base rate over the next few years. The mix and tenor of the Bank's deposit balances enabled it to mitigate an element of the impact of the 3.25% increase in UK bank base rate announced during 2022 with over 40% of balances held in fixed rate accounts.

Operating income

Total operating income for the year was £59.3m (2021 £45.0m).

Interest income increased by £20.6m driven by the growth in lending balances and higher rates of interest. The increases in bank base rate were passed on in full to all customers with a variable rate loan. New fixed rate loans were drawn at higher rates reflecting the increased cost of funding.

Interest payable increased by £6.3m as a result of an increase in the interest rates paid on the Bank's deposit accounts.

The Bank continues to generate a strong asset yield of 5.8% (2021: 4.7%) with the increase principally reflecting the increase in bank base rate during the year.

The Bank's liability yield was 1.3%, an increase of 0.4% compared to 2021, reflecting the increase in the market rates offered to deposit customers. The cost of the Bank's deposit balances increased from 1.06% in 2021 to 1.5%.

In total, the Bank's net interest margin increased from 3.8% to 4.5% in 2022.

Expenditure

We continue to invest in the business, with total operating expenses (including depreciation) increasing from £22.9m in 2021 to £25.9m. The key driver of the increase in costs was the increase in the Bank's staff costs.

The Bank continues to invest in its own staff with minimal contractor expenditure. During the year the Board agreed a one-off payment of £1,000 per employee to help support staff manage the increased cost of living. The average number of staff employed during the year increased from 183 in 2021 to 206 in 2022.

The Bank continued its investment in its IT systems, increasing its resilience and security as well as implementing a new real estate loan application processing system and Management Information reporting system.

The Bank's cost: income ratio reduced from 51% to 44% in 2022 with the increase in costs more than offset by the strong growth in income.

Impairment

£'000	2022	2021
Value of loans past due – Up to 3 payments missed	20,263	11,947
Value of loans in default – inc. credit impaired and IFRS 9 stage 3 loans	27,423	28,575
Impairment loan provisions	16,928	14,766

The Bank's asset quality remains strong and it continued to successfully manage its defaulted loan cases throughout 2022, despite the uncertain economic and market environment.

The Bank has always ensured that its customers could potentially service increased levels of repayments with applicant's affordability stressed at higher than current Bank base rate. The Bank has also maintained its loan to value limits with the average LTV on the Real estate book at 31 December 2022 being 56% (2021: 56%).

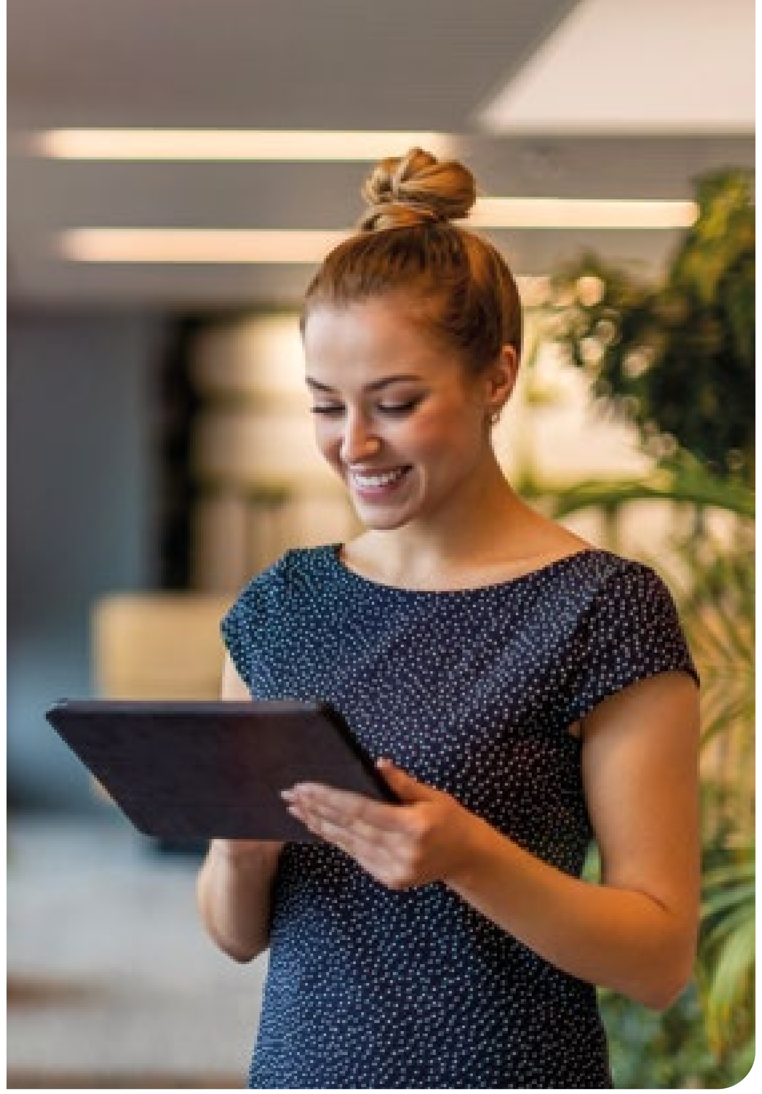
The Bank's balance sheet impairment provision increased from £14.8m to £16.9m in 2022. The Bank's loan loss provision coverage ratio increased to 1.6% during the year (2021: 1.5%).

The IFRS 9 calculated income statement impairment charge was £4.8m in 2022, an increase of £1.3m compared to 2021. The charge reflects write-offs of balances totalling £2.9m, recoveries on previously written-off accounts of £0.1m and new provisions of £2.0m. The number and balances of the Bank's stage 3 loans (the majority of which are in default) remains broadly similar year on year.

The impairment charge is calculated using the Bank's granular credit grading and IFRS9 impairment models. The models include forward looking economic scenarios. The scenarios, together with the related weightings, are provided in Note 28. The Bank continues to review all its IFRS 9 model assumptions on a regular basis to ensure they reflect actual performance as well as management's future expectations. The Bank's 2022 Expected Credit Loss includes a Post Model Adjustment (PMA) of £685k (December 21: nil). This adjustment has been applied to reflect risks not fully captured by the Bank's REF IFRS 9 model. Commercial property prices recorded significant reductions in the final quarter of 2022 and Management do not consider these to have been fully captured within its model at the end of the year for loans drawn in the year. A Valuation Risk ECL adjustment has therefore been modelled and included as part of the total stage 1 expected credit loss in 2022. This adjustment has been calculated by uplifting the Loss Given Default metric for all new loans drawn in the first 3 quarters of 2022 to reflect the reported fall in commercial property prices in Q4. The increase in the loan impairment charge combined with the growth in total loan balances results in an annual cost of risk of 47bps (2021: 38bps).

The Bank is very aware of the potential impact of the current economic environment on its customer's businesses. The Bank remains committed, as it did during Covid-19, to supporting its customers through this less favourable and more volatile economic environment.

Leveraging manual underwriting to navigate the macroeconomic outlook



Taxation

The taxation charge of £5.3m (2021: £3.0m), reflects an effective corporation tax rate of 19% (2021: 19%). The taxation charge includes a £176k charge (2021: £141k credit) in respect of deferred tax, and a credit of £274k in respect of the Bank's convertible loan note interest payment (2021: £244k).

Dividends and convertible loan note payments

The Bank paid a £1.4m coupon on 30 September 2022 (2021: £1.3m) in interest payments on the convertible loan notes to Cambridgeshire County Council Pension Fund, the holder of the loan notes.

The Board did not pay an ordinary share dividend in 2022 and does not propose an ordinary share dividend in 2023 as it continues to focus on maintaining a strong, well-capitalised balance sheet.

Shareholders' funds

£'000	2022	2021	Change %
Share capital	44,955	44,955	
Convertible loan notes	22,900	22,900	
Retained earnings	118,200	96,437	22.5%
Fair value through other comprehensive income reserve	(1,209)	(475)	
Total Shareholder Funds	**184,846**	**163,817**	**12.8%**

Unaudited	31 December 2022		31 December 2021	
	Before transitional relief	After transitional relief	Before transitional relief	After transitional relief
Risk weighted assets (RWA) £m	783.7	787.6	723.4	728.4
Common Equity Tier 1 ratio (CET1)	20.1%	20.7%	19.2%	19.9%
Tier 1 capital ratio	23.1%	23.6%	22.4%	23.0%
Total capital ratio	**23.1%**	**23.6%**	**22.4%**	**23.0%**

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

Total shareholders' funds increased during the year from £163.8m to £184.8m as a result of the growth in the Bank's retained earnings.

The Bank elected to adopt the original IFRS 9 capital transitional arrangements from 1 January 2018, and during 2020 elected to adopt the extension to these arrangements announced within the CRR Quick Fix regulations in June 2020.

In total the Bank's IFRS 9 transitional relief was £4.6m in 2022 reflecting both the original and 2020 new transitional relief arrangements, this relief reduced in 2022 reflecting the scheduled reduction in the original transitional relief factor from 50% to 25% and the 2020 relief scheme from 100% to 75%.

The Bank continues to benefit from its British Business Bank 'Enable' Guarantee facility. As at the 31 December, £42.6m of loans were included within the guarantee facility. The guarantee, which for regulatory reporting purposes is treated as a synthetic securitisation, enables the Bank to risk weight the loans within the guarantee at 0%. This benefit is partially offset by the cost of the first loss tranche which is reported as a capital deduction of £1.68m.

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

The Bank's Common Equity Tier 1 capital ratio (including the impact of the transitional arrangements) at the 31 December 2022 was 20.7%, (2021: 19.9%). The Bank's total capital ratio (including the impact of the transitional arrangements) at 31 December 2022 was 23.6% (2021: 23.0%). The Bank's Common Equity Tier 1 capital ratio and total capital excluding the transitional arrangements were 20.1% and 23.1% at 31 December 2022 respectively.

Risk Management

Approach to risk, enterprise risk management framework and accountability

The Enterprise Risk Management Framework clearly articulates the Bank's approach to risk management, the risks the Bank is willing to take, and the inherent risks, in pursuit of its strategy.

The framework ensures that from the top down there is effective identification, assessment, control, management, reporting and escalation of risk, to operate within the appetite set by the Board resulting in a transparent and strong risk culture. The key principles, tools, documentation, governance structure, roles and responsibilities for risk management, across all risk categories, are confirmed in the framework along with the methodologies used to measure and monitor the 'Risk Management Cycle'. In addition, the internal and external oversight, assurance, and approvals provided by Executive, Board, Line 2 and Line 3 is confirmed.

A Risk and Control Self-Assessment programme and Top and Emerging risk reporting exist which supports monitoring and management of the Bank's risk profile.

A forward-looking risk management approach is taken using quarterly stress testing and scenario analysis, feeding into the annual Internal Capital and Liquidity Adequacy Assessment processes (ICAAP and ILAAP) to ensure there is sufficient capital and liquidity to cover the risks to the Bank.

Governance of Risk Management

The Chief Risk Officer has operational responsibility for the management of the bank's Enterprise-wide Risk Management Framework. The Board has responsibility for the setting of the firm's Risk Appetite and approval of this framework, as well as ongoing oversight, principally through the Board Risk and Compliance Committee. The Bank's corporate governance framework and committee structure is outlined in the corporate governance section.

Three lines of defence model

The Bank adopts the 'three lines of defence' model to provide robust risk management, oversight and assurance with clear responsibilities established for all colleagues in relation to risk management, including executive and non-executive responsibilities documented as applicable under the Senior Managers and Certification Regime. The Bank outsources the Internal Audit function to Deloitte LLP.

Risk Appetite

The Risk Appetite is the type and level of risks the Board is willing to take in pursuit of its strategy and objectives. The overall objective is to protect the Bank from unacceptable levels of risk while supporting and enabling overall business strategy (including the assessment of new business opportunities). The Bank's Risk Appetite Statements outline a mixture of qualitative and quantitative measures (Principal Risk Statements and Key Risk Indicators). An annual review of the Bank's risk appetite statements and KRIs is facilitated and challenged by Second Line Risk, driven by the recommendations of the appropriate executives and subject matter experts. This process includes ensuring that the key risks identified remain appropriate against the strategic plan, current business, macroeconomic, geopolitical, regulatory, and legal environment, and experience of risk throughout the preceding year.

The Bank's performance against Risk Appetite is monitored via reporting to the executive risk committees. This is summarised within the Chief Risk Officer Risk Management Report, presented regularly to the Risk Management Committee and appropriate Board committees. The reporting shows status against each Key Risk Indicator (KRI) and overall rating, based on parameters set within the Enterprise Risk Management Framework, using a Red/Amber/Yellow/Green scale and the expert judgement of the first and second lines. These KRI's detail the Bank's Risk Appetite and are reviewed at least annually or in the event of a major change to strategy and/or environment within which the Bank operates.

The Bank's principal risks:

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Total Risk Total exposure to all types of risk in aggregate.	Enterprise Risk Management Framework Strategic Plan Risk Management Committee Risk & Compliance Committee	The Bank takes a conservative approach to risk management, having a low-risk appetite for all risk types, apart from Credit Risk, for which its appetite is moderate, operating within strict parameters. There are certain types of risk to which the Bank does not want any exposure (e.g., fraud), noting that instances can and do occur. The Bank takes active steps to minimise the possibilities of such incidents arising and strives to mitigate the impact when they happen, learning from any mistakes made.	Monthly assessment by the Chief Risk Officer of the Bank's overall risk profile, based on performance against appetite in all risk categories.	The Bank monitors its overall risk profile closely via its governance structure to ensure that it remains within Risk Appetite, in alignment with its strategy.
Strategic The risk of having an insufficiently defined or flawed strategy that does not adapt to market and business developments and/or meet the requirements and expectations of our stakeholders.	Enterprise Risk Management Framework Strategic Plan Risk Management Committee Risk & Compliance Committee Executive Committee Board	The Bank maintains a low appetite for Strategic Risk. We aim to deliver a satisfactory return on capital to our shareholders, generating profitable returns and building gross lending balances, whilst retaining stable asset quality and maintaining a satisfactory cost of risk. We will achieve this within our stated Risk Appetite and regulatory guidelines and deliver market leading customer service, demonstrated by above average new business margins and positive customer experience. We aim to be an employer of choice, ensuring that we have the right mix of skills and experience to grow the Bank. We work hard to protect our brand, minimising reputational risk and play an active and responsible part in our community.	Strategy debated at the Board's Strategy Day, including second line challenge. Ongoing discussion at risk committees and Board Regular employee, broker, and customer surveys Ongoing review of financial performance against budget Media monitoring/ engagement Demonstrations of corporate social responsibility Seeking B Corp Accreditation Part of wider ESG activities.	The Bank has a clear strategy, which is monitored effectively.
Capital Adequacy The risk that the Bank fails to hold sufficient capital to meet its regulatory obligations, support its growth plans or to absorb shocks.	Capital Management Policy Asset & Liabilities Committee Risk & Compliance Committee Executive Committee Board	The Bank maintains a low appetite for Capital Adequacy Risk. Our 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 the Bank's capital base can support a growing and maturing book throughout the economic cycle, allowing for potential downturns.	Maintaining a capital surplus buffer exceeding minimum regulatory requirements Ongoing forecasting of capital requirements reported to risk committees. Quarterly stress testing Annual ICAAP, incorporating regular stress testing of the capital base in 'severe yet plausible' scenarios. Horizon scanning to ensure continued compliance with regulatory requirements	The Bank maintains and monitors a robust capital base, including a management buffer more than regulatory requirements.
Liquidity & Funding The risk of being unable to fund assets and meet obligations as they fall due, without incurring unacceptable losses.	Asset-Liability Management Policy Savings Protocols Asset & Liabilities Committee Risk & Compliance Committee Liquidity Contingency Plan	The Bank maintains a low-risk appetite for Liquidity & Funding Risk. We will maintain sufficient liquid assets to meet liabilities as they fall due in a stressed scenario and always maintain a buffer, including satisfactory liquidity coverage and loan to deposit ratios. We will ensure that we are not overly reliant upon any single savings intermediary to raise deposits.	Measuring, managing, and monitoring the risk over appropriate time horizons, including intra-day Regular reforecasting of the liquidity positions Monitoring strict criteria over the use of High Quality Liquid Assets Annual ILAAP, 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 maintains sufficient liquidity headroom to ensure that the Board's risk appetite and regulatory requirements are always met.
Market The risk that changes in market rates negatively impact the earnings or market value of the Bank's assets or liabilities.	Interest Rate Risk in the Bank Book Policy Asset & Liabilities Committee Risk & Compliance Committee	The Bank has no appetite for foreign currency risk and a low appetite for interest rate and basis risk keeping all assets, liabilities and off-balance sheet exposures in sterling and carefully managing mismatches between tenors of loans and deposits, hedging exposures where necessary within pre-determined limits.	Scenario analysis Use of natural balance sheet hedges and derivatives when needed. Monitoring of pipeline, repayment profiles and product maturities. Modelling a variety of different yield curves/ interest rate paths.	Market Risk is limited to Interest Rate Risk in the Banking Book, which is monitored by the Bank's ALCO and a suite of Key Risk Indicators and tested via scenario analysis.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Credit The risk that counterparties fail to meet the commitments into which they have entered in a timely manner.	Credit Risk Management Framework Lending Protocols Credit Committee Risk & Compliance Committee Environmental, Social & Governance (ESG) Committee Model Risk Oversight Committee	The Bank has a moderate appetite for Credit Risk overall, maintaining conservative parameters that reflect the prevailing external environment, including a maximum LTV and a DSCR focusing on relationship management, including annual reviews. We will maintain the Bank's lending distribution and product offering within parameters agreed by the Board, diversified by sector and UK region, with a minimal appetite for 'speculative' lending. These ensure that we concentrate lending on areas where we have experienced subject matter experts both in the first and second line of defence, with the necessary operational capacity, systems, and infrastructure to effectively manage and monitor the loans through their life cycle. We 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. We will not chase growth at the expense of credit and asset quality. Although we recognise that through the full economic cycle, some credit losses are inevitable, our robust underwriting standards aim to minimise them, with close monitoring of Risk Appetite monthly via the comprehensive suite of KRIs.	Regular modelling of funding requirements and interest rate risk analysis Compliance with detailed Risk Appetite and Lending Protocol parameters Quarterly Stress Testing of the loan portfolio Segregation of responsibility for the management of loans and a program of underwriting from business development and sales Use of seasoned professionals with deep subject matter expertise, experience, and ongoing training Quality Assurance checks to ensure adherence to policies and procedures. Use of the Credit Grading Models as part of the approval process, refreshed monthly, allowing the portfolio to be monitored on an ongoing basis. Conducting annual reviews to ensure monitoring throughout the facility lifecycle. Close monitoring of non-performing loans, including Early Warning Report, Watch List, Forbearance, and management of arrears. Detailed provisioning requirements and procedures	Credit Risk is one of the principal risks that the Bank faces, given the nature of its business. The lending portfolio is closely monitored via a suite 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. The Bank continues to assess the potential impact of climate change and the environmental factors across its loan portfolio as well as undertaking appropriate stress testing.

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 Data Protection Framework Compliance Monitoring Framework Risk Management Committee Risk & Compliance Committee	The Bank maintains a low appetite for Legal, Compliance and Regulatory Risk. Whilst we recognise that operational errors can occur, we maintain zero tolerance for reportable breaches of regulations, regulatory policy breaches, breaches of applicable laws, late responses to regulatory requests. We strive to ensure that we always remain within the law and regulation. Regulatory Changes (Horizon Scanning) are logged, allocated, monitored, and tracked ensuring additions to or changes within regulatory requirements are proportionately applied. All material breaches are investigated and reported to the Risk & Compliance Committee in a timely manner, and staff operate within the Bank's documented policies and controls and, where applicable, industry guidelines.	Compliance monitoring of the Bank's activities through an approved annual plan Undertaking detailed and regular reviews of key activities and processes via the second line oversight programme Provision of guidance in relation to business, product, and change management requests. Ensuring appropriate registrations under the Senior Management and Certification Regime through second line oversight Maintaining logs of internal compliance breaches, regulatory breaches and conflicts of interest Horizon scanning to ensure continued adherence to regulatory requirements and developments. Regular reviews of training content and oversight of the training and development of staff to ensure up to date knowledge base. Executive owned KRIs.	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 and Data Protection Frameworks are continually under review to ensure that they meet all requirements and is in line with leading industry practices. Annual submission of the Data Protection Officers' Report. Approval of the Annual Compliance Monitoring Plan.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Financial Crime The risk that inadequate controls relating to financial crime could give rise to fines, litigation, sanctions, reputational damage, or financial loss.	Financial Crime Framework Risk Management Committee Risk & Compliance Committee	The Bank maintains a low appetite for Financial Crime risk, aiming to maintain a low level of residual risk and striving to ensure that we always remain within the law and regulation. Whilst we recognise that operational errors can occur, we maintain 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 Management Committee and Risk & Compliance Committee in a timely manner, rule changes are implemented within the applicable regulatory timelines and staff operate within documented policies and controls and, where applicable, industry guidelines.	Adherence to the Financial Crime Framework Undertaking business wide risk assessments Customer onboarding incorporating standard and enhanced due diligence checks. Risk based Source of Funds and Source of Wealth checks. Individual customer risk assessments which determine a customer's risk profile Third-party due diligence. Ongoing automated transaction monitoring and screening Receiving internal suspicious activity reports from any employee in the business High risk customers are approved by the MLRO 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 Horizon scanning to ensure continued adherence to regulatory requirements. Regular reviews of training content and training and oversight of the development of staff to ensure up to date knowledge base	Ensuring compliance with all applicable regulatory requirements in a fast-changing landscape is a challenge to which the Bank devotes considerable resources. The Financial Crime Framework is continually under review and maintained in line with leading industry practices. Annual submission of the MLRO Report to the Board

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Operational The risk that events arising from inadequate or internal process failure, people, and systems or from external events cause regulatory censure, reputational damage, financial loss, service disruption and/ or customer detriment.	Operational Risk Management Framework/ Policy Risk Management Committee Risk & Compliance Committee	The Bank maintains a low appetite for Operational Risk. We aim 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, people, cyber and technology risks, noting that the Bank has a lower appetite for risks associated with material outsourcing and critical non-outsourcing arrangements. We will ensure that our systems and operational capabilities are stable and resilient, with preventative measures in place to reduce the risk of service disruptions, and effective business continuity and disaster recovery plans maintained to limit the impact of disruption events. A suite of KRIs is in place and a framework for escalation of issues to senior management and the Board, regular reviews are undertaken via Risk and Control Self Assessments, and Operational Risk Events are captured, recorded, and reviewed with actions taken to avoid recurrence.	Risk and Control Self Assessments and Risk Registers Scenario Analysis Monitoring of Operational Risk Events and 'Deep Dive' analysis, where appropriate Reviewing projects and change management requests. Monitoring of the risk posed using critical and outsourced suppliers. Horizon scanning to ensure continued adherence to regulatory requirements and leading practices. Maintaining knowledge of industry standards and changes Regular training and development of staff to ensure up to date knowledge base and embedded Risk and Control Self-Assessment process.	Operational Risk is a key risk for the Bank. However, Operational Risk related losses have historically been low, the framework has been strengthened following an external review and ongoing enhancements are being undertaken to ensure that the Bank's Operational Risk Framework is in line with its regulatory requirements and leading practices.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
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 our employees understand and fully operate within regulatory requirements (including the FCA Conduct Rules), further the Bank's Strategic Priorities (including maintaining a culture of 'doing the right thing' for our customers and staff' and 'delivering clear and simple products'). All our employees are responsible for proactively managing Conduct Risk and maintaining customer interests as the highest priority. The Consumer Duty regulation comes into force in 2023 and the Bank continues to prepare for these changes — ensuring we adopt the spirit of the regulation as well as the principles into the business.	Monitoring of the Conduct Risk KPI's Complaints monitoring and analysis. Customer surveys Independent review of customer calls Annual product reviews Analysis of the 'customer journey' Annual report from the Chief Risk Officer on Conduct issues, feeding into the remuneration policy and practice. Linkage of all variable pay schemes to customer satisfaction measures. Development of Consumer Duty Principles.	The Bank prides itself on its strong risk culture and focus on customer outcomes. A Conduct Risk Framework is in place to ensure continued compliance with all requirements in this regard, including detailed reporting to the risk committees.

Principal Risk	Governance	Risk Appetite Statement	Key Mitigants	Comments
Financial Models The risk that the Bank incurs financial loss because of decisions that could be principally based on the output of (internal) models, due to errors in the development, implementation, or use of such models.	Model Risk Governance Framework & Policy Model Risk Governance Committee Risk Management Committee Risk & Compliance Committee	The Bank maintains a low appetite for Model Risk. We aim to minimise incidents and losses arising from model risk issues by maintaining and operating within an appropriate governance framework, supported by a Model Governance Policy. We have a clear definition of a model and maintain an inventory of all models within the Bank. We adopt a proportionate risk-based approach according to the materiality of each model, with specific requirements regarding model development, independent validation, approval, implementation, monitoring and recommended enhancements and future developments. Oversight is provided by the second line of defence and the quarterly Model Risk Governance Committee.	Materiality assessment for models at inception, and annually thereafter Regular independent model validation for high/medium rated models Regular model self-validation for low rated models Ongoing model monitoring for key models. End User Computing (EUC) framework enhancements – requiring minimum standards for databases	The Bank's Model Risk Governance Policy articulates the principles and standards for model use at each stage of its life cycle, with control and assurance requirements commensurate with the model's materiality and level of risk.
Operational Resilience	Maintaining Operational Resilience is a key regulatory and operational requirement to ensure the Bank can prevent, respond to, recover, and learn from operational disruptions. As several key IT services are outsourced, including the Bank's core platform, satisfactory performance of its service providers is an ongoing part of ensuring continued Operational Resilience.	Operational Resilience and Supplier Risk Management arrangements have been significantly enhanced during 2022, including Board approval of Important Business Services (IBS's) and Impact Tolerances along with workshops held to assess continuity of business services for the critical scenarios. Continual developments are being made and are subject to Board and Executive level oversight.	The Bank completes annual testing of its Important Business Services and has completed its second cycle of this work. Testing includes the mapping, identification of vulnerabilities and stress testing of these. Resiliency is also tested via IT Disaster Recovery, Crisis Management Planning (both desktop and simulated scenario) and business continuity. Our third party's resiliency forms part of the Bank's internal testing.	The Bank's resiliency remains strong. All actions from test activity is logged and oversighted.

Emerging Risks and Uncertainties

The Bank regularly reassesses the key risks to which it is exposed including any which are emerging, within the environment in which it operates. The Bank's emerging risks during the year and at the time of the preparation of this document are assessed to be:

Emerging Risk	Definition	The Bank's Response
Global macro-economic outlook	The onset of the Ukraine conflict, and wider associated geo-political risks, has increased uncertainty in supply-chain disruption and increased forbearance arrangements primarily through the impact on energy and commodity prices and potential supply disruptions, the impact of sanctions, and the potential for firms to adopt a 'wait and see' approach to investment.	The Bank monitors a range of current and forward-looking measures covering all susceptive risk types (primarily operational, conduct, strategic, and credit). These are reviewed by management and oversight forums on an ongoing basis, and appropriate responsive action undertaken. In mitigation to more severe scenarios, documented arrangements are in place for each of the Bank's 'Important Business Services', and for each business area, identifying key points of failure and management's contingency arrangements.
UK Macro-Economic Risk	As the impact of the war in Ukraine and other economic challenges, such as the cost of living, rising interest rates etc continue, there remains some risk of economic uncertainties, impacting the Bank and its customer base, resulting in the potential for the Bank being unable to achieve its business targets – both growth/credit risk related. These risks include broader economic pressures on the UK, inflation, and wider economic uncertainty/recessionary pressures, property price movements etc.	Macro-economic risk is considered as part of the Strategic Planning process and monitored via various reporting to Board and executive level committees.
Development of the 2023+ Growth Plan	The risk that pursuing the business growth targets outlined in the most recent Strategic Plan will bring additional operational pressures and create increased risk, either Credit Risk or Operational/Fulfilment Risk.	The key mitigant will be management judgement, supported by Board oversight in areas including due diligence, management competency, and ensuring that the Bank recruits sufficient resources/skills to manage the risk.
Climate Change	Climate Change is a growing risk and ongoing consideration needs to be given to the longer-term impacts, particularly in relation to the loan portfolio. If left unchecked, it could lead to a medium/long term risk to the credit quality of the book because of extreme climate events such as flood risk and poor preparedness and lack of attention given to this risk by the property industry (which continues to see low EPC ratings) and impact on the Asset Finance and Classic Vehicles and Sports (CV&S) loan books. Both physical and transitional risks are being factored into Risk Appetite, Key Risk Indicators, and broader lending activity.	This is a topic that the Bank takes very seriously and has conducted a detailed report in response to the PRA's Climate Change Requirements and plans for firms to manage these risks. The Environmental, Social & Governance (ESG) Steering Committee, chaired by the Bank's General Counsel and supported by the Chief Risk Officer, continues to develop action plans, in addition to working with external bodies, such as UK Finance, to assess sector preparedness, planning and actions to ensure the Bank's initiatives remain appropriate and relevant. Regular progress reports are provided to key stakeholders, including the Board.

Emerging Risk	Definition	The Bank's Response
Cyber Threat	The nature of cyber-attacks across the industry continues to change with the use of more sophisticated unseen malware or methods, as well as an increase in volume. The Bank operations are inherently reliant upon its technology infrastructure, and the performance of third-party technology firms to maintain cyber security defences.	The Bank's technology infrastructure is UK based and has a very small externally facing footprint, and the Bank's websites are outside its perimeter, greatly reducing the inherent exposure. Furthermore, the Bank profile, suppliers, and customer-base does not make it an obvious target for state-sponsored or other hackers. The Bank's technology perimeter has been reviewed without issue, and patching timescales are as aggressive as possible. Technology arrangements have been reviewed against the NCSC guidance, and no deficiencies or areas for improvement were identified. A Cyber Strategy and linked programme of focused work, including obtaining a NIST Level 3 status, has begun and will continue throughout 2023 which includes strengthening both Board and colleagues understanding and ownership of Cyber risk and the actions they need to take.
Legal, Compliance & Regulatory.	Proposed regulation relating to a Strong and Simple Regime along with Basel 3.1, is expected to have an impact on the Bank, including the capital holding requirements.	We continue to monitor developments, as and when further clarity is provided, consideration is given to the impact for the Bank. We also engage with the relevant trade bodies, as part of the wider industry response to these proposed regulatory changes.

The Strategic report on pages 4–41 was approved, by order of the Board.

Richard Bryan
Company Secretary
30 March 2023

Corporate Governance Statement

Corporate Governance Statement

How the business is managed

Design and operation of a robust corporate governance framework is critical to meeting the needs of all the Bank's stakeholders. The Bank has a well-established corporate governance structure, and the Board supports the principles of good corporate governance as set out in the UK Corporate Governance Code. Whilst the Bank is exempt from a number of the provisions due to it not being a listed entity, and its overall size in terms of employee numbers, it has reviewed the requirements and ensures that its governance processes continue to follow best practice. The Board believes that its existing governance processes are appropriate for the current size and structure of the Bank.

Structure of the Board and Board Committees

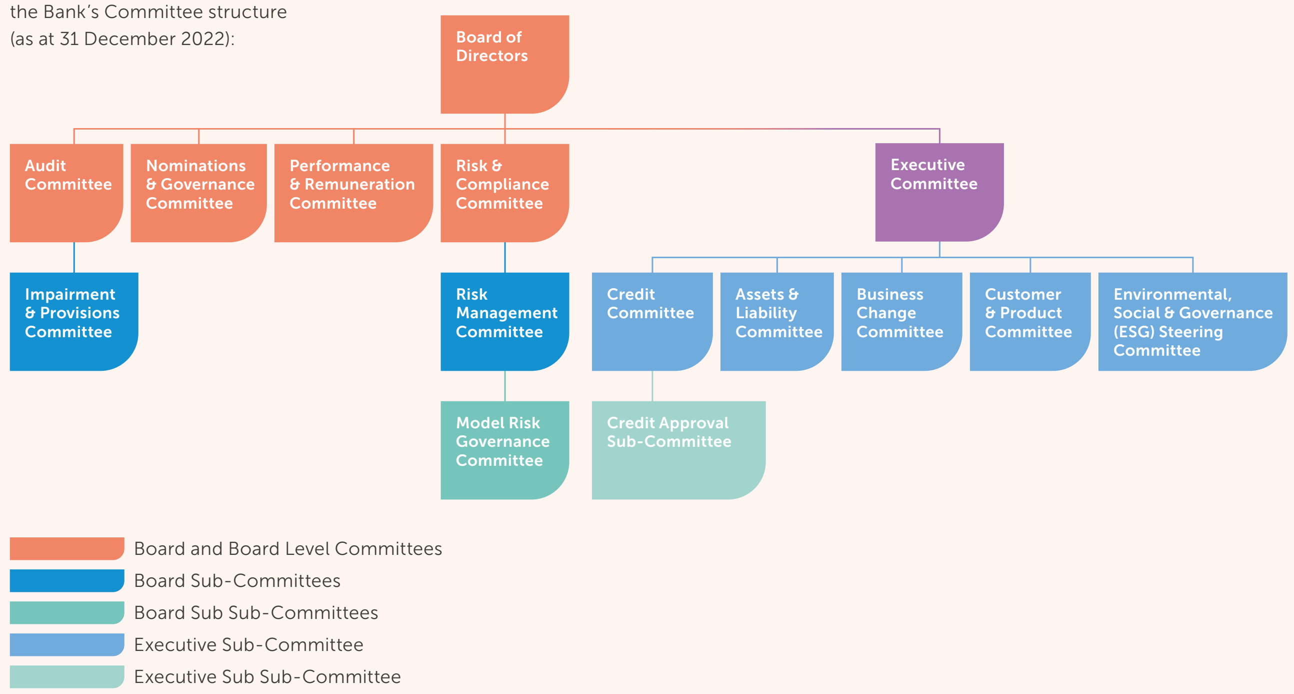
The Board has overall responsibility for the operations of the Bank and is comprised of four independent non-executive directors and two non-executive directors representing the interests of the owners. The non-executives were in 2022 complemented by four executive director (ED) board members – the Chief Executive Officer, the Chief Financial Officer, Chief Risk Officer and Chief Development Officer.

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

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

The Bank continued its succession of non-executive directors during 2022, with the planned retirements of Simon Moore, the Chair on 30 September 2022, and of Richard Perry, the non-executive director representing the Cambridgeshire Local Government Pension Fund, on 31 March 2022. Patrick Newberry succeeded Simon Moore as Chair on 23 September 2022 and also succeeded Caroline Fawcett, as Chair of the Nominations & Governance Committee from 1 August 2022. Caroline Fawcett continues in the roles of Senior Independent Director and Chair of the Performance and Remuneration Committee. Christiane Wuillamie OBE

The diagram below sets out the Bank's Committee structure (as at 31 December 2022):



was appointed as a director by the Bank on 24 March 2022 as the successor to Richard Perry. Mike Peck was appointed as a director and as Chair of Audit from 27 October 2022.

The succession continues in 2023 with Christiane Wuillamie OBE, the non-executive director representing the Cambridgeshire Local Government Pension Fund, leaving the Bank with effect from 31 December 2022.

Regarding Executive Directors, Simon Lindley, the Chief Development Officer retired with effect from 31 January 2023. The Chief Development Officer role has been replaced by a new Chief Commercial Officer role (CCO). Sarah Barker will take up this role in 2023. The CCO role will not be an Executive Board role.

Primary responsibilities of the Board

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

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

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

Chair and Chief Executive Officer

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

Responsibilities and requirements of Executive Directors

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

Responsibilities and requirements of Non-Executive Directors

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

Compliance with the UK Corporate Governance Code

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

- As a non-listed, privately owned entity the Bank has no requirement to re-elect directors or hold formal general meetings. Consequently, the sections of the Code regarding re-election of directors and general meetings have been considered not applicable;
- Whilst over half of the Board members are NEDs (six out of 10), only four of them are independent. The Board has considered this appropriate on the basis that the Bank is privately owned, and the remaining two NEDs represent the Bank's shareholders, and are independent from the Executive.
- The remuneration of the NEDs is set by the Chair and the Shareholders, and not by the Board of the Bank. This is considered appropriate on the basis that the Bank is privately owned. No remuneration for the NEDs includes share options or variable elements; and
- The Code introduced principles for ensuring that the Board understood the views of its stakeholders, including its workforce, suggesting one or a combination of a director appointed from the workforce, a formal workforce advisory panel, or a designated NED. Whilst the Bank recognises the need for workforce engagement, the suggestions were considered disproportionate for an organisation the size of the Bank. In lieu of the suggestions, the Bank elected to establish a Staff Forum that represents the workforce and meets with the Chief Executive Officer and Chief People Officer each month to discuss matters impacting the workforce. The Staff Forum is also consulted with in advance of any material organisational change. Further, the Bank undertakes an annual staff engagement survey to understand the views of its workforce. This is considered to be a proportionate approach for the Bank in adopting the principles of the Code.

High values and standards of behaviour pervade the organisation

Compliance with the Senior Managers Regime

The Prudential Regulatory Authority (PRA) defines a set of Prescribed Responsibilities and Overall Responsibilities, which must be allocated to a senior manager performing a Senior Management Function. The following tables show the composition of the Bank's Board, the management organisation and the PRA defined Senior Management Functions allocated across the Bank. The table below shows those individuals covered by the Senior Management Function regime and the Bank's governance structure as at 1 January 2023.

Function	Description	Role	Person
1	Chief Executive Function	CEO	Donald Kerr
2	Chief Finance Function	CFO	Andrea Hodgson
3	Executive Director Function	CDO	Simon Lindley*
4	Chief Risk Function	CRO	Mike Hudson
5	Head of Internal Audit	Outsourced	to Deloitte LLP
6	Head of Key Business Area	CLO	David Monks
9	Chair of Board	Chair	Patrick Newberry
10	Chair of Risk & Compliance Committee	Independent NED	Nick Treble
11	Chair of Audit Committee	Independent NED	Mike Peck
12	Chair of Performance Committee and Remuneration	Independent NED	Caroline Fawcett
13	Chair of Nomination and Governance Committee	Chair	Patrick Newberry
14	Senior Independent Director (SID)	Independent NED	Caroline Fawcett
16	Compliance Oversight	Head of Compliance & MLRO	Elizabeth Mullins
17	Money Laundering reporting function	Head of Compliance & MLRO	Elizabeth Mullins
18	Other overall responsibility function Other overall responsibility function	CPO CTO	Sara Thorpe David Holton
24	Chief Operations Function	COO	Tina Hayton-Banks

* Retired 31 January 2023

NB: Senior Management Functions 7-8, 15, 19- 23 and 25 – 27 stipulated by the FCA and PRA do not currently apply to the Bank's operating model, or the Bank is not of a size to meet the requirement to have the function.

Board and Committee attendance

The following table sets out individual director's attendance at the scheduled Board, Risk & Compliance, Audit, Performance & Remuneration and Nominations & Governance Committee meetings during 2022 (attendance is shown only where a director is a member of the committee and includes any meeting where a director is appointed or retired).

Director	Board	Risk & Compliance Committee	Audit Committee	Performance & Remuneration Committee	Nominations & Governance Committee
No. of meetings in 2022	**11**	**12**	**5**	**3**	**5**
Caroline Fawcett	11	N/M	4	3	5
Tim Harvey-Samuel	11	11	5	3	5
Andrea Hodgson	11	N/M	N/M	N/M	N/M
Michael Hudson	11	N/M	N/M	N/M	N/M
Donald Kerr	11	N/M	N/M	N/M	N/M
Simon Lindley[1]	11	N/M	N/M	N/M	N/M
Simon Moore[2]	8	8	N/M	1	3
Patrick Newberry	10	11	4[3]	1[4]	5
Mike Peck[5]	2	1	1	N/M	1
Richard Perry[6]	3	2	1	1	1
Christiane Wuillamie[7]	6	8	3	1	3
Nick Treble	11	12	5	3	N/M

N/M: not a member of this Committee
[1] retired on 31 January 2023
[2] retired on 30 September 2022
[3] ceased to be a member on 23 September 2022
[4] became a member on 23 September 2022
[5] appointed on 27 October 2022
[6] resigned on 31 March 2022
[7] appointed on 24 March 2022 and retired 31 December 2022

A strong team well equipped to lead the Bank

Performance evaluation and professional development

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

The Chair conducts appraisals of the independent Non-Executive Directors, basing the assessment of each Director's contribution to the Board's performance using criteria such as attendance, performance at meetings, and additional training and development requirements.

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

Company Secretary and independent professional advice

Richard Bryan, the Bank's General Counsel, has served as the Company Secretary throughout the year ended 31 December 2022. The Company Secretary is responsible to the Board for ensuring compliance with corporate governance requirements. The Board has access to the Company Secretary individually and collectively. As well as the support of the Company Secretary, any Director may take independent professional advice at the Company's expense in the furtherance of their duties, where considered necessary.

Principal accountant fees and services

An analysis of fees for professional services provided by PricewaterhouseCoopers LLP, the Company's external auditor for the year ended 31 December 2022, is set out in note 8 to the Bank's financial statements.

Internal control and governance framework

Risk management is governed within the corporate governance structure detailed on page 30, with ultimate ownership at Board level via the Risk & Compliance Committee. In addition, the Board Audit Committee oversees third line review of all aspects of risk management, and the Nominations & Governance and Performance & Remuneration Committees have a role in the management of conduct risk, including risk culture.

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

Executive Committee

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

Other executive committee sub-committees include:

- Business Change Committee
- ESG Committee
- Customer and Product Committee

Asset and Liability Committee

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

Credit Committee

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

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

Impairment & Provisions Committee

The Impairment & Provision Committee is chaired by the CFO and is responsible for monitoring current and potential non-performing lending on an ongoing basis for the purposes of identifying and agreeing provisions for under recovery across the Bank's loan portfolios.

Risk Management Committees

The Risk Management Committee is chaired by the CRO (Chief Risk Officer) and is responsible for reviewing and managing all aspects of the Bank's exposure to non-financial risks, including legal, compliance and regulatory, financial crime, operational, conduct and operational resilience risks.

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

Risk management is governed within the corporate governance structure detailed on page 30

Board activity

The Board leads the setting of the Bank's strategy and oversights the implementation of that strategy by the Executive. At each Board meeting, the Board receives a performance report and a report from the Chief Officers.

During the year the Board has also considered further matters to ensure the Bank conducts itself in a proper manner. The Board has paid particular attention to the Bank's progress against the feedback provided by the PRA, as part of the PRA's annual engagement with the Bank. Linked to our engagement with the PRA, the Board has maintained its oversight and scrutiny of the Bank's liquidity and capital management, and specifically approved the Bank's ILAAP and ICAAP. Also, as a result of the cessation of the LIBOR benchmark and feedback on the conversion mechanism, the Board also approved refinements to the Additional Tier 1 instrument.

One of the strategic challenges for the year has been the delivery of the change programme and specifically the Real Estate Finance Transformation, where regular monthly updates on progress have been provided to ensure that the identified change and benefits are realised.

In setting the tone from the top and integral to the culture and identity of the Bank, the Board has reviewed updates on the culture of the Bank, the maturation of our approach to ESG, consideration of the B Corp accreditation and feedback from colleagues and customers on how the Bank is performing. This information, together with competitor and market analysis requested by the Board, helps inform the strategic direction of the Bank.

The Board has also spent time on matters that have the potential to materially impact the Bank's business model over the course of its strategic plan. This has included focus on the Bank's cyber awareness and responsiveness. It has also included briefings on Consumer Duty and approval to our plan to implement the Consumer Duty in 2023.

Nominations & Governance Committee report

Membership and operation of the Committee

The Nominations & Governance Committee was chaired by Caroline Fawcett until September 2022 when she handed over to Patrick Newberry. In addition to Patrick (Chair of Board), the Committee members in 2022 were Tim Harvey-Samuel (Shareholder Representative), Christiane Wuillamie (Shareholder Representative), Mike Peck (Chair of the Audit Committee), and Caroline Fawcett (SID and Chair of Performance and Remuneration Committee). Nick Treble as Chair of Risk & Compliance Committee attends occasionally, in line with the responsibilities of his role. The Chief Executive Officer, Chief People Officer and General Counsel (Committee Secretary) also attend committee meetings.

The Committee is responsible for making recommendations for appointments to the Board, including Board Committee membership and chairpersonship; monitoring the governance arrangements of the Bank including recommending changes to ensure consistency with best practice and corporate governance standards; making recommendations in respect of regulatory and strategic developments relevant to the markets in which the Bank operates. In practice this means that the Committee reviews the structure, size and composition of the Board, ensuring an appropriate balance of skills, knowledge, experience and diversity. It leads the process for Board appointments and renewals, in line with the Board succession plan. It oversights the Executive succession plan, taking account of the skills and expertise that will be needed in the future to achieve the Bank's strategic goals and business plan. The Committee monitors, reviews and recommends changes to the governance arrangements in line with best practice. This Committee is responsible for overseeing that Directors fulfil their responsibilities under the Senior Management Regime. The Senior Independent Director also conducts a similar appraisal of the Chair's performance.

The Nominations and Governance Committee met five times during the year.

Appointment of directors and succession planning

The principal activity of the Committee has been the continued succession and evolution of the Board, specifically leading the succession of Simon Moore as Chair of Board, Patrick Newberry as Chair of Audit and oversighting the appointment of Christiane Wuillamie as Shareholder Representative.

Patrick Newberry was appointed Chair of Board formally on 23rd September 2022, following Simon Moore's retirement after 10 years on the Board. Mike Peck was appointed as Chair of Audit on 27th October 2022. These appointments were the result of searches conducted on behalf of the Committee by Warren Partners Ltd and Taylor Harrison respectively.

Christiane Wuillamie took over as Shareholder Representative from Richard Perry on 24th March 2022.

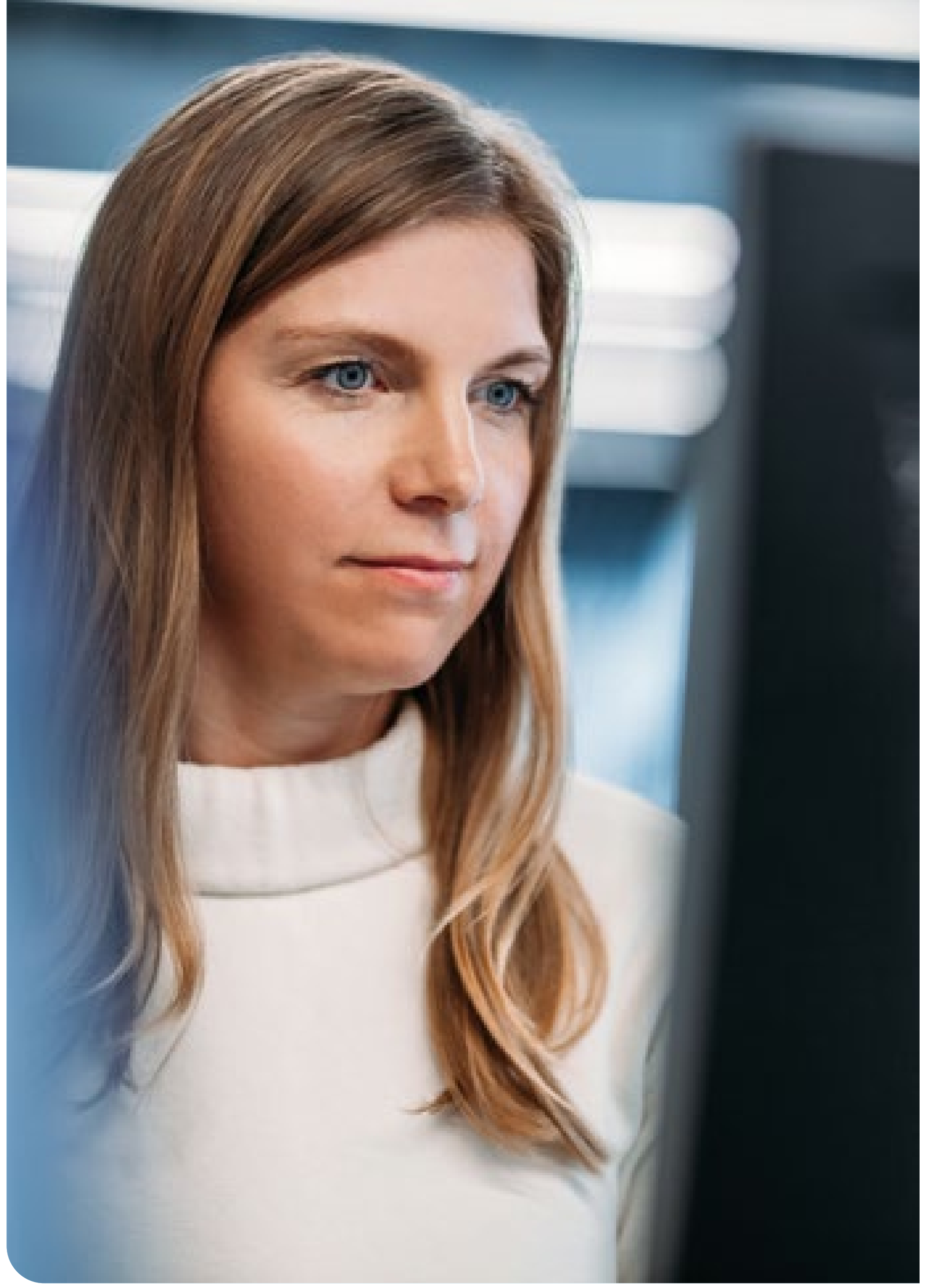
Executive succession planning

The Committee also considered the Executive succession plan, which covered Executive Committee members, heads of department and key specialist roles within the Bank. The Chief Development Officer, Simon Lindley, announced his intention to retire in January 2023, and the Committee have supported the plan to replace him with a Chief Commercial Officer, which will not be a Board position. This will reduce the number of Executives on the Board to 3 in 2023.

Diversity and inclusion

The Bank is committed to ensuring it is truly representative of all sections of society and our customers, and for all colleagues to feel respected and able to give their best. The Bank opposes and avoids all forms of discrimination and is actively working to get wider diversity within both the Bank and Financial Services as a whole. The Directors' report, on page 56, provides further detail on the Bank's approach to diversity and inclusion.

The Board promotes the Bank's signatory to the Women in Finance Charter; we are proud to have achieve our target of 30% of Board positions being held by women and 33% representation on our Executive team in 2022. The Bank continues to progress its Diversity and Inclusion plan, as demonstrated through its commitment to increasing diversity within its apprenticeship and graduate training programmes as well as the management development programmes.



Governance

Following a review of the Bank's governance operating model, the Committee have recommended to Board changes to the Governance model that will be implemented in 2023.

These changes are aimed at enhancing the governance at the Bank by moving to fewer, more focussed Board meetings with a bi-annual strategic review. Further, the recommendations also suggest empowering senior management to allow greater accountability at the appropriate management level at the Bank.

The **Directors' report**, on page 56, provides further detail on the Bank's approach to diversity and inclusion.

Audit Committee report

Membership and operation of the Committee

The Audit Committee was chaired by Patrick Newberry, until his appointment as Chair on 23 September 2022. Thereafter it was chaired by Mike Peck as the new Chair of Audit, appointed to the Bank on 27 October 2022. Both individuals are Fellows of the Institute of Chartered Accountants in England and Wales, with extensive experience as auditors working with financial institutions. The members of the Audit Committee during the year included Caroline Fawcett, Tim Harvey-Samuel, Christiane Wuillamie and Nick Treble with further details on their experience set out in the Non-Executive Director biographies. Nick Treble is also Chair of the Risk & Compliance Committee. Committee meetings are attended by members of the Executive committee including the Chief Executive Officer, the Chief Financial Officer and the Chief Risk Officer. The Bank's outsourced internal audit provider, Deloitte, and external auditor, PwC, attend each meeting of the Committee which typically includes a private session with the NEDs without the presence of Executives. The Company Secretary, or an appropriate delegate, acts as the secretary to the Committee.

Audit Committee responsibilities and activity in 2022

The Audit Committee met five times during 2022. The Committee's principal responsibility is to assist the Board in carrying out its responsibilities relating to accounting policies, financial governance & control framework, and financial reporting functions.

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

The Committee ensures the financial statements give a fair, balanced and understandable assessment of the Bank's performance. To achieve this the Committee reviews and challenges the Bank's annual financial information and in particular the significant financial reporting estimates and judgements. During 2022, the Committee has considered the following matters:

- The consistency and appropriateness of the Bank's significant accounting policies. There have been no material changes in 2022.
- Viability and going concern assessments in uncertain macroeconomic circumstances. The Committee has considered management's approach to, and the conclusions of, the assessment of the Bank's ability to remain a going concern, taking into account the Bank's capital and liquidity position. The Committee considered and, after taking the Bank's strategy and external market developments into account, supported management's conclusion that it remained appropriate to adopt the going concern basis in preparing the financial statements. The Committee also considered management's approach to, and the conclusions of, the assessment of the Bank's viability. After consideration, the Committee recommended the Board approve the approach adopted by management as described on pages 58 – 59.
- A review of the annual report to ensure it is fair, balanced and understandable. The Committee considered management's approach to, and governance arrangements over, the preparation of this annual report and recommended to the Board that, taken as a whole, it was considered to be fair, balanced and understandable. The approach and results of the assessment are set out in the Directors' report on page 56.
- Whether the Bank has made appropriate accounting estimates and judgements. The Committee has assessed the basis for, and appropriateness of, estimates and judgements proposed by management in the financial statements related to going concern, effective interest rate, IFRS 9, and intangible & tangible assets. After challenge, the Committee supported management's proposals.

During 2022, the Committee reviewed regular reports from management assessing the adequacy of the allowance for credit impairment losses. These reports assessed the adequacy of historic provisions against subsequent recoveries, the planned recovery strategies for individual bad debt cases, reviewed management's governance arrangements over the adequacy of provisions as well as the governance over impairment models and benchmarked the Bank's metrics against other banks.

The Committee also reviewed and challenged the Bank's effective interest rate assumptions and model outputs considering the Bank's approach to early repayment charges as well as reviewing historic performance against future forecasts.

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

The Audit Committee also considered the output of work undertaken to embed a Regulatory Reporting Framework within the Bank that established a more mature framework for governance and oversight of regulatory reporting undertaken by the Bank.

The Bank's external auditors, PricewaterhouseCoopers LLP (PwC), were appointed in 2022 following a tender process. The Audit Committee has received a report from PwC confirming their independence, which the Audit Committee has considered and concluded that PwC remain independent and effective as the external auditor. PwC verified the Bank's 2022 interim earnings and provided an opinion on our country-by-country reporting. These processes were audit related non-audit services. These services were approved by the Audit Committee albeit the threat to audit independence is clearly insignificant.

Performance & Remuneration Committee report

Membership and operation of the Committee

The Performance & Remuneration Committee is chaired by Caroline Fawcett and its members in 2022 included Patrick Newberry (Chair of Board), Tim Harvey-Samuel (Shareholder Representative), Christiane Wuillamie (Shareholder Representative) and Nick Treble (Chair of Risk Committee). The Chair of the Audit Committee attends meetings of the Performance & Remuneration Committee from time to time to ensure alignment between the work of the Performance & Remuneration Committee and the Audit Committee. Performance & Remuneration Committee meetings are also attended by the Chief Executive Officer, the Chief People Officer and the Company Secretary. The Chief Risk Officer attends annually to present his views on the Executives' management of risk and performance against the Senior Management Regime requirements and company framework. No members or attendees participate in the discussion of issues directly affecting their own remuneration. The Committee invites specialist external advisors to attend at least annually to support their work and educate on best practice.

The Committee is responsible for reviewing and approving the remuneration and performance arrangements at the Bank, including reviewing the Bank's remuneration policy to ensure that it remains up to date and consistent with the relevant requirements of the Financial Conduct Authority (FCA) remuneration code (SYSC 19D) and the Prudential Regulation Authority (PRA) rulebook, as well as supporting the business strategy and values of the Bank. In doing this, it oversees the performance and remuneration of the Chair and members of the Executive. Remuneration of NEDs is the responsibility of the Shareholders in consultation with the Chair of Board.

The Performance & Remuneration Committee met three times during 2022.

Remuneration package

The annual pay review for all staff in 2022 made increases totalling 3% of total salaries. In February 2022 the Committee agreed to change the benefits package to make it fairer across all levels in the Bank, resulting in the same benefits being available to all colleagues from the start of their employment regardless of their grade or job type. At the same time, the Bank was able to offer additional salary sacrifice schemes for pension contributions and electric car hire as well as increasing annual holiday entitlement to 30 days for everyone.

Variable Pay

During the year, the Committee reviewed and approved payment of the Bank's profit share scheme, sales and executive bonus schemes based upon agreed metrics and performance criteria, as well as upon advice from the Bank's Risk function. In total, it approved payment equalling £2,214k under these schemes; £711k being paid under the profit share scheme which most colleagues are part of, £270k under the Sales bonus scheme and £1,233k under the executive bonus scheme. It approved continuation of these schemes, agreeing participants and additional requirements for 2023 to the performance criteria required for each scheme.

Regulatory Requirements

The Committee's review of the FCA letter to the Chair of Remuneration Committee confirmed alignment between the FCA's and the Bank's areas of focus around remuneration, and as such, the Committee were able to review and confirm the Bank's risk-focused remuneration approach, which holds individuals to account for their conduct and competence. ESG and Diversity metrics had been included in variable schemes for 2022 and the Committee agreed to add additional requirements to the performance balanced scorecard, including linking remuneration to embedding the Consumer Duty principles.

Socio-economic Impact

The Committee has been mindful throughout 2022 of the socio-economic climate and its impact on staff's wellbeing, working arrangements and performance. Supporting the Bank's hybrid working model with colleagues dividing their time between office and home working, the Committee has pledged to ensure that there is no bias in remuneration decisions based on individual's working arrangements and to ensure that lower paid colleagues are supported during periods of high inflation. In July 2022, the Committee awarded a one-off cost of living payment of £1,000 for all colleagues below Executive Committee members. In September 2022, the Committee supported a pyramid approach to 2023 annual pay review process, which means that the Bank's lowest paid colleagues will receive the highest percentage increases in April 2023. The levels within the pyramid range from 5–11% and this means that 40% of colleagues will get an increase equal to 11%.

The Bank's remuneration policy is included on pages 61–69.

The Bank's **remuneration policy** is included on pages 61–69

Risk & Compliance Committee report

Membership and operation of the Committee

The Risk & Compliance Committee is chaired by Nick Treble, and its members include the Chair, Patrick Newberry, Christiane Wuillamie, Tim Harvey-Samuel (Shareholder Representatives), and the Chair of the Audit Committee Mike Peck. Committee meetings are attended by members of the Executive committee including the Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer and the Chief Development Officer. The Company Secretary, or an appropriate delegate, acts as the secretary to the committee.

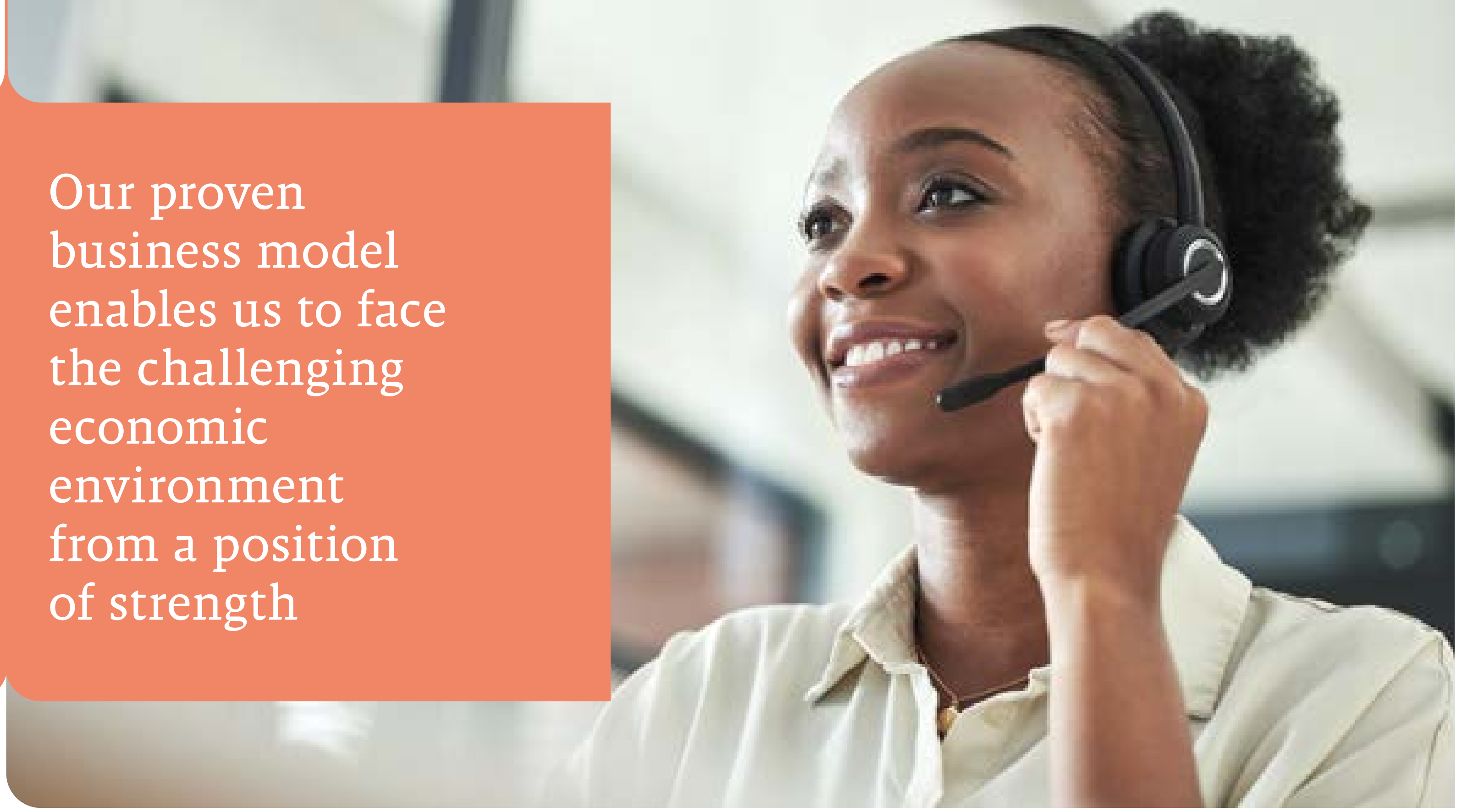
Risk & Compliance Committee responsibilities and activity in 2022

During the year, the Committee completed its regular business relating to risk receiving the Chief Risk Officer's reports, reviewing the Bank's risk metrics, its Internal Liquidity Adequacy Assessment Process and Internal Capital Adequacy Assessment Process, setting the Bank's credit protocols and lending policies and approving the Funding Plan. Part of the work for the year has also been in improving the Bank's approach to cyber risk. As part of the review and challenge of the Chief Risk Office's report the Committee assessed and challenged the potential impacts of the uncertain economic environment, the war in Ukraine as well as high rates of inflation and energy cost increases.

The Committee is also responsible for the Bank's compliance, including oversight of the Bank's compliance monitoring and financial crime programmes. The Committee completed its annual review of the Bank's whistleblowing report.

The Bank's Important Business Services are overseen by the Risk & Compliance committee and the work during the year has included reviewing its approach to identifying important business services, setting the appropriate impact tolerances and concluding its self-assessment.

Finally, the Committee considered the role of second line in regulatory reporting and the output of initial work in this regard.



Directors' report

Introduction

The Directors of Cambridge & Counties Bank Limited present their report and audited financial statements for the year ended 31 December 2022, in accordance with section 415 of the Companies Act 2006.

The following information is incorporated into this Directors' Report:

- The information in the Section 172 statement on page 14 on employee engagement and fostering business relationships with customers, suppliers, and others;
- The internal control and financial risk management systems described in 'how the business is managed' section of the corporate governance statement on pages 42–73; and
- The diversity and inclusion section of the Nominations and Governance Committee report on pages 51–52.

Results and dividends

The statement of comprehensive income and statement of financial position for the Bank can be found on pages 84 & 85. The Directors do not propose to pay a dividend in respect of ordinary shares for the year ended 31 December 2022 (2021: Nil).

Directors

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

Simon Moore [1]	Chair & Independent Non-Executive Director
Patrick Newberry	Chair [2] & Independent Non-Executive Director
Caroline Fawcett	Senior Independent Non-Executive Director
Mike Peck [3]	Independent Non-Executive Director
Nick Treble	Independent Non-Executive Director
Tim Harvey-Samuel	Non-Executive Director
Richard Perry [4]	Non-Executive Director
Christiane Wuillamie [5]	Non-Executive Director
Donald Kerr	Chief Executive Officer
Andrea Hodgson	Chief Financial Officer
Mike Hudson	Chief Risk Officer
Simon Lindley [6]	Chief Development Officer

[1] Retired 30 September 2022
[2] Appointed as Chair with effect from Simon Moore's retirement
[3] Appointed 27 October 2022
[4] Resigned 31 March 2022
[5] Appointed 24 March 2022 and resigned 31 December 2022
[6] Retired on 31 January 2023

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

Power of Directors

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

Directors' indemnities

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

Directors' emoluments waiver

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

Governance arrangements

The Board has chosen to voluntarily adopt the principles of the UK Corporate Governance Code (Code) to the extent that they are applicable or considered appropriate for the Bank. Details of the aspects of the Code not applicable or considered appropriate for the Bank, together with the areas where the Bank has deviated from the recommendations of the Code and the rationale for this, are set out within how the business is managed in the Bank's Corporate Governance statement on pages 42–73.

Share capital

Details on the Bank's shareholders and share capital at 31 December 2022 are provided in Notes 25 and 33 to the financial statements.

Future developments

The future development of the Bank is set out in the Chief Executive Officer's statement on pages 10–13.

Political donations and expenditure

No amounts were given for political purposes during the year (2021: Nil)

Financial risk management and hedging policies

Details of the use of financial instruments, together with risk management disclosures can be found in the managing financial risk section of the financial statements in Note 21 and the Risk Management section in the Strategic report on pages 30–41.

Post balance sheet events

There have been no significant quantifiable events between 31 December 2022 and the date of approval of the financial statements which would require a change to, or additional disclosure, in the financial statements. Management and the Board continue to monitor the economic outlook across the UK and globally on a regular basis. As part of this monitoring the Bank aims to identify and address the likelihood of any financial impacts materialising.

Research and development activities

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

Overseas branches

The Bank does not have any branches outside of the United Kingdom.

Corporate headquarters and registered office

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

Environmental information

The Bank is committed to being a responsible user of resources and continues to consider ways it can reduce its environmental impact.

The Bank's environmental and emissions information is reported on pages 18–19.

Going concern

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

Viability statement

As more fully explained in the corporate governance statement on page 42, the Bank has committed to voluntarily adopt the Code which includes provisions that require the Directors to confirm that the Bank will be able to continue in operation, and to meet its financial liabilities as they fall due over a specified period taking account of the current position, and principal risks of the Bank.

The Directors have assessed the Bank's viability to December 2025. Key capital and leverage ratios have been forecast, and regulatory and internal stress testing of the Bank's profit, capital and funding forecasts have been completed. In doing so, the Directors considered the increasing uncertainty of forecasts in the outer years of the planning period from developments in the economic environment, competition, and regulatory developments. The Directors confirm that they have carried out a robust assessment of the emerging and principal risks facing the Bank, the procedures in place to identify emerging risks, and how such risks are managed or mitigated, and, cognisant of the capital and funding resources, they have a reasonable expectation that the Bank will be able to continue in operation and meet its liabilities as they fall due in the period to December 2025.

> The future development of the Bank is set out in the **Chief Executive Officer's statement** on pages 10–13

In making this assessment, the Directors have considered a wide range of information. Central to this assessment is the detailed 2023 business plan within the Bank's 3 Year Strategic Plan. The Board have continued to conduct a number of internal capital adequacy and liquidity adequacy stress tests on the operating model, most particularly those effecting the Bank's property lending concentrations to provide insights into the Bank's financial stability. The stress testing analysis helps management understand the nature and extent of vulnerabilities to which the Bank is exposed. As a result, the Directors remain confident that the Bank holds sufficient capital to withstand severe contractions in both the number of transactions in the market, and a significant fall in capital values across both residential and commercial property, as well as the capacity to absorb a material increase in impairment provision.

In addition, the Directors have assessed the key strategic risks that could threaten the Bank's prospects and business model more broadly. Access to required talent remains a challenge, although during the year we have been able to attract the services of specialist skills in Risk, Compliance and Finance. The Board continues to review its organisational structure and succession plans for both non-executive and executive posts and is confident that it has the skills and capabilities to support the business through 2023 and beyond.

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK-adopted international accounting standards and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- adopt the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Fair, balanced, and understandable

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

The annual report is drafted and comprehensively reviewed by appropriate senior management with overall coordination by the CFO.

A verification process is undertaken to ensure factual accuracy, with additional review of compliance with content and disclosure requirements by the Bank's General Counsel; and

The annual report is reviewed by the Bank senior management including the CFO, CRO, the Bank's Executive Committee and the Audit Committee prior to approval by the Board.

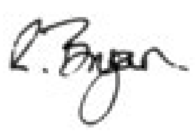
Disclosure of information to auditor

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

Auditors

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

By order of the Board.



Richard Bryan
Company Secretary
30 March 2023

Remuneration policy

Purpose & Objective

This policy describes the approach taken by Cambridge & Counties Bank in relation to its management of remuneration and describes how it complies with the relevant requirements of the Financial Conduct Authority (FCA) remuneration code (SYSC 19D) and the Prudential Regulation Authority (PRA) rulebook.

The Board of Cambridge & Counties Bank is committed to 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.

The purpose of this Remuneration Policy is to document clearly the policies, practices and procedures linked to salary, compensation and reward of employees. It is reviewed and approved annually by the Performance & Remuneration Committee.

Policy Scope

This policy relates to the remuneration of all employees; it covers both fixed (non-variable) and variable elements of pay and reward. Fixed elements are defined as salary, and allowances paid as a result of contractual obligations (e.g. car allowance, holiday pay, medical insurance, pension and death in service). Variable elements consist of schemes designed to reward performance at both the corporate, team and individual level (e.g., Profit share, performance bonus schemes).

Specific remuneration rules may apply to board members and employees, who, because of their function, may have a material impact on the risk profile of the Bank (collectively referred to as "Material Risk Takers"). The method through which the Bank determines Material Risk Takers is set out in Appendix 1 of this policy statement (the "Identification of Material Risk Takers").

It also covers fees made to non-executive directors.

Policy

The Bank's policy is to:

1 Attract, develop and retain high performing people with the ability, experience and skill to deliver the business strategy and objectives. The aim is for our workforce to be truly representative of all sections of society and our customers, and for each employee to feel respected and able to give their best. This policy supports the Bank's strategy on inclusion & diversity, through fair and equal remuneration decisions.

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, employees and other key stakeholders

4 Drive behaviour consistent with the Bank's values and the FCA Code of Conduct Handbook (COCON) so that employees do what is right for the customer, for colleagues, the Bank and other stakeholders

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

None of this would be possible without the contribution and commitment of our people

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

i We offer a competitive total reward package that is designed to be motivating and compelling and is regularly reviewed against market rates

ii Reward is linked to employees' behaviours and values as well as achievement: the 'how' as well as the 'what'.

iii Our remuneration structures are straightforward; as such they are transparent, communicated and understood by all employees and all our stakeholders

iv There is a clear link between business, team and individual performance and reward, and people can explain when and why adjustments for performance have been applied

v Our remuneration practices are consistent with and promote sound and effective risk management and are fully compliant with all appropriate governance, regulatory requirements and codes of practice

vi Our remuneration policies, packages and processes are designed to be affordable, consistent and efficient, and do not limit the Bank's ability to strengthen its capital base.

Remuneration Principles

The Bank will comply with the Remuneration Principles by:

- the Board annually reviewing the Bank's Remuneration Policy to ensure that it is consistent with the corporate / strategic plan, agreed risk appetites and regulatory requirements
- using the Rolling Objectives My Plan (ROMP) process to ensure that detailed performance objectives are drawn up and reviewed for all employees which are aligned to the Bank's business strategy including its risk management objectives and appetite
- formally linking annual salary reviews, profit share and bonus payments to the overall performance of individuals, including achievement of performance objectives
- ensuring that the Senior Management variable pay contain specific performance metrics linked to the long-term performance of the Bank, including compliance and risk management objectives
- ensuring that a Conflict of Interest Policy is in place and is always adhered to
- subjecting the implementation of the remuneration policy to central and independent internal review from the Compliance function at least annually
- maintaining the view that all flexible remuneration schemes are discretionary and subject to the approval of the Performance & Remuneration Committee
- having an independent Risk & Compliance function which has a direct reporting line into the Risk Committee. The CRO reports annually to the Remuneration Committee
- ensuring that total variable remuneration does not limit the Bank's ability to strengthen its capital base by ensuring that all variable and non-variable pay are linked to specific financial targets and are subject to the approval of the Performance & Remuneration Committee who can declare that all variable and non-variable pay will not be paid in the event of a potential capital shortfall
- regularly reviewing the regulatory capital levels at the Bank's Risk Committee which includes the Non-Executive Directors who sit on the Performance & Remuneration Committee. The Performance & Remuneration Committee members are therefore always aware of potential capital issues
- ensuring that the allocation of variable remuneration components within the Bank also considers all types of current and future risks, and assessments of financial performance used to calculate variable remuneration components or pools of variable remuneration components must be based principally on profits
- ensuring its pension provision is in line with its regulatory obligations under auto-enrolment as well as its business strategy and values
- requiring its employees to undertake not to use personal hedging strategies or remuneration or liability-related contracts of insurance to undermine the risk alignment effects embedded in the remuneration arrangements
- Setting appropriate ratios between fixed and variable components of total remuneration so that the fixed element represents the highest proportion of the total remuneration package
- confirming that payments related to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure
- the Bank will use the regulators' remuneration principles in assessing its exposure to risks arising from its remuneration policy as part of the Internal Capital Adequacy Assessment Process (ICAAP)
- applying the same overall principles to all directors and employees, regardless of whether they meet the definition of "Material Risk Takers" and/or "Code Staff".
- "Signing Bonus" "buy-out" and/or "golden handshake" are not routinely used and are always subject to Chief Executive Officer and Board approval. All variable remuneration is subject to Malus and Clawback for a period of seven years from the date of award.

Remuneration Components

Remuneration consists of two elements: fixed and variable payments.

a. Fixed Remuneration:

The fixed element of remuneration at the Bank is determined by the job performed, its level of complexity and responsibility, the level of expertise and experiences required, and the remuneration paid in the market for that type of job. It is assessed on appointment and is reviewed annually. Ad hoc reviews of salary may occur if there is a major change in responsibilities or benchmarking shows salary is significantly lower than market rate. In all cases, any ad hoc review must be supported with a business case.

Non-Executive Directors are office holders who receive a fixed fee for their services, which is made up of a basic fee and an additional amount for chairing committees. They are not entitled to any elements of variable pay, or other employee benefits such as pension provision. Their fees are reviewed regularly in line with market benchmarking.

b. Variable Remuneration

The Bank has a maximum fixed to variable remuneration ratio of 1:1, in line with CRD V.

There are three schemes that make up variable remuneration:

i Annual Profit Share & Performance Bonus schemes:

The profit share/performance bonus structure is for all employees up to and including Executive Directors and comprises of three schemes:

- Profit Share;
- Sales' Bonus;
- Senior Leadership Plan.

The purpose of these schemes is to motivate and reward high performers who significantly contribute to sustainable results and perform according to set personal objectives and behavioural expectations. Performance is assessed through the bank's Performance Management process (ROMP) and is reviewed when making individual rewards.

Performance-related remuneration is paid as cash via payroll and subject to tax and National Insurance deductions; the Bank does not operate shares or share based instruments. The Senior Leadership Plan contains a four-year deferred payment clause.

ii Additional Bonus Schemes

As part of the Bank's attract and retain strategy, Performance & Remuneration Committee occasionally grant one-off bonus schemes. These are always linked to achievement of business plans and are discretionary based on achievement of pre-agreed objectives and criteria.

Governance

The Board of Directors has established a Performance & Remuneration Committee, which:

- exercises independent judgment on remuneration policies, practices and recommendations of the Executive;
- ensures compliance with this policy, regulations and statutory duties;
- advises on remuneration policies and practices generally;
- provides specific recommendations on remuneration packages and other terms of employment for executive directors;
- considers the implications of remuneration policy and practices on management risk, capital and liquidity.

The Performance & Remuneration Committee is made up of non-executive directors and shareholder representatives. The Chief Executive Officer, Chief People Officer and General Counsel are attendees. The full description of its composition, tasks and authority are available in the Terms of Reference for the committee. The Bank's Performance & Remuneration Committee meets a minimum of three times a year.

It is inbuilt to the remuneration review process that the Bank's Risk and Compliance function is able to provide challenge to bonus and incentive payments where it feels individuals may be rewarded for poor risk behaviours; this is achieved through the Chief Risk Officer's (CRO) report to the Performance & Remuneration Committee, inclusion of the CRO in calibration and approval meetings, and the membership of the Chair of Risk on the Performance & Remuneration Committee.

Control Function Remuneration

In line with SYSC 19D 3.18, the remuneration of senior officers in the Risk and Compliance function is proposed by the Chief Executive Officer in liaison with Human Resources and is decided upon by Performance & Remuneration Committee.

Remuneration for senior officers within Human Resources is decided upon by the CEO with approval from Performance & Remuneration Committee.

Performance assessment

All remuneration decisions are subject to assessment of performance at individual, business unit and company level (in line with the PRA rulebook 15.4. it should be noted that currently, the Bank only has one business unit). When assessing performance, both financial and non-financial measures are considered, and to this end, clear behavioural criteria as well as qualitative and quantitative measures are detailed in the specific variable pay schemes.

Individual performance is assessed through the Bank's performance review process (ROMP) and is considered when making individual fixed or variable pay awards. These assessments can negatively or positively affect any award given.

Poor risk, compliance or conduct behaviours will affect the level of variable pay given to individuals; the CRO provides a report to Performance & Remuneration Committee (the Committee) in Q1 each year detailing any specific concerns he/she has at individual, team and company level. The CRO report also outlines current and future risks, an assessment of the capital base of the firm and the impact these have on the determining and payment of variable pay. The CRO will recommend to Committee whether any adjustment at either individual or firm level is warranted in their opinion.

The Committee is also presented with a financial performance report from the CFO to assist their deliberations on variable pay awards, which details anticipated financial outturn, including Prudent Valuation Adjustment.

The Committee reviews multi-year performance when considering remuneration decisions, enabling it to consider longer term performance and post event risks. This is intended to ensure that individuals are held to account for the longer term impact of their decisions and actions and are not inappropriately rewarded for short term success. The Committee will apply adjustments to both previous and current remuneration decisions to reflect multi-year performance (see malus and clawback below).

Pensions

The Bank does not operate an occupational pension scheme. The company does however contribute to employee's personal pension schemes via a Group Personal Pension Plan with Royal London.

Guaranteed Variable Remuneration

Signing-on or buy-out guaranteed variable remuneration are given on the basis of:

- being exceptional;
- occur only in the context of hiring a new employee;
- made only where the Bank has a sound and strong capital base;
- and are limited to the first year of service unless approved by the Committee.

The Bank does not routinely use early termination or settlement payments. Where they are employed, they are in line with regulation and reflect loss of office and/or redundancy payments. They do not exceed the Bank's variable pay cap. Previously awarded bonuses will only be paid where an individual is deemed to be a "good leaver" and their performance is strong; post-event risk assessments will apply. Settlement payments or "pay offs" are not made in cases of poor conduct or performance.

Malus and Clawback

Malus means the reduction and /or cancellation of unpaid, unvested, or unsettled variable amounts of remuneration when a Trigger Event is discovered, and the Board seeks to fulfil its fiduciary duty to shareholders by invoking its discretion to reduce and/or cancel a variable remuneration amount.

Clawback means when incentive remuneration has already vested, been settled, paid, or otherwise made available, and a Trigger Event occurs which indicates an error in the calculation of an individual's remuneration, and the Board seeks to fulfil its fiduciary duty to shareholders by invoking its discretion to recoup all or part of a variable remuneration amount.

A Trigger Event includes but is not limited to:

- a material misstatement of the financial results resulting in an adjustment in the Bank's audited accounts;
- in the case of awards which are subject to the achievement of performance conditions, the assessment of any performance metric or condition based on error, or inaccurate or misleading information;
- the fact that any information used to determine the quantum of a variable remuneration amount based on error, or inaccurate or misleading information; and/or
- action or conduct of an individual which, in the reasonable opinion of the Board/Performance & Remuneration Committee, amounts to serious misconduct or gross negligence;
- events or behaviours of an individual or the existence of events attributable to an individual which led to the censure of the Bank, by a regulatory authority or have had a significant detrimental impact on the reputation of the Bank.

In respect of determining if Malus and/or Clawback should be invoked in terms of a Trigger Event which has been discovered, the Performance & Remuneration Committee may consider an individual's proximity to the applicable Trigger Event and his or her level of responsibility.

The Board is empowered with absolute discretion to enforce or decline to apply Malus and Clawback and should, in determining whether to enforce or decline it, consider the interests of the Bank and its shareholders. In making decisions, the Board may take into consideration the following factors:

- the likelihood of success of invoking Clawback and recovering such variable remuneration amounts;
- the likelihood that such claim may prejudice the interests of the Bank;
- the passage of time since the occurrence of the Trigger Event(s); and
- the existence of any legal proceedings against an individual related to the applicable Trigger Event(s).

Before invoking Malus or Clawback the Board will advise the affected individual in writing of its reasons for intending to invoke it. An individual will be given an opportunity to make representations to the Board (in writing, within a specified period) about any factors or circumstances that may be relevant to the application of the Board's discretion in invoking Malus or Clawback.

Termination of employment

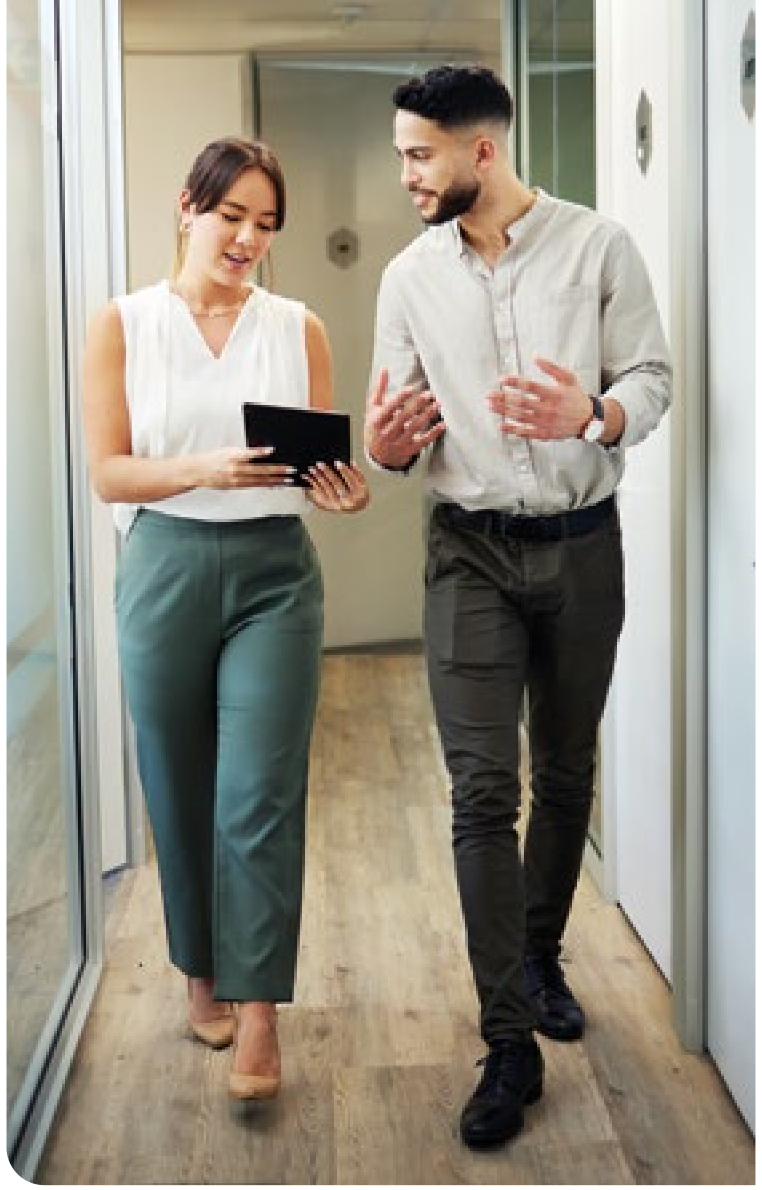
The Bank's redundancy policy is to pay statutory redundancy pay. Exceptionally, if required from a business need, the Bank will enter into agreed settlement payments which are calculated on current base salary and may include awarded but deferred bonus payments. It is the Bank's policy not to include any element of future earnings or awards. The Senior Leadership Plan scheme includes good leaver status and the reasons for termination of employment are considered when determining any award to ensure they are proportionate and reflect performance.

Policy Breaches

Any breaches of this policy will be reported to the Chief Risk Officer who will make an assessment as to whether further notification to the regulator is necessary. Significant breaches which require a notification to the regulators include (but are not limited to):

- any proposed changes to remuneration policies, practices or procedures which could have a significant impact on the firm's risk profile or resources;
- fraud, errors, and other irregularities which may suggest weaknesses in, or be motivated by the firm's remuneration policies, procedures or practices;
- any proposed policies, procedures or practices which could:
  - have a significant adverse impact on the firm's reputation;
  - affect the firm's ability to continue to provide adequate services to customers;
  - result in a serious detriment to a customer of the firm;
  - result in serious financial consequences to the financial system or to other firms.

Such notifications will be made as soon as the Bank becomes aware of or has information which reasonably suggests such circumstances have occurred or may occur in the future.



Disclosures: Remuneration

As a regulated BIPRU Bank, Cambridge & Counties Bank will provide the appropriate remuneration disclosures for a proportionality Tier 3 Bank within its Pillar 3 disclosure, which is published on the Bank's website.

Roles & Responsibilities

The Chief People Officer is responsible for the maintenance of this policy and ensures that Risk & Compliance are made aware of any changes to enable the policy review schedule to be updated.

Reward outcomes in 2022

The Performance & Remuneration Committee has reviewed the business performance in 2022 and considered risk events in conjunction with the Board Risk & Compliance Committee, the affordability of paying variable pay, and the associated risk of low variable pay. After assessment of performance, the Committee has approved distribution of £2.5m variable pay award for 2022 (2021: £2.2m).

Executive Director Remuneration

The table below summarise the Executive Directors' remuneration policy for 2022:

Element of Remuneration	Purpose and Link to Strategy	Operation	Maximum	Performance Targets
Salary	The Performance & Remuneration Committee is committed to adhering to the Financial Services Remuneration Code, thus ensuring that the Bank has risk-focused remuneration policies Reflects skills and experience over time Reflects the value of the individual and their role Provides an appropriate level of basic fixed income Avoids excessive risk taking from over reliance on variable income	Reviewed annually Takes periodic account of practices of financial institutions of similar size, characteristics, and sector comparators	There is no prescribed maximum annual increase. The Performance & Remuneration Committee is guided by the general increase for the broader employee population and on occasions may need to recognise, for example, an increase in the scale, scope, or responsibility of a role.	An element of performance-related pay applies
Benefits	To aid retention and recruitment	Company car allowance, provision of private medical insurance, life assurance and permanent health insurance	Not applicable	Not applicable
Bonus	Incentivises annual delivery of financial and strategic goals	Paid in cash Not pensionable	50% of salary	A combination of 50% company and 50% individual performance measures with a deferred element of amounts over 20% of salary paid over 3 years
Pension	Provides retirement benefits Opportunity for executives to contribute to their own retirement plan	Defined contribution	Bank contribute 10% of salary provided executives contribute a min 3% of salary. Executives may request a salary sacrifice for the equivalent of their personal pension contribution. This arrangement is also available for other staff. For EDs who have exceeded their lifetime allowance and/or tapered allowance, there is the option of taking a 10% pension allowance in cash (taxable allowance).	Not applicable

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.

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

Highest paid Director – 2022 remuneration disclosure

The total remuneration paid to the Bank's highest paid Director for qualifying services as a Director in the period from 1 January to 31 December 2022 is included in Note 11 to the financial statements.

Consideration by the Directors of matters relating to Directors' Remuneration

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

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

Remuneration policy for other employees

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

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

Remuneration policy for Non-Executive Directors

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

Element of Remuneration	Purpose and Link to Strategy	Operation	Maximum	Performance Targets
Fees	Reflects time commitments and responsibilities of each role Reflects fees paid by financial institutions of similar size, characteristics, and sector comparators	Cash fee paid Reviewed on an annual basis NED fees are considered and approved by the Shareholders and Chair Chair fees are approved by Performance & Remuneration Committee	There is no prescribed maximum annual increase. All increases are guided by market rates and the general increase for the executive director population NEDs who chair Board Committees receive an additional responsibility allowance of £6k The Senior Independent Director receives an additional responsibility allowance of £6k	Non-executive directors do not participate in variable pay elements

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Leadership team biographies

Chair and Executive Directors

Patrick Newberry

Chair and
Chair of Nominations and Governance Committee

Patrick's executive career spans over 30 years with PricewaterhouseCoopers, where his primary focus was on strategy, performance improvement as well as all things regulatory within the financial services and insurance sectors. During this time, he was the lead in major transformational programmes and worked with large financial institutions to set strategy and transform performance.

Over the last 8 years, Patrick has spent his time as non-executive director and freelance consultant for a number of financial and non-financial services organisations. He joined Cambridge & Counties Bank as Non-Executive director in June 2021, taking responsibility as Chair from September. He is currently on the Board as Chair of the Audit and Risk Committee at Brunel Pensions Partnership, is a Commissioner of Historic England and Chair of its Audit and Risk Committee. He is also a Governor of the Cornwall College Group.

Donald Kerr

Chief Executive Officer

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

Andrea Hodgson

Chief Financial Officer

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

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

Mike Hudson

Chief Risk Officer

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

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

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

Leadership team biographies

Non-Executive Directors

Caroline Fawcett

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

Caroline has over 30 years' experience in financial services, specialising in marketing and customer experience in both the UK and US. After a decade as Marketing Director of the Legal & General Group, Caroline progressed to become one of the first Customer Experience Directors within the UK Insurance sector. She has since led customer driven change programmes across a range of other organisations in the public and private sectors. Caroline has held several Non-Executive Director positions in the financial services industry and public sector over the past fifteen years. She is currently on the Board of Lifesight Ltd (the Trustee for Willis Towers Watson's Master Trust pension scheme) as Chair of the Discretions Committee and also on the Board of Alzheimer's Society as Chair of the Policy, Research and Communications Committee.

Tim Harvey-Samuel

Non-Executive Director

Tim is the shareholder representative of Trinity Hall, Cambridge where he has been Bursar since March 2020. Prior to that, he was Bursar of Corpus Christi College, Cambridge for seven years.

He has 26 years' banking experience, mainly at Schroders and Citigroup, where he led the Equity Capital Markets Group for Europe, the Middle East and Africa. Tim's speciality for 20 years was in financial institutions where he oversaw Citigroup's equity underwriting activity, recapitalising a wide range of European banks in the aftermath of the global financial crisis. He is also the Treasurer of Gates Cambridge, the charity founded by the Bill and Melinda Gates Foundation, to support outstanding graduate students' study at Cambridge University.

Mike Peck

Independent Non-Executive Director and Chair of Audit Committee

Mike joined Cambridge & Counties Bank as non-executive director in August 2022 and was appointed Chair of the Audit Committee in October.

Starting his executive career in 1984 at a predecessor firm of KPMG, Mike became a partner in 1996 specialising in retail, commercial and wholesale banking, wealth management, leasing and asset finance. During this period, Mike led multi-disciplinary teams delivering assurance, regulatory and capital markets in these sectors, as well as acting as Reporting Accountant on several Bank IPOs. He also acted as Interim CFO (on secondment) at Gerrard Plc, the UK's largest private client stockbroker. Mike retired from KPMG in 2020.

Since 2017, Mike has been the Finance & Operations Committee Chair and Trustee at the Design Museum, responsible for overseeing Finance, IT, Facilities and HR. Mike also consults as a risk and assurance expert.

Nick Treble

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

Nick joined Cambridge & Counties Bank in January 2020 as Chair of the Board Risk & Compliance Committee. He has 40 years' experience in financial services with broad experience of corporate and SME banking, asset & liability management, risk management, trading, and general management.

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

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

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

Independent Auditors' Report

Independent auditors' report to the members of Cambridge & Counties Bank Limited

Report on the audit of the financial statements

Opinion

In our opinion, Cambridge & Counties Bank Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Statement of Financial Position as at 31 December 2022; the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the audit committee of Cambridge & Counties Bank Limited.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 8, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- We performed audit procedures over all material account balances and financial information of the bank
- We performed the audit using one team based in Birmingham

Key audit matters

- The application of key judgements and assumptions in relation to applying expected credit loss provisioning on loans and advances to customers
- The appropriateness of assumptions used in the accounting for the effective interest rate of loans and advances to customers

Materiality

- Overall materiality: £1,400,000 based on 5% of profit before tax from continuing operations.
- Performance materiality: £700,000.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
The application of key judgements and assumptions in relation to applying expected credit loss provisioning on loans and advances to customers The Company held £16,929k of expected credit loss ('ECL') provisions against loans and advances to customers in accordance with IFRS 9 (2021: £14,766k) against total outstanding balances of £1,054,641k (2021: £992,600k). The determination of ECL provisions is inherently judgemental and involves setting assumptions using forward looking information reflecting the Company's view of potential future economic events. This can give rise to increased estimation uncertainty. There is significant uncertainty in calculating expected credit losses due to the potential impacts on customer behaviour due to the rising inflationary and interest rate environment in the UK. Uncertainty also arises in respect of calculating ECL provisions for defaulted 'Stage 3' exposures due to the Company pursuing individual work out strategies for each exposure. The Company divides its lending activities into two sub-portfolios, being real estate finance and asset finance. ECL provisions recorded over each of these portfolios are £14,730k and £2,199k respectively (2021: £13,836k and £930k). We focussed our work on provisioning for the real estate finance portfolio because there is a larger degree of estimation uncertainty in respect of this portfolio due to this portfolio constituting 89% of total lending (2021: 91%) and the individual assets in this portfolio are generally larger. This gives rise to management judgements and assumptions in determining ECL provisions having a larger impact on the reported results of the Company in respect of the real estate finance portfolio. In particular we focused on: • Valuation of the provisions for defaulted 'Stage 3' exposures where a significant degree of management judgement is applied; • The application of forward-looking economic assumptions used in the models and the weightings assigned to those scenarios, particularly in respect of assumptions relating to future residential and commercial real estate values since these have the largest impact on the ECL calculation; • The appropriateness of the 'staging' thresholds selected by management to determine whether a significant increase in credit risk had arisen on customer loans, and hence whether a 12 month or a lifetime loss provision is recorded; • Probabilities of default, including how they are derived from credit grading models used in portfolio analysis by the Company; • Assumptions used in the loss given default calculation, including collateral haircuts, cure rates and the time to collateral realisation; and • The determination of a Post Model adjustment to account for valuation risk in respect of the Commercial Real Estate portfolio. The Company's disclosures are given in Note 16. Management's associated accounting policies are detailed in Note 28. Management's judgements in the application of accounting policy and critical estimates are disclosed in Note 5 and 28 and the considerations of the effect of the future economic environment are given in Note 28. The Audit Committees' consideration of the matter is set out in the Audit Committee Report.	We understood and critically assessed the methodology applied in the impairment models, using modelling specialists in the more judgemental areas, including the results of empirical testing on key model components, primarily the probability of default and loss given default models, to confirm that the implemented methodology was compliant with accounting standards. We challenged management on model limitations relating to the forecasting of probabilities of default and exposure at default calculations. We tested management's 'staging' thresholds by examining management's model monitoring processes and considering the accounts being flagged as higher risk through the Company's internal governance forums. We examined account performance to test whether staging thresholds are giving rise to appropriate outcomes. We assessed the reasonableness and likelihood of the forward looking economic assumptions and weightings assigned to the scenarios using a benchmarking tool developed by our economic experts. The severity and magnitude of the scenarios, specifically the house price inflation forecasts, were compared to external forecasts and data from historical economic downturns. Sensitivities of the ECL provision to the chosen scenarios was considered. We separately engaged our economic experts to consider the reasonableness of the Company's commercial real estate forecasts. We found that the assumptions adopted and assigned weightings to the scenarios were reasonable. We tested the complete capture of defaulted exposures by ensuring loans meeting the operational definition of default are included in the portfolio of Stage 3 loans. We challenged management on the judgements used in determining the provisions for Stage 3 exposures. We engaged our modelling specialists to test the collateral haircuts used by management and we obtained and reviewed the credit files and other evidence considered by management when determining the ECL provisions to derive our own independent view in respect of recovery prospects. We tested the appropriateness of assumptions used in the derivation of probability of default and loss given default by testing the historical default and loss behaviour. We considered how historical behaviour may change going forwards due to the rising interest rate and inflationary environment in the UK. We also examined a sample of the credit file reviews performed by management to consider whether there were indicators of increased risk. We considered the reasonableness of the post model adjustment for valuation risk in respect of the Commercial Real Estate portfolio by critically assessing the methodology and testing the supporting data used within the calculation of the adjustment. We read the ECL disclosures made by management to ensure compliance with accounting standards and to ensure that there is disclosure of the effect of estimation uncertainty on the reported results. From the evidence we obtained, we found that the judgements and assumptions applied to be reasonable.
The appropriateness of assumptions used in the accounting for the effective interest rate of loans and advances to customers Accounting standards required interest receivable and similar income to be recognised on an effective interest rate ('EIR') basis. The EIR approach has the effect of recognising interest at a single constant rate that takes into account integral fees and charges across the expected life of loans and advances to customers. The loans and advances to customers balance is reduced by effective interest rate accounting adjustments of £4,117k at the balance sheet date (2021: reduced by £4,069k). This adjustment primarily relates to deferred fees and charges in respect of the Company's real estate finance loan portfolio. This adjustment is released to the statement of profit or loss and other comprehensive income in accordance with the forecast behavioural life of the Company's loan balance, which is the main area of estimation uncertainty. The forecast behavioural life depends on management's estimate of the future redemption behaviour of loans and advances to customers. This estimate is derived using management judgement due to the nascent nature of the Company's loan portfolio. As such we focussed our work on this area. The Company's disclosures are given in Note 5 and 6. Management's associated accounting policies are detailed in Note 6. Management's judgements in the application of accounting policy and critical estimates are disclosed in Note 5 and 6]. The Audit Committees' consideration of the matter is set out in the Audit Committee Report.	We performed a walkthrough of the EIR model logic, methodology and associated calculations and tested their accuracy and validity. We confirmed that all fees and charges included within the EIR calculation are in line with accounting standards. We critically assessed the assumptions relating to forecast future redemption behaviours, particularly because the Company writes variable rate real estate finance loans and the rising interest rate environment in the UK may accelerate redemption behaviour. We performed sensitivity analysis on a range of possible alternative outcomes to determine whether the overall estimate lies within a reasonable range of best estimates. We performed substantive testing over the completeness and accuracy of the critical data elements from the Company's lending system to the EIR model and supporting evidence. We tested the reconciliation of the accounting model to the general ledger to ensure accurate recording in the financial statements. We read the disclosures made by management to ensure that they disclosed the effect of estimation uncertainty on the reported results. From the evidence obtained, we found that the EIR accounting estimate is reasonable and supportable

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

All of the Company's activities are administered in the United Kingdom. The principal activity of the Company is the provision of SME lending finance and saving products to customers. The Company's portfolio is predominately real estate finance secured on UK residential and commercial properties and the provision of asset finance loans to SME's. Based on the Company's materiality we performed audit procedures over all material account balances and financial information. Our audit procedures provided us with sufficient audit evidence as a basis for our audit opinion on the financial statements as a whole.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process management adopted to assess the extent of the potential impact of climate risk on the Company's financial statements and support the disclosures made in relation to climate change in the Annual report and financial statements. In addition to enquiries with management, we also:

- Read the materials considered by the ESG Steering Committee during the year to consider the impact on our audit risk assessment;
- Considered the exposure of the Company's secured property portfolio to physical and transition risks by examining the output of assessments performed by management during the year; and
- Considered the consistency of the disclosures in relation to climate change within the Annual Report with the financial statements and our knowledge obtained from our audit.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole, or our key audit matters for the year ended 31 December 2022.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£1,400,000.
How we determined it	5% of profit before tax from continuing operations
Rationale for benchmark applied	Profit before tax is one of the principal considerations when assessing the Company's performance, and is a generally accepted auditing benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 50% of overall materiality, amounting to £700,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the audit committee of Cambridge & Counties Bank Limited that we would report to them misstatements identified during our audit above £70,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- We reviewed and challenged the key assumptions used by the directors in their determination of the going concern of the Company.
- We reviewed management's stress test scenarios and considered whether the Company would continue to operate above required regulatory capital and liquidity minima during times of stress.
- We considered as to whether our audit work had identified events or conditions which may give rise to uncertainty of the Company's future ability to trade; and
- We reviewed legal and regulatory correspondence to ensure that any compliance issues which may impact the going concern of the Company had not been identified.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate manual journal entries to manipulate financial performance and management bias in significant accounting estimates. Audit procedures performed by the engagement team included:

- Review of internal audit and compliance monitoring findings throughout the year;
- Reading key correspondence with the Financial Conduct Authority and Prudential Regulation Authority;
- Incorporation of an element of unpredictability in our testing through altering the nature, timing and/or extent of work performed;
- Challenging assumptions and judgements made by management in their significant accounting estimates;
- Identifying and testing journal entries, in particular any journal entries posted by senior management, posted with descriptions indicating a higher level of risk, posted to unusual account combinations based on our understanding of usual business operations, and material late adjustments.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee of Cambridge & Counties Bank Limited, we were appointed by the directors on 24 September 2021 to audit the financial statements for the year ended 31 December 2022 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Chris Shepherd (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Birmingham
30 March 2023

Financial Statements

Financial Statements

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

£'000	Note	2022	2021
Interest income calculated using the effective interest rate	6	75,977	55,335
Interest expense	6	(16,753)	(10,408)
Net interest income		59,224	44,927
Other income	7	28	23
Total operating income		**59,252**	**44,950**
Administrative expenses	9	(25,034)	(21,965)
Depreciation and amortisation	18,19	(906)	(971)
Operating profit before impairment losses		**33,312**	**22,014**
Impairment losses on loans and advances to customers	16	(4,773)	(3,524)
Profit before tax		**28,539**	**18,490**
Taxation charge	12	(5,337)	(3,024)
Profit after tax		**23,202**	**15,466**
Other comprehensive income			
Items that are or may be reclassified subsequently to the income statement			
Fair value through other comprehensive income			
Fair value movements taken to reserves	25	(1,233)	(411)
Taxation	25	499	(90)
Total other comprehensive expense, net of tax		**(734)**	**(501)**
Total comprehensive income attributable to owners of the Bank		**22,468**	**14,965**

All profit for the year arises from continuing operations.
The Notes on pages 88–130 are an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2022

£'000	Note	2022	2021
Assets			
Cash and balances at central banks	13	286,680	240,158
Loans and advances to banks	14	13,931	12,293
Debt securities	17	30,412	37,137
Loans and advances to customers	15	1,037,710	977,834
Other assets and prepayments	20	2,573	2,091
Property plant and equipment	18	2,366	2,587
Intangible assets	19	1,774	1,589
Current tax asset		–	407
Deferred tax asset	12	1,099	775
Total assets		**1,376,545**	**1,274,871**
Liabilities			
Customers' accounts	22	1,103,256	1,025,520
Central Bank facilities	23	78,000	78,000
Derivative financial liabilities	21	1,010	254
Other liabilities and accruals	24	9,107	7,280
Current tax liability	24	326	–
Total liabilities		**1,191,699**	**1,111,054**
Equity			
Share capital	25	44,955	44,955
Convertible loan notes	25	22,900	22,900
Fair value through other comprehensive income reserve	25	(1,209)	(475)
Retained earnings		118,200	96,437
Total equity		**184,846**	**163,817**
Total liabilities and equity		1,376,545	1,274,871

The financial statements on pages 84–87 were approved by the Board of Directors on 30 March 2023 and signed on its behalf by:

Donald Kerr
Chief Executive Officer

Andrea Hodgson
Chief Financial Officer

Company registered number: 07972522

Statement of Changes in Equity

As at 31 December 2022

£'000	Share capital	Contingent convertible loan notes	Fair value through other comprehensive income reserve	Retained earnings	Total equity
Balance at 1 January 2022	**44,955**	**22,900**	**(475)**	**96,437**	**163,817**
Profit for the year	–	–	–	23,202	23,202
Other comprehensive expense	–	–	(734)	–	(734)
Total comprehensive income for the period	–	–	(734)	23,202	22,468
Transactions with owners, recorded directly in equity					
Convertible loan note interest	–	–	–	(1,439)	(1,439)
Total contributions by and distributions to owners	–	–	–	(1,439)	(1,439)
Balance at 31 December 2022	**44,955**	**22,900**	**(1,209)**	**118,200**	**184,846**

£'000	Share capital	Contingent convertible loan notes	Fair value through other comprehensive income reserve	Retained earnings	Total equity
Balance at 1 January 2021	**44,955**	**22,900**	**26**	**82,254**	**150,135**
Total comprehensive income for the period					
Profit for the year	–	–	–	15,466	15,466
Other comprehensive expense	–	–	(501)	–	(501)
Total comprehensive income for the period	–	–	(501)	15,466	14,965
Transactions with owners, recorded directly in equity					
Convertible loan note interest	–	–	–	(1,283)	(1,283)
Total contributions by and distributions to owners	–	–	–	(1,283)	(1,283)
Balance at 31 December 2021	**44,955**	**22,900**	**(475)**	**96,437**	**163,817**

The Notes on pages 88–130 are an integral part of these financial statements.

Statement of Cashflow

For the year ended 31 December 2022

£'000	Note	2022	2021
Cash flows from operating activities			
Profit after tax		23,202	15,466
Adjustments for:			
Depreciation, amortisation and loss on disposals	18,19	906	971
Taxation charge	12	5,337	3,024
		29,445	19,461
Net increase in other assets/liabilities			
Net (increase)/decrease in loans and advances to customers	15	(59,876)	(149,454)
Net increase/(decrease) in customers' accounts	22	77,736	108,305
Net increase/(decrease) in central bank facilities	23	–	78,000
Net (increase)/decrease in value of debt securities	17	336	591
Net decrease in derivatives	21	756	262
Net increase in other liabilities and provisions	24	1,827	371
Net (increase) in other assets & prepayments	20	(482)	(661)
Income tax paid		(4,428)	(3,050)
		15,869	34,364
Net cash from operating activities		**45,314**	**53,825**
Cash flows from investing activities			
Proceeds from debt securities maturity	17	10,000	7,000
Acquisition of debt securities	17	(4,845)	(7,094)
Acquisition of property, plant & equipment and intangible assets	18,19	(870)	(646)
Net cash from investing activities		**4,285**	**(740)**
Cash flows from financing activities			
Convertible loan note interest paid	25	(1,439)	(1,283)
Net cash from financing activities		**(1,439)**	**(1,283)**
Net increase in cash and cash equivalents	13	48,160	51,802
Cash and cash equivalents at 1 January	13	252,451	200,649
Cash and cash equivalents at 31 December		**300,611**	**252,451**

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

The Notes on pages 88–130 are an integral part of these financial statements.

Notes to the Financial Statements

Notes to the Financial Statements

1 Reporting entity

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

2 Basis of accounting

The Bank's financial statements have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. They have been prepared under the historic cost convention as modified by the revaluation of financial instruments through profit or loss, and the revaluation of financial instruments through other comprehensive income. The financial statements are presented in pounds sterling, which is the functional and presentational currency of the Bank.

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

3 Changes in accounting policies

There have been no changes to the Bank's accounting policies during 2022.

The Bank's accounting policies are set out within the relevant note to the financial statements.

4 Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Bank has the resources to continue in business for a period of at least 12 months from the date of signing these financial statements. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, impairment, cash flows and capital resources.

The Board remains confident that the offering to the market remains relevant and attractive, and that 2023 will present further opportunities to continue to grow customer assets without strain on the Bank's capital or liquidity measures. The Bank's 3-year strategic plan is updated quarterly to produce a forward-looking assessment.

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

Therefore, the going concern basis of accounting has been used to prepare the financial statements.

The Directors recognise that the current UK macroeconomic outlook will continue to evolve and is likely to create increased risk but believe that these events have been considered within its going concern assessment. The scenarios modelled consider the following events in particular:

- A faster and deeper reduction in property prices than already considered in the Bank's base case
- Lower new business volumes as investors withdraw from the property market
- Increased losses as customers are unable to repay loans due to higher monthly instalments and increased rental voids

The Bank's provisions and loss absorbing capacity will continue to be assessed as part of the Bank's regular stress testing exercises. The Bank models a range of stress scenarios which include the PRA Annual Cyclical Scenario. Higher interest rate rises could add upside to the Bank's income growth rate outlook (even after increased impairment losses), whilst a lower rate of inflation could reduce cost growth. The Bank expects the current high rate of inflation to be mitigated through stabilisation of energy markets, resolution of the Ukrainian conflict as well as the impact of the Monetary Policy Committee actions. Based on the forecasts and stresses performed, the Directors are satisfied that the Bank will have sufficient regulatory capital and liquidity for a period of at least 12 months from the date of approval of these financial statements;

- Management have already incorporated an expectation of increasing economic uncertainty into the Bank's business plan. This uncertainty includes modelling the impact of the Bank of England's Annual Cyclical Scenario which tests the resilience of the UK banking system to deep simultaneous recessions in the UK and global economies.
- The Bank maintains a strong liquidity position with its Liquidity Coverage Ratio (LCR) around 3.5 times higher than the regulatory minimum at the end of 2022.

5 Accounting estimates and judgements

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

- **Loan loss provisioning**

The Bank's provisioning methodology uses an expected credit loss basis complying with the requirements of IFRS 9

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

- The Bank uses four unbiased probability weighted forward looking economic scenarios in its calculation of loan loss provisions being the base case, downside, severe downside, and upside. These scenarios and their application in the calculation of loan loss provisions are described further in Note 28.
- Significant Increase in Credit Risk ('SICR') – The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Bank's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded. The criteria has been reviewed and updated during 2022.

The two key estimates are the Probability of Default and the Loss Given Default.

All the Bank's loans and advances are allocated to a stage under IFRS 9. Stage 1 loans are loans which are performing as expected with the expected credit loss calculation based on a 12-month probability of default. Loans which have seen a significant increase in credit risk since original inception, or are over 30 days in arrears, are held in Stage 2 with the expected credit loss based on a lifetime probability of default. Loans which are considered credit impaired or in default are placed in Stage 3 with the expected credit loss calculation assuming a 100% probability of default and a lifetime loss given default applied.

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

The Bank's 2022 Expected Credit Loss includes a Post Model Adjustment (PMA) of £685k (December 2021: nil). This adjustment has been applied to reflect risks not fully captured by the Bank's REF IFRS 9 model. Commercial property prices recorded significant reductions in the final quarter of 2022 and Management do not consider these to have been fully captured within its model at the end of the year for loans drawn in the year. A Valuation Risk ECL adjustment has therefore been modelled and included as part of the total stage 1 expected credit loss in 2022. This adjustment has been calculated by uplifting the Loss Given Default metric for all new loans drawn in the first 3 quarters of 2022 to reflect the reported fall in commercial property prices in Q4.

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The expected credit loss (ECL) on loans in stage 3 are estimated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows across a range of scenarios are taken into account. These considerations can be particularly subjective and can include the business prospects for the customer, the realisable value of collateral, the reliability of customer information and the likely cost and duration of the work-out process. The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan's original effective interest rate), and the carrying amount. Furthermore, estimates change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge.

The Bank assesses and discusses all individual customer loans in arrears at the monthly Provisions Committee meeting chaired by the CFO. All cases that are in arrears at month-end or are on the watch list are reviewed. The expected credit losses across all stages are adjusted for the impact of the forward-looking economic scenarios outlined above. See Note 28 for the sensitivity analysis regarding this.

- **Revenue recognition - effective interest rate**

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

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

6 Interest income and expense

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

The EIR is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash flows through the expected life of the instrument, or where appropriate a shorter period, to the net carrying amount of the financial asset or the financial liability. When calculating the EIR, the Bank considers all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the EIR, transaction costs and all other premiums or discounts. In accordance with IFRS 9, the application of EIR has been applied to the gross carrying amount of non-credit impaired financial assets and to the amortised cost of credit impaired financial assets. Early Repayment Charges (ERC) are reported within the EIR expected cashflows and reported within net interest income.

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

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

£'000	2022	2021
Interest income		
Loans and advances to banks	3,522	196
Loans and advances to customers	72,408	55,079
Investment securities	133	52
Net income (expense) on other financial instruments	(86)	8
Total interest income	**75,977**	**55,335**
Interest expense		
Deposits from customers	(15,607)	(10,285)
Other	(1,146)	(123)
Total interest expense	**(16,753)**	**(10,408)**
Net interest income	**59,224**	**44,927**

Interest income for the year ended 31 December 2022 excludes £187k (2021: £267k) relating to interest on impaired financial assets.

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

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

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

- If the value of Real Estate Loans that repay in the next 12 months is 1% lower than forecast for each tranche of lending, the EIR income recognised in the Bank's profit or loss would be £0.3m lower (2021: £0.5m);
- If the Bank's new lending in 2022 had been 25% lower, the effective interest rate (EIR) balance sheet liability would have been £0.4m lower (2021: £0.4m).

7 Other income

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

Other income also includes the fair value movement in derivatives held for risk management purposes. Interest rate swaps are held to hedge against fixed rate savings products. The fair value movement represents both hedge ineffectiveness and the receipt of proceeds from the early settlement of derivatives during the year.

£'000	2022	2021
Lending related fee income	28	25
Other operating income	–	(2)
Total other income	**28**	**23**

8. Auditors' remuneration

The profit on ordinary activities is arrived at after charging:

£'000	2022	2021
The remuneration of the Bank's external auditors:		
Audit services		
Audit of these financial statements	435	542
Audit related assurance services		
Amounts receivable by the company's auditor and its associates in respect of:		
All other services	25	75
Total remuneration payable to the Bank's external auditors (ex. VAT)	**460**	**617**

All services undertaken by the Bank's external auditor are subject to approval by the Bank's Audit Committee. The Bank has a non-audit services policy, which states that non-audit related services provided by the Bank's external auditors should not exceed 70% of the average of the fees paid in the previous three consecutive financial years. In 2022 the Board approved the appointment of PricewaterhouseCoopers LLP to replace KPMG LLP as the Bank's auditor for the financial year starting 1 January 2022. The Bank has complied with the non-audit services policy in 2022 (using either the 2022 fees paid to PricewaterhouseCoopers LLP or the average of fees paid to both audit firms over the past 3 years). Other Services undertaken by the current auditor relates to profit verification activities.

9 Administrative expenses

£'000	2022	2021
Staff costs (see Note 10)	17,360	14,915
IT related costs	2,141	1,794
Premises costs	495	500
Other costs including marketing, legal and professional services	3,959	3,763
VAT paid on the above purchases	1,079	993
Total	**25,034**	**21,965**

10 Staff numbers and costs

The average number of persons employed by the Bank (including directors) during the year was 206 (2021: 183). The increase in staff costs is higher than the increase in average staff numbers reflecting the timing of the recruitment of staff as well as a higher salary cost associated with these new starters and a higher value variable pay award.

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

£'000	2022	2021
Wages and salaries	13,984	12,323
Social security costs	1,863	1,569
Other pension costs	1,513	1,023
Total	**17,360**	**14,915**

11 Directors' remuneration

£'000	2022	2021
Directors' remuneration	2,286	2,202
Social security costs	284	246
Amounts receivable under long term incentive schemes	–	50
Amounts paid to third parties in respect of Directors' services	13	53
Total	**2,583**	**2,551**

The emoluments of the highest paid director were £591k (2021: £596k). There were no directors' loans in 2022 (2021: nil).

12 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted, or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The UK corporation tax rate of 19% (2021: 19%) has been used in the preparation of these accounts. Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The Bank's deferred tax balances on timing differences at 31 December 2022 have been measured at 25% (2021: 25%).

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it has become probable that future taxable profits will be available against which they can be used. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

£'000	2022	2021
Current tax expense		
In respect of the current year	5,313	3,227
In respect of prior years	(152)	(62)
	5,161	**3,165**
Deferred tax expense		
Origination and reversal of temporary differences	(75)	70
Adjustments in respect of prior periods	170	15
Effect of tax rate change on opening balance	81	(226)
	176	**(141)**
Total income tax expense	**5,337**	**3,024**

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

£'000	2022	2021
Profit before tax from continuing operations	28,539	18,490
Income tax expense calculated at 19% (2021: 19%)	5,423	3,513
Effects of:		
Bank surcharge	169	–
Convertible loan note interest payment	(274)	(244)
Expenses not deductible for tax purposes	8	3
Deferred tax charged directly to equity	(331)	(90)
Adjustments to tax charge in respect of previous periods	18	(49)
Timing not recognised in the computation	245	67
Re-measurement of deferred tax for changes in tax rates	81	(186)
Non-Qualifying Depreciation	(2)	10
Total tax charge	**5,337**	**3,024**

- **Deferred tax**

Deferred tax assets are attributable as follows:

The Bank had a deferred tax asset of £1,099k at 31 December 2022 (2021: £775k) resulting primarily from the original adoption of IFRS accounting standards in 2015, and more recently IFRS 9. The business plan projects profits in future years sufficient to recognise this asset.

	Balance Sheet		Movement in period	
£'000	2022	2021	Income	Equity
Deferred tax liability				
Plant, Property & Equipment (PPE) and intangible assets	–	(18)	18	–
Total Liabilities	–	(18)	18	–
Deferred tax asset				
Deductible temporary differences				
Pension and other remuneration benefits		163	(163)	–
IFRS 9 transitional relief	454	545	(91)	–
Plant, Property & Equipment (PPE) and intangible assets	121	–	121	–
Other	120	180	(60)	–
Total Assets	695	888	(193)	–
Deferred tax on fair value through other comprehensive income				
FVOCI instruments	404	(95)	–	(499)
Net deferred tax asset	**1,099**	**775**	**(175)**	**(499)**

13 Cash and cash equivalents

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

£'000	2022	2021
Unrestricted balances with central banks*	286,680	240,158
Cash and balances with other banks	13,931	12,293
Total	**300,611**	**252,451**

* Included within the unrestricted balances with central banks is £447k of accrued interest for 2022 (2021: £24k)

14 Loans and advances to banks

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

£'000	2022	2021
Gross loans and advances to banks	13,931	12,293
Net loans and advances to banks	**13,931**	**12,293**

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15 Loans and Advances to customers

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

The Bank has measured its loans and advances to customers at amortised cost on the basis that the Bank holds these assets for the objective of collecting contractual cash flows, and the cash flows associated with the assets include only payments of principal and interest (SPPI). For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

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

Gross loans and advances is net of an EIR liability of £4.1m (2021: £4.1m).

£'000	2022	2021
Gross loans and advances	1,054,638	992,600
Less: allowance for impairment losses (see note 16)	(16,928)	(14,766)
Net loan receivables	**1,037,710**	**977,834**

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

£'000	2022	2021
Gross investment in finance lease receivables*:		
Less than one year	33,866	29,317
1 – 2 years	29,808	23,903
2 – 3 years	25,829	17,906
3 – 4 years	22,396	13,123
4 – 5 years	9,517	9,739
More than five years	6,115	10,756
Total	**127,531**	**104,744**
Unearned future finance income on finance charges	(16,488)	(13,900)
Net investment in finance leases	111,043	90,844
The net investment in finance leases may be analysed as follows:		
Less than one year	27,752	24,500
1 – 5 years	77,604	56,635
More than five years	5,687	9,709
	111,043	**90,844**

* Excludes effective interest rate

16 Allowance for impairment losses

A description of the Bank's credit risk management and methodology in respect of allowances for impairment losses is provided below in Note 28. This Note also includes the sensitivity of the Bank's impairment losses to changes in its forward-looking economic scenarios. The tables below set out the Bank's provisions by IFRS 9 stage as well as a reconciliation of the opening to the closing allowance for impairment losses on loans and advances to customers.

	Not credit impaired		Credit impaired	
£'000	Stage 1: subject to 12-month ECL	Stage 2: subject to lifetime ECL	Stage 3: subject to lifetime ECL	Total
Real Estate Finance	2,277	5,793	5,766	13,836
Asset Finance	559	161	210	930
At 31 December 2021	2,836	5,954	5,976	14,766
Real Estate Finance	1,964	8,013	4,753	14,730
Asset Finance	1,118	270	810	2,198
At 31 December 2022	**3,082**	**8,283**	**5,563**	**16,928**

Impairment provision movement 2022 £'000	Stage 1: subject to 12-month ECL	Stage 2: subject to lifetime ECL	Stage 3: subject to lifetime ECL	Total
Closing Balance at 31 December 2022	3,082	8,283	5,563	16,928
Opening Balance at 1 January 2022	2,836	5,954	5,976	14,766
Increase (decrease) in provision	**246**	**2,329**	**(413)**	**2,162**
Increase (decrease) in provision				
New loans originated	847	279	93	1,219
Derecognised loans	(536)	(553)	(45)	(1,134)
Loan commitments	(235)	–	–	(235)
Allowance utilised in respect of write-offs	(1)	(41)	(3,193)	(3,235)
Transfers between Stages and increase (decrease) in credit risk				
· Transfers from Stage 1	(288)	229	59	–
· Transfers from Stage 2	500	(1,269)	769	–
· Transfers from Stage 3	–	433	(433)	–
· Increase in credit risk	(41)	3,251	2,337	5,547
	246	**2,329**	**(413)**	**2,162**
P&L charge				
Increase (decrease) in provision	246	2,329	(413)	2,162
Write-Offs	437	68	2,293	2,798
P&L impairment charge	**683**	**2,397**	**1,880**	**4,960**
Income Adjustment*			(187)	(187)
Total P&L impairment charge	**683**	**2,397**	**1,693**	**4,773**

* 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 £187k.

Impairment provision movement 2021 £'000	Stage 1: subject to 12-month ECL	Stage 2: subject to lifetime ECL	Stage 3: subject to lifetime ECL	Total
Closing Balance at 31 December 2021	2,836	5,954	5,976	14,766
Opening Balance at 1 January 2021	3,332	4,867	4,252	12,451
Increase (decrease) in provision	**(496)**	**1,087**	**1,724**	**2,315**
Increase (decrease) in provision				
New loans originated	942	296	–	1,238
Derecognised loans	(424)	(448)	(288)	(1,160)
Loan commitments	148	–	–	148
Allowance utilised in respect of write-offs	–	(61)	(840)	(901)
Transfers between Stages and increase (decrease) in credit risk				
· Transfers from Stage 1	(326)	325	1	–
· Transfers from Stage 2	1,889	(2,184)	295	–
· Transfers from Stage 3	56	114	(170)	–
· Increase in credit risk	(2,781)	3,045	2,726	2,990
	(496)	**1,087**	**1,724**	**2,315**
P&L charge				
Increase (decrease) in provision	(496)	1,087	1,724	2,315
Write-Offs	104	31	1,343	1,478
P&L impairment charge	**(392)**	**1,118**	**3,067**	**3,793**
Income Adjustment*	–	–	(267)	(267)
Non-customer lending related post write-off recoveries	–	–	(2)	(2)
Total P&L impairment charge	**(392)**	**1,118**	**2,798**	**3,524**

* 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 £267k.

Gross loan balances by Stage 2022 £'000	Stage 1: subject to 12-month ECL	Stage 2: subject to lifetime ECL	Stage 3: subject to lifetime ECL	Total
Closing Balance at 31 December 2022	865,661	161,554	27,423	1,054,638
Opening Balance at 1 January 2022	848,077	115,948	28,575	992,600
Increase (decrease) in loan balances	**17,584**	**45,606**	**(1,152)**	**62,038**
New loans originated	276,935	8,312	767	286,014
Derecognised loans	(158,086)	(19,568)	(847)	(178,501)
Loans written-off	(1,046)	(112)	(4,828)	(5,986)
Transfers between Stages				
· Transfers from Stage 1	(87,922)	80,594	7,328	–
· Transfers from Stage 2	21,085	(27,407)	6,322	–
· Transfers from Stage 3	–	10,245	(10,245)	–
· (Capital repayments) / Arrears accumulation	(33,382)	(6,458)	351	(39,489)
	17,584	**45,606**	**(1,152)**	**62,038**

Gross loan balances by Stage 2021 £'000	Stage 1: subject to 12-month ECL	Stage 2: subject to lifetime ECL	Stage 3: subject to lifetime ECL	Total
Closing Balance at 31 December 2021	848,077	115,948	28,575	992,600
Opening Balance at 1 January 2021	625,510	182,749	32,572	840,831
Increase (decrease) in loan balances	**222,567**	**(66,801)**	**(3,997)**	**151,769**
Increase (decrease) in loan balances				
New loans originated	299,081	8,002	–	307,083
Derecognised loans	(71,769)	(30,778)	(3,799)	(106,346)
Loans written-off	(141)	(753)	(3,334)	(4,228)
Transfers between Stages				
· Transfers from Stage 1	(61,057)	60,286	771	–
· Transfers from Stage 2	94,704	(101,385)	6,681	–
· Transfers from Stage 3	772	494	(1,266)	–
· (Capital repayments) / Arrears accumulation	(39,023)	(2,667)	(3,050)	(44,740)
	222,567	**(66,801)**	**(3,997)**	**151,769**

	Gross loan balance			Expected Credit Loss (ECL)			Net balance			
£'000	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
Real Estate Finance	758,879	113,270	28,334	2,277	5,793	5,766	756,602	107,477	22,568	886,647
Asset Finance	89,198	2,678	241	559	161	210	88,639	2,517	31	91,187
At 31 December 2021	**848,077**	**115,948**	**28,575**	**2,836**	**5,954**	**5,976**	**845,241**	**109,994**	**22,599**	**977,834**
Real Estate Finance	761,269	156,789	23,832	1,964	8,013	4,753	759,305	148,776	19,079	927,160
Asset Finance	104,392	4,765	3,591	1,118	270	810	103,274	4,495	2,781	110,550
At 31 December 2022	**865,661**	**161,554**	**27,423**	**3,082**	**8,283**	**5,563**	**862,579**	**153,271**	**21,860**	**1,037,710**

	2022				2021			
£'000	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan loss coverage ratio %	0.4%	5.1%	20.3%	1.6%	0.3%	5.1%	20.9%	1.5%

17 Debt securities

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

The Bank's debt securities are initially recognised at fair value and subsequently measured at fair value through other comprehensive income. The instruments meet the SPPI criteria but as the assets are in a Held To Collect and Sell Business Model they are recorded at Fair Value with changes recorded through Other Comprehensive Income (OCI).

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

During 2022 an EIB bond with a nominal value of £10m matured and has not been replaced.

£'000	2022	2021
European Investment Bank bond (EIB)	10,713	17,184
International Bank Reconstruction & Development bond (IBRD)	19,699	19,953
Total	**30,412**	**37,137**

18 Property, plant and equipment

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

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

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

- Leasehold properties 2 – 15 years
- Computer hardware 1 – 5 years
- Fixtures and fittings 3 – 10 years

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

2022 £'000	Property lease	Computer hardware	Fixtures and fittings	Total
Cost				
Balance at 1 January 2022	2,216	651	1,060	3,927
Additions	52	148	–	200
Disposals	(116)	–	–	(116)
Balance at 31 December 2022	**2,152**	**799**	**1,060**	**4,011**
Depreciation				
Balance at 1 January 2022	447	466	427	1,340
Charge for the year	151	119	151	421
Eliminated on disposals	(116)	–	–	(116)
Balance at 31 December 2022	**482**	**585**	**578**	**1,645**
Net book value				
At 1 January 2022	1,769	185	633	2,587
At 31 December 2022	**1,670**	**214**	**482**	**2,366**

2021 £'000	Property lease	Computer hardware	Fixtures and fittings	Total
Cost				
Balance at 1 January 2021	2,216	554	1,060	3,830
Additions	–	97	–	97
Balance at 31 December 2021	**2,216**	**651**	**1,060**	**3,927**
Depreciation				
Balance at 1 January 2021	261	359	276	896
Charge for the year	186	107	151	444
Balance at 31 December 2021	**447**	**466**	**427**	**1,340**
Net book value				
At 1 January 2021	1,955	195	784	2,934
At 31 December 2021	**1,769**	**185**	**633**	**2,587**

19 Intangible assets

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

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

Intangible assets include assets totalling £199k which were in the course of construction at the 31 December 2022 (2021: £52k)

2022 £'000	Computer software
Cost	
Balance at 1 January 2022	4,167
Additions	670
Disposals	(471)
Balance at 31 December 2022	**4,366**
Amortisation	
Balance at 1 January 2022	2,578
Amortisation for the year	485
Eliminated on disposals	(471)
Balance at 31 December 2022	**2,592**
Net book value	
At 1 January 2022	1,589
At 31 December 2022	**1,774**

2021 £'000	Computer software
Cost	
Balance at 1 January 2021	3,618
Additions	549
Balance at 31 December 2021	4,167
Amortisation	
Balance at 1 January 2021	2,051
Amortisation for the year	527
Balance at 31 December 2021	2,578
Net book value	
At 1 January 2021	1,567
At 31 December 2021	1,589

20 Other assets and prepayments

£'000	2022	2021
Other debtors	84	132
Cash Ratio Deposit	1,415	1,205
Prepayments	1,074	754
Total	**2,573**	**2,091**

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

21 Derivatives held for risk management

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. The Bank has designated its derivatives as fair value hedges in order to reduce volatility in the income statement. Where a derivative financial instrument meets the requirements of a fair value hedge, changes in the fair value of the hedged item are taken to the income statement offsetting the effect of the related movements in the fair value of the derivative. As at 31 December 2022, the Bank had £9m nominal value of derivatives (2021: £21m), all related to the hedging of fixed rate deposit balances.

	Nominal value		Fair value	
£'000	2022	2021	2022	2021
Instrument type				
Interest rate	9,000	21,000	(1,010)	(254)
Designated in fair value hedges				
Total interest rate derivatives	**9,000**	**21,000**	**(1,010)**	**(254)**

Under IFRS 9 the Bank is not required to undertake a monthly retrospective test for hedge effectiveness as it can demonstrate the critical terms of the hedge instrument and the hedged item are matched.

On initial designation of the hedge, the Bank formally documents the relationship between the hedging instruments and the hedged items, including the risk management objective, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, at inception of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedged items during the period in which the hedge is designated. On a monthly basis the Bank must be able to continue to demonstrate that the critical terms of the derivative and the hedged item continue to be closely aligned in order to conclude that the relationship remains highly effective.

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

- **Fair value hedges**

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

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

The Bank uses interest rate swaps to minimise interest rate risk exposure in specific periods by hedging the interest rate risk associated with fixed rate deposit balances. The terms of the hedged items and hedging instrument are aligned to minimise hedge ineffectiveness arising. Hedge ineffectiveness, the difference between the hedging gains or losses of the hedging instrument and the hedged item recognised in the income statement was £nil (2021: £2k charge).

Fair value hedges of interest rate risk £'000	2022		2021	
Instrument type:	Assets	Liabilities	Assets	Liabilities
Interest rate	–	1,010	–	254
Total	**–**	**1,010**	**–**	**254**

The fair value of the Bank's derivatives in place at the year-end was a liability of £1,010k (2021: £254k).

Credit risk derivative risk management

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

	% of exposure that is subject to collateral requirements		Principal type of collateral	Collateral (received)/given
Type of credit exposure	2022	2021		
Derivatives held for risk management	100%	100%	Cash	£1.1m

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

Cash is pledged and received as collateral against derivative contracts which are used by the Bank to manage its exposure to market risk. Collateral is pledged to derivative contract counterparties where there is a net amount outstanding to the counterparty, and collateral is received from derivative contract counterparties where there is a net amount due to the Bank. All derivatives are marked to market on a daily basis, with collateral pledged or received if the aggregate mark to market valuation exceeds the CSA variation margin threshold. The Bank's derivative contracts have an outstanding contractual period of up to 3.5 years (2021:5 years).

At 31 December 2022 the Bank had pledged £1.1m (2021: £280k) of collateral, which is included in the total loans and advances to banks category on the balance sheet.

£'000				Related amounts not offset in the statement of financial position		
Type	Gross amounts of recognised financial assets	Gross amounts of financial liabilities offset in the statement of financial position	Net amounts of financial liabilities in the statement of financial position	Financial instruments liabilities	Cash collateral received	Net amount
2022						
Derivatives held for risk management						
Assets	–	–	–	–	–	–
Liabilities	–	1,010	–	–	–	1,010
2021						
Derivatives held for risk management						
Assets	–	–	–	–	–	–
Liabilities	–	254	–	–	–	254

22 Deposits from customers

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

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

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

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

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

Deposits are the Bank's primary source of debt funding. The Bank hedges interest rate risk arising from its fixed rate deposit balances. As at 31 December 2022 £9m (2021: £21m) of the Bank's fixed rate deposits are hedged using interest rate derivatives. These deposits are held at amortised cost but a fair value adjustment is applied in respect of the hedged risk.

£'000	**2022**	2021
Instant access	65,441	77,309
Term and notice accounts		
Payable within 1 year	882,998	801,011
Payable after one year	155,828	147,453
Total	**1,104,267**	**1,025,773**
Fair value adjustment for hedged risk	(1,011)	(253)
Total deposits from customers	**1,103,256**	**1,025,520**

£'000	**2022**	2021
Variable rate deposit balances	643,438	658,229
Fixed rate deposit balances	460,829	367,544
Total	**1,104,267**	**1,025,773**
Fair value adjustment for hedged risk	(1,011)	(253)
Total deposits from customers	**1,103,256**	**1,025,520**

23 Central Bank Facilities

The Bank has drawings of £78m under the Bank of England Term Funding Scheme for SMEs ('TFSME'). These funds drawn in September 2021 have a maturity of four years and bear interest at bank base rate. The remaining maturity of the Bank's drawings is 33 months.

The Bank has pre-positioned loan assets with the Bank of England for future use in Sterling Monetary Schemes. More details are set out in Note 28.

£'000	**2022**	2021
TFSME	78,000	78,000
Total	**78,000**	**78,000**

24 Other liabilities and accruals

£'000	**2022**	2021
Accruals	6,041	4,284
Lease liability	1,995	2,056
Corporation tax	326	–
Other creditors	1,071	940
Total	**9,433**	**7,280**

See Note 30 for more details on the lease liability.

25 Capital and reserves

- **Share capital**

£'000	**2022**	2021	**2022**	2021
Ordinary shares of £1 each authorised, issued and fully paid				
1 January	44,955	44,955	44,955,000	44,955,000
Shares issued during the year	–	–	–	–
31 December	**44,955**	**44,955**	**44,955,000**	**44,955,000**

£'000	**2022**	2021	**2022**	2021
Perpetual subordinated contingent convertible loan notes				
1 January	22,900	22,900	22,900,000	22,900,000
Authorised notes issued during the year	-	-	-	-
Fully paid notes as at 31 December	**22,900**	**22,900**	**22,900,000**	**22,900,000**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. During the year there were no new shares authorised or issued (2021: nil). There were no new issues of any convertible loan notes (2021: nil).

Dividends on ordinary shares are recognised in equity in the period in which they are approved by shareholders. No ordinary share dividends were paid in 2022 (2021: nil).

Cambridgeshire Local Government Pension Scheme holds the perpetual subordinated contingent convertible loan notes. Interest on these securities is due and payable only at the sole discretion of the Board.

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

The FVOCI reserve includes the cumulative net change in the fair value of financial assets until the investment is derecognised or impaired. The increase in the fair value reserve during 2022 reflects the increased volatility in the value of these assets as a result of the world wide and UK economic outlook.

£'000	**2022**	2021
FVOCI reserve as at 1 January	(475)	26
FVOCI financial assets – net change during the year	(1,233)	(411)
Related tax	499	(90)
FVOCI Reserve as at 31 December	**(1,209)**	**(475)**

- **Convertible loan note interest payments**

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

£'000	**2022**	2021
Convertible loan note interest 6.285 pence per loan note (2021: 5.602 pence per loan note)	1,439	1,283
Total	**1,439**	**1,283**

26 Employee benefits

- **Defined contribution pension plans**

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

The Bank operates a defined contribution Personal Pension Scheme, which is provided by Royal London Mutual Insurance Society Limited and contributes to the personal pension plans of certain employees. The pension cost for the year represents the contributions payable by the Bank under these arrangements and amounted to £1,513k (2021: £1,023k). There was an outstanding contribution due of £1k (2021: £2k) at the end of the year.

27 Financial instruments and fair values

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

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

2022 £'000	Amortised cost	At fair value through other comprehensive income	At fair value through profit or loss	Liabilities at amortised cost	Total
Cash & balances at central banks	286,680	–	–	–	286,680
Loans and advances to banks	13,931	–	–	–	13,931
Debt securities	–	30,412	–	–	30,412
Loans and advances to customers	1,037,710	–	–	–	1,037,710
Total	**1,338,321**	**30,412**	**–**	**–**	**1,368,733**
Customers' accounts	–	–	(1,011)	1,104,267	1,103,256
Derivatives	–	–	1,010	–	1,010
Total	**–**	**–**	**(1)**	**1,104,267**	**1,104,266**

2021 £'000	Amortised cost	At fair value through other comprehensive income	At fair value through profit or loss	Liabilities at amortised cost	Total
Cash & balances at central banks	240,158	–	–	–	240,158
Loans and advances to banks	12,293	–	–	–	12,293
Debt securities	–	37,137	–	–	37,137
Loans and advances to customers	977,834	–	–	–	977,834
Total	**1,230,285**	**37,137**	**–**	**–**	**1,267,422**
Customers' accounts	–	–	(253)	1,025,773	1,025,520
Derivatives	–	–	254	–	254
Total	**–**	**–**	**1**	**1,025,773**	**1,025,774**

- **Derecognition**

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

Derecognition of financial assets

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

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

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

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

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

On derecognition of the financial asset, the Bank recognises the difference between the carrying amount of the asset and the consideration received in the income statement.

Derecognition of financial liabilities

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

- **Fair value**

For the purpose of calculating fair values, fair value is assessed as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. Far value of financial assets and financial liabilities are based on quoted market prices. If the market is not active, the Bank establishes a fair value by using appropriate valuation techniques.

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

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

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

- Cash and balances at central banks

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

- Loans and advances to banks

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

- Loans and advances to customers

  In both the Bank's Real Estate and Asset Finance portfolios, each loan is individually priced based on the circumstances and credit quality of the customer.

  The fair value of loans and advances to customers is assessed as the value of the expected future cash flows, projected using contractual interest payments, repayments and the contractual maturity date. The estimated future cash flows are discounted at current market rates for all loan types. The contractual life of the majority of the Bank's loan and advances is 25 years.

- Customers' accounts

  Customers' accounts at variable rates are at current market rates and therefore the Bank regards the fair value to be equal to the carrying value. The fair value of fixed rate customers' accounts that have been designated as hedged with interest rate derivatives have been determined by discounting estimated future cash flows based on future market interest rates. The fair value of fixed rate deposits has been determined by discounting the estimated future cash flows based on the existing product rate compared to current market rates for an equivalent deposit.

- Debt securities

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

- Derivatives

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

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

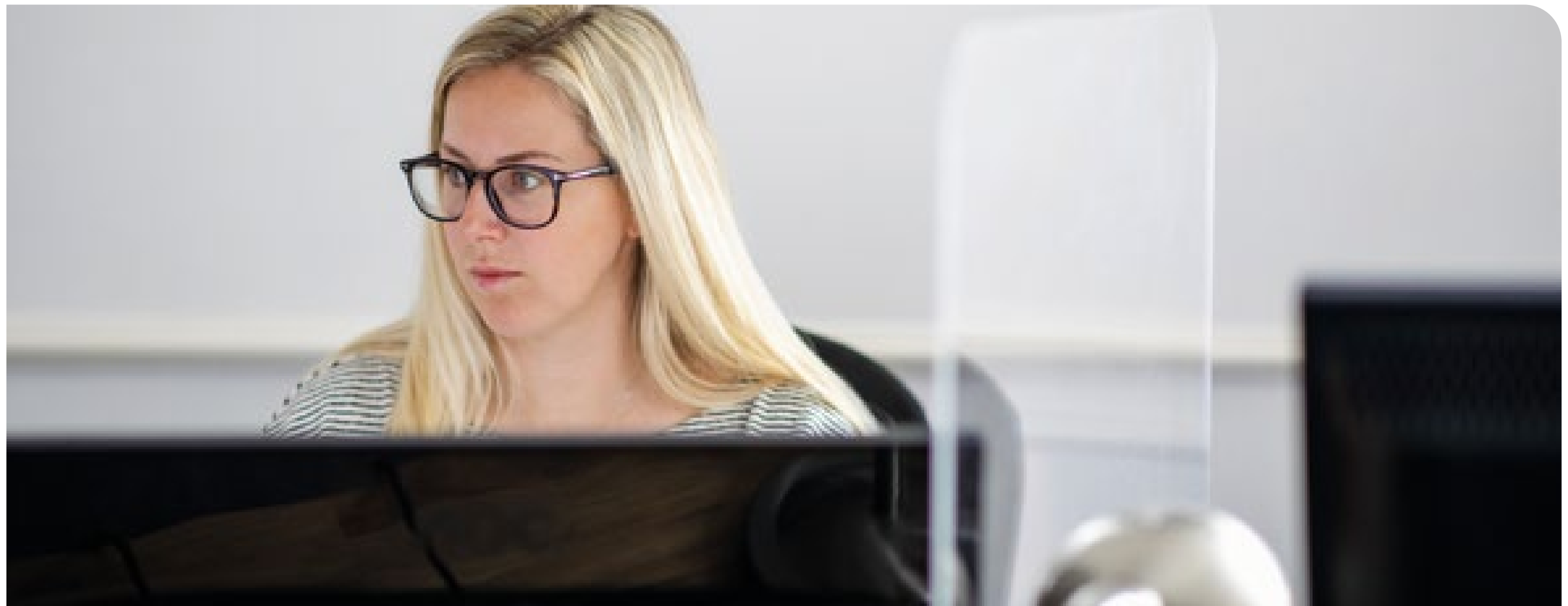
	2022					
	Level 1		Level 2		Level 3	
£'000	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets						
Cash & balances at central banks	286,680	286,680	–	–	–	–
Loans and advances to banks	–	–	13,931	13,931	–	–
Debt securities	30,412	30,412	–	–	–	–
Loans and advances to customers	–	–	–	–	1,037,710	1,019,412
Financial liabilities						
Customers' accounts	–	–	–	–	1,104,267	1,096,271
Derivatives	–	–	1,010	1,010	–	–

	2021					
	Level 1		Level 2		Level 3	
£'000	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets						
Cash & balances at central banks	240,158	240,158	–	–	–	–
Loans and advances to banks	–	–	12,293	12,293	–	–
Debt securities	37,137	37,137	–	–	–	–
Loans and advances to customers	–	–	–	–	977,834	977,834
Financial liabilities						
Customers' accounts	–	–	–	–	1,025,773	1,025,091
Derivatives	–	–	254	254	–	–

- The Bank's debit securities and derivatives are held and recorded at fair value.

  The fair value of :the Bank's debt securities (EIB and IBRD bonds) are based on quoted bid prices in active markets.
- Derivative assets and liabilities are determined using widely recognised valuation models for determining the fair values of interest rate swaps.

  There have been no transfers between levels in 2022 or 2021.



28 Financial risk management

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

- **Credit risk:**
  - Loans and advances to customers;
  - Loans and advances to banks and debt securities;
- **Liquidity risk;**
- **Market risk;**
- **Operational risk; and**
- **Capital adequacy.**

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

- **Credit risk**
  - Loans and advances to customers;

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

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

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

Credit exposure

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

£'000	**2022**	2021
Cash and balances at central banks	286,680	240,158
Loans and advances to banks	13,931	12,293
Debt securities	30,412	37,137
Loans and advances to customers*	1,054,638	992,600
Commitments to lend**	1,385,661	1,282,188
	102,839	111,513
Gross credit risk exposure	**1,488,500**	**1,393,701**
Less allowance for impairment losses	(16,928)	(14,766)
Net credit risk exposure	**1,471,572**	**1,378,935**

* Net of Effective Interest Rate liability of £4.1m (2021: £4.1m).
** 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 2022, and 2021, without taking account of any underlying security. At 31 December 2022 the value of securities held as collateral against drawn loans and advances to customers is £1,916m (2021: £1,792m) of which £1,802m (2021: £1,699m) is in the form of property, £113m (2021: £92m) in the form of assets owned by the Bank and financed by customers using hire purchase and finance leases, and £1.4m (2021: £1.3m) is in the form of cash deposits.

Credit risk management

The Bank specialises in providing lending to Small and Medium Enterprises (SMEs). Its lending is secured on property. The Bank lends to owner occupied businesses to invest in their own commercial premises, as well as to experienced commercial and residential property investors. The Bank also has a growing asset finance business providing finance to SMEs for business-critical assets and Classic and Sports Vehicles through hire purchase and finance lease facilities. At 31 December 2022, the Bank's asset finance loan portfolio totalled £111m (2021: £92m).

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

All properties are individually valued at origination, and regular reports are produced to ensure the property continues to represent suitable security throughout the life of the loan. Affordability assessments are also performed on all loans, and other forms of security are often obtained, such as personal guarantees.

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

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

Concentration of credit risk

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

Lending by product and type %	2022	2021
Commercial real estate lending		
Residential	29%	33%
Commercial	58%	55%
Other	2%	3%
Asset finance	7%	5%
Classic Vehicles and Sports	4%	4%
Total	**100%**	**100%**

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

Region	2022	2021
East Anglia	2%	2%
East Midlands	19%	15%
Greater London	4%	4%
North East	6%	4%
North West	16%	20%
Scotland	6%	7%
South East	7%	9%
South West	6%	5%
Wales	6%	7%
West Midlands	7%	8%
Yorkshire/Humberside	21%	19%
Total	**100%**	**100%**

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

Loan size	2022	2021
0 – £250k	47%	61%
£251k – £500k	24%	18%
£501k – £1,000k	16%	11%
£1,001k – £3,000k	10%	8%
£3,001k+	3%	2%
Total	**100%**	**100%**

LTV banding

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

LTV banding	2022	2021
0 – 50%	30%	29%
51 – 60%	31%	30%
61 – 70%	36%	38%
71 – 80%	1%	2%
81%+	2%	1%
Total	**100%**	**100%**

Credit risk – security

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

	2022		2021	
	£m	%	£m	%
Secured on property	942	89	901	91
Secured on other assets	113	11	92	9
Total	**1,055**	**100**	**993**	**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 2022 totalled £1.4m (2021: £1.3m).

Credit risk – allowance for impairment losses

(see also Note 16)

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

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

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

£'000	2022	2021
Neither past due nor impaired	1,006,952	952,078
Past due but not impaired:		
Up to 3 payments missed	20,263	11,947
Default – inc. credit impaired and IFRS stage 3 loans	27,423	28,575
Total	1,054,638	992,600
Less allowances for impairment losses	(16,928)	(14,766)
Total loans and advances to customers	1,037,710	977,834

Expected credit loss recognition

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

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

Inputs into measurement

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

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

  The LGD is calculated at the current point in time and is then adjusted to reflect forward looking economic indicators with the calculated loss discounted by the assumed selling period. The LGD does not include any impact of indexation.
- **Expected credit loss (ECL) percentage:** By taking the appropriate PD and LGD, the Bank can calculate an ECL percentage.
- **Exposure at default (EAD)** represents the expected exposure in the event of a default. The Bank will derive the EAD from the current exposure to the counterparty and any potential changes to the current amount allowed under the contract. The Bank does not have a significant number of undrawn commitments linked to existing customer loan agreements and any new commitments would not be drawn in the event that the Bank considered them likely to cause a default.

Other ECL model assumptions

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

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

As at 31 December 2022, the Bank does not hold any financial assets that have been purchased or originated as credit-impaired loans (2021: None).

The Bank's 2022 Expected Credit Loss includes a Post Model Adjustment (PMA) of £685k (December 2021: nil). This adjustment has been applied to reflect risks not fully captured by the Bank's REF IFRS 9 model. Commercial property prices recorded significant reductions in the final quarter of 2022 and Management do not consider these to have been fully captured within its model at the end of the year for loans drawn in the year. A Valuation Risk ECL adjustment has therefore been modelled and included as part of the total stage 1 expected credit loss in 2022. This adjustment has been calculated by uplifting the Loss Given Default metric for all new loans drawn in the first 3 quarters of 2022 to reflect the reported fall in commercial property prices in Q4. The increase in the loan impairment charge combined with the growth in total loan balances results in an annual cost of risk of 47bps (2021: 38bps).

Definition of default

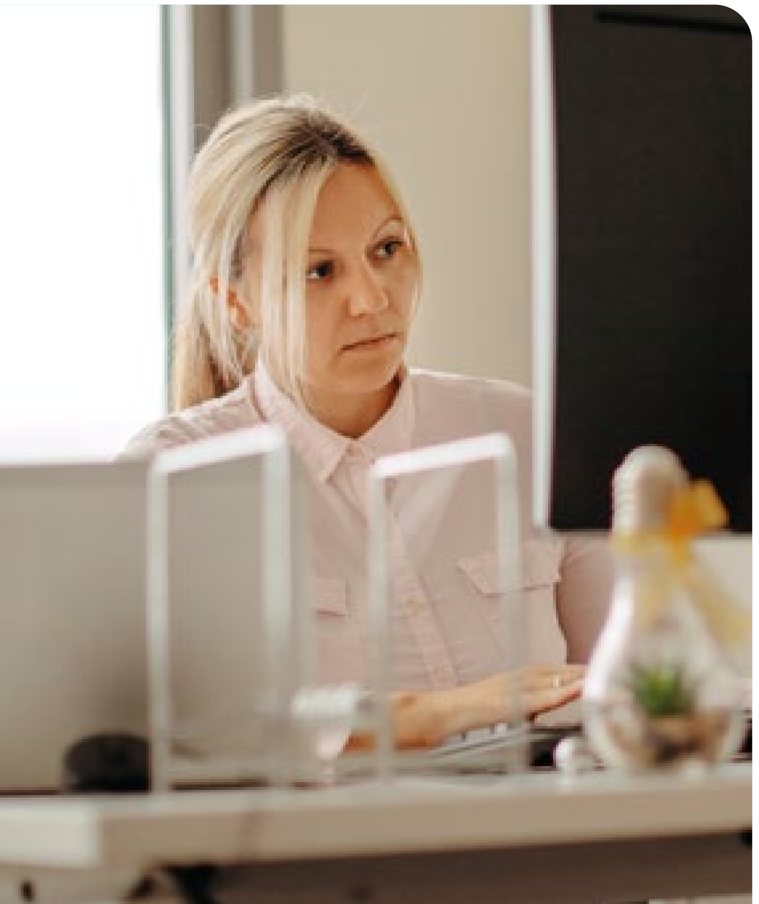
The Bank defines default where the loan is in arrears for four or more consecutive payments (i.e. over 90 days), the loan is linked to another account in default, the customer has been declared bankrupt, or the company has been wound up, or a liquidator/administrator appointed. This is aligned to the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

Write-off

A write-off is a direct reduction in a financial assets gross carrying value when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. A write-off therefore constitutes a derecognition event. The Bank wrote-off £2.9m of loans in 2022 (2021: £1.4m). The Bank has experienced a total of 23 write-offs on its REF portfolio and 14 write-offs on its AF portfolio since its inception in 2012. The Bank will write off all or part of the gross carrying amount of a financial asset under the following circumstances:

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

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



Credit risk grades

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

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

Lending split by slot as at 31 December 2022	Stage 1 (£m)	Stage 2 (£m)	Stage 3 (£m)	**Total (£m)**
1 – 2	571	–	–	571
3	150	43	–	193
4	40	114	–	154
5	–	–	24	24
Real Estate Gross loans*	761	157	24	942
Asset Finance Gross loan*	104	5	4	113

* Includes effective interest rate

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

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

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

The Bank's Asset Finance and Classic Car exposures are allocated a Probability of Default (PD) at origination which is reviewed on a monthly basis. The PD is calculated using the Moody's Risk Calc system. The exposures are allocated an IFRS 9 stage depending on the status of the account and the PD. Accounts which have triggered the Bank's SICR (Significant Increase In Credit Risk) criteria or are over 30 days in arrears as a minimum in stage 2. Accounts over 90 days in arrears or are considered unlikely to pay are classified in stage 3.

Provisioning stages

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

IFRS 9 Stage	Definition	Provisioning Basis	Cure Criteria
Basis	Cure Criteria	12 month Expected Credit Losses	n/a
Stage 2	The customer is at least 30 days past due. The customer is on the Bank's watchlist, save for those accounts which have been added as a result of the death of a customer, and where the death of that customer has not given rise to any significant increase in credit risk as payments continue and are expected to continue to be made. The underlying loan collateral is located in a particular region or sector as defined by the Credit Committee. Any other significant decline in credit quality has been identified by the Bank. Management specifically place the case in stage 2	Lifetime Expected Credit Losses	Movement back to stage 1 will only occur where the borrower meets all of the following: · Arrears have been fully cleared on the account. · The account has been 'performing' for a period of at least 6 consecutive months. · The account has met all terms of any forbearance measure granted and a period of at least 6 consecutive months has passed since the forbearance ending, and the account has been 'performing' for this period. · The account has been removed from the Bank's watchlist and is not considered to have increased credit risk for internal risk management purposes. · There are no other indicators that suggest credit risk has increased significantly since initial recognition. · There are no other connected accounts which meet the definition of a stage 2 asset.
Stage 3	The account is over 90 days past due. The customer has been declared bankrupt. The company has been wound up or a liquidator/administrator has been appointed. The account is part of a connected exposure where the borrower meets at least one of the above criteria across any connected account. These criteria can be overridden by Management if the account: · Is not guaranteed by other members of the group. · Does not share the same security. · Is a separate legal entity. · Is not deemed to spread contagion to other group members. · The account is in forbearance and that forbearance is considered to be 'significant' (see relevant section below). Management judgement	Lifetime Expected Credit Losses	Movement from stage 3 back to stage 2 will only occur when the borrower meets all of the following: · The account is no longer more than 90 days past due. · No connected accounts are more than 90 days down. · The customer has not been more than 90 days down for a consecutive period of 3 months. Where forbearance was extended, all terms of the forbearance agreement were met, and full payments have been made for a consecutive period of at least 3 months. · The Bank are actively seeking resolution and have obtained cooperation from the borrower to work to resolve the arrears. · There are no other indicators of default which would warrant the accounting remaining in stage 3.

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

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

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

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

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

Forbearance

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

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

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

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

– *the remaining lifetime PD at the reporting date based on the modified terms; with*

– *the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.*

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

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

Forbearance – curing

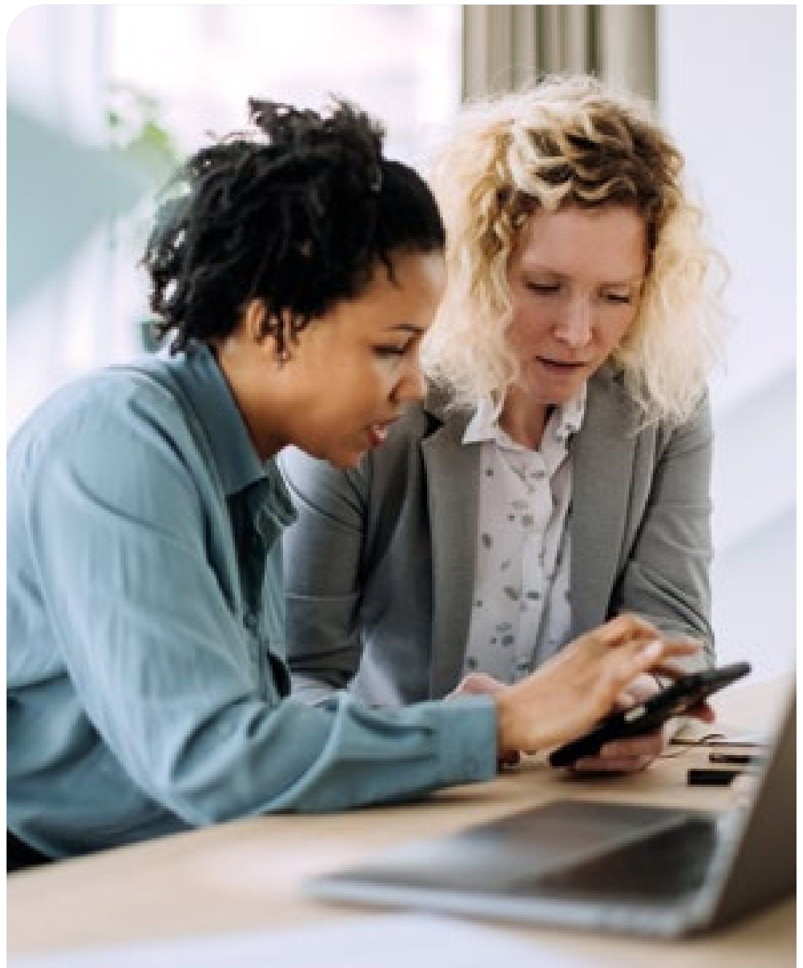
Loans are classified as forborne at the time a customer in financial difficulty is granted a concession.

The customer will remain treated and recorded as forborne until the following exit conditions are met:

– When all due payments, as per the amended contractual terms, have been made in a timely manner over a continuous repayment period (loan is considered as performing);

– A minimum two-year probation period has passed from the date the forborne exposure was considered as performing;

– None of the customer's exposures are more than 30 days past due at the end of the probation period.



Forbearance analysis

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

	No. of loans			Value of loans (in concession period)
31 December 2022	In concession	Completed Concession	No. of customers (in concession period)	£'000
Asset Finance	–	–	–	–
Real Estate	12	9	12	9,597
Total	**12**	**9**	**12**	**9,597**

	No. of loans			Value of loans (in concession period)
31 December 2021	In concession	Completed Concession	No. of customers (in concession period)	£'000
Asset Finance	–	15	–	–
Real Estate	9	10	6	12,151
Total	**9**	**25**	**6**	**12,151**

* Excludes 2 customers who completed their forbearance concession and within 2 years subsequently been classified as a stage 3 loan.

The Bank has no asset finance customers currently in forbearance with all previous agreements that had been subject to forbearance closed or performing and past a 2 year probation period.

At the end of 2022 the Bank had 12 Real Estate Finance accounts which were in their concession period, with a further 5 accounts which had completed their concession period within the previous 2 year period but within this period had entered default and an additional 4 accounts which have received forbearance within the past 2 years but are now performing.

Forward-looking information

Determining expected credit losses under IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable and supportable. To capture the effect of changes to the economic environment, the calculation of expected credit losses incorporates forward-looking information, and assumptions linked to economic variables that impact losses in each portfolio.

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

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

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

The Bank's economic scenarios, and the probability weightings assigned to each scenario, are produced by the Bank's Finance function and reviewed and challenged by the Bank's ALCO and Provisions Committees and approved by Audit committee. The Bank's scenarios, their weightings, and individual forecasts are set out in the tables overleaf:

Scenario description:

Scenario	Real Estate Description	Asset Finance Description
1. Base Case	The Bank's base case scenario forecasts low growth in residential property prices over the next 5 years with commercial property prices falling before recovering back to current levels over the next 5 years.	The Moody's base case scenario forecasts a strong rebound in demand as the pandemic and geopolitical tensions fade. Global energy prices are expected to decrease.
2. Downside	The Bank's downside case is a simple average of its severe downside and base case scenarios	The downside case is forecasted to assume a rise in gas prices following limited supply to Europe. The downside also forecasts lack of stimulation in the UK economy as household spending is reduced.
3. Severe Downside	A key input to the Bank's severe downside scenario is the Bank of England's annual cyclical scenario published in September 2022. This is considered to be a severe yet plausible scenario.	This scenario builds on the downside case and assumes the UK economy falls below its pre-pandemic output levels and economic demand collapses, leading to higher unemployment and lower investment.
4. Upside	The Bank's upside scenario generally assumes a increase of 5% in residential property prices compared to the base case with commercial property prices 300bp higher than the base case across the forecast period.	The Moody's upside scenario reflects the forecasts outlined in the base case scenario, as well as inflationary pressures easing within the UK and Bank of England Base Rate increases being lower than those forecasted in the base case scenario.

Scenario description:

Scenario	**Weighting Applied 2022**	Weighting Applied 2021
1. Base Case	47.5%	45%
2. Downside	32.5%	30%
3. Severe Downside	15%	12.5%
4. Upside	5%	12.5%

Macroeconomic variable forecasts:

The Bank uses the following macro-economic forecasts in its scenario modelling. The Bank's Asset Finance scenarios use the GDP, unemployment and equity forecasts, with the Real Estate scenarios applying bank base rate, rental income and property price forecasts.

- **GDP**

Year end forecast (£bn)	2023	2024	2025	2026	2027
1. Base Case	2,210	2,236	2,267	2,293	2,325
2. Downside	2,074	2,102	2,154	2,179	2,208
3. Severe Downside	2,270	2,297	2,322	2,349	2,387
4. Upside	2,042	2,035	2,106	2,150	2,179

- **Unemployment**

Year end forecast (%)	2023	2024	2025	2026	2027
1. Base Case	4.3%	4.5%	4.5%	4.6%	4.6%
2. Downside	6.2%	7.2%	7.2%	6.8%	6.1%
3. Severe Downside	3.9%	3.6%	3.7%	4.0%	4.2%
4. Upside	7.4%	8.3%	8.2%	7.9%	7.2%

- **Equity**

Year end forecast (index)	2023	2024	2025	2026	2027
1. Base Case	7,511	7,727	8,237	8,654	8,991
2. Downside	6,052	6,768	7,651	8,185	8,442
3. Severe Downside	8,273	8,290	8,606	8,885	9,257
4. Upside	5,053	5,446	6,504	7,122	7,639

- **Bank base rate**

Year end forecast	2023	2024	2025	2026	2027
1. Base Case	4.25%	4.00%	3.75%	3.50%	3.50%
2. Downside	5.13%	4.69%	4.16%	3.62%	3.62%
3. Severe Downside	4.00%	3.75%	3.50%	3.25%	3.25%
4. Upside	6.00%	5.38%	4.56%	3.74%	3.74%

- **Rental income**

Year end forecast	2023	2024	2025	2026	2027
1. Base Case	2.23%	1.17%	1.14%	1.36%	0.35%
2. Downside	-8.89%	0.66%	0.64%	0.77%	0.20%
3. Severe Downside	2.34%	1.23%	1.19%	1.43%	0.37%
4. Upside	-20.00%	0.00%	0.00%	0.00%	0.00%

- **Commercial property prices**

Year end forecast	2023	2024	2025	2026	2027
1. Base Case	-1.90%	0.41%	1.83%	2.49%	0.97%
2. Downside	-12.15%	-12.64%	3.58%	4.72%	3.90%
3. Severe Downside	-0.90%	0.40%	1.81%	2.47%	0.96%
4. Upside	-22.40%	-29.12%	6.73%	8.52%	8.63%

- **Residential property prices**

Year end forecast	2023	2024	2025	2026	2027
1. Base Case	0.72%	1.73%	3.80%	3.73%	1.79%
2. Downside	-4.84%	-6.23%	-1.35%	5.10%	3.72%
3. Severe Downside	0.76%	1.81%	3.98%	3.91%	1.88%
4. Upside	-10.40%	-15.18%	-8.29%	7.17%	6.56%

Sensitivities

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

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

- **Real Estate**

Scenario	Current weighted Scenario ECL £000	100% weighting ECL £000
1. Base Case		10,594
2. Downside	14,730	16,743
3. Severe Downside		30,130
4. Upside		9,641

- **Asset Finance**

Scenario	Current weighted Scenario ECL £000	100% weighting ECL £000
1. Base Case		2,001
2. Downside	2,198	2,493
3. Severe Downside		2,737
4. Upside		1,782

2. The table below shows the impact of changes to the impairment assumptions in the IFRS 9 models. Asset Finance

Scenario	Provision impact £000
Residential house price increases by 20% more than the base case	36
Commercial property prices increase by 20% more than the base case	
A reduction from 40% to 35% in the Bank's forced sale discount	(1,321)
A reduction of from 35% to 30% in the assumed Cure rate	890
A 12 month reduction in the assumed time to sell defaulted properties	(1,102)
A 10% increase in the Bank's Asset Finance LGD	179

The expected credit loss (ECL) on loans in stage 3 are estimated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows across a range of economic scenarios are taken into account. These considerations can be particularly subjective and can include the business prospects for the customer, the realisable value of collateral, the reliability of customer information and the likely cost and duration of the work-out process. The level of the impairment allowance is the difference between the value of the discounted expected future cash flows (discounted at the loan's original effective interest rate), and its carrying amount. Furthermore, estimates change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge. The Bank has Real Estate loans totalling £23.8m in Stage 3. These loans are secured by collateral totalling £32m. A 10% increase in the LGD for these loans would result in a £470k increase in the Stage 3 ECL.

- **Credit risk**
  - Loans and advances to banks and debt securities

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

The Bank holds balances in its Bank of England reserve account, along with a nostro accounts held with National Westminster Bank. The counterparties to which the Bank is exposed are domestically systemic banks, and as such the Bank considers that the risk of default across these balances is extremely low.

The Bank's debt securities are currently issued by the European Investment Bank (£12m) and the International Bank Reconstruction & Development (£20m). The Bank considers that the loans and advances to Banks and the debt securities are of low credit risk and as such hold no specific loss provisions against these assets.

The Bank monitors its exposures to all counterparties on an ongoing basis and whether there have been any changes in the credit rating which may cause an increase in the probability of said counterparty default. As at 31 December 2022 the Bank held no provisions against loans and advances to banks given the low credit risk of these financial instruments, their high propensity to meet contractual cash flow obligations as they fall due, and the instant access terms of these balances.

The table below sets out the credit quality of the Bank's on-balance sheet loans and advances to Bank's, debt securities and derivative assets. Full details on the Bank's derivative instruments can be found in Note 21.

£'000	2022	Credit rating	2021	Credit rating
Cash and balances at central banks	286,680	P1/Aa3	240,158	P1/Aa3
Deposits at other banks	13,931	P1/A1	12,293	P1/A1
European Investment Bank Bond	10,713	P1/Aaa	17,184	P1/Aaa
International Bank Reconstruction and Development Bonds	19,699	P1/Aaa	19,953	P1/Aaa
Derivatives held for risk management purposes	(1,010)	P1/A1	(254)	P1/A2

The Bank's loans and advances to banks and debt securities credit risk is managed through a series of policies and procedures including:

- Cash placements – Credit risk of counterparties is controlled through the counterparty placements policy, which limits the maximum exposure by entity where the Bank can place cash deposits.
- Debt securities – As part of the Bank's liquidity buffer, it holds a portfolio of debt securities. The Bank's internal Asset and Liability Management Policy sets limits on the value and type of exposures within which the Bank's Treasury function operate.
- Derivatives – Credit risk on derivatives is controlled through a policy of only entering into contracts with a limited number of UK credit institutions, with a credit rating of at least BAA (using Moody's long-term rating) at inception. In addition, the derivatives are collateralised removing any credit risk.

- **Liquidity risk**

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

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

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

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

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

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

- Deposit funding risk

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

- Pipeline loan commitments

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

- Contingency funding plan

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

- Sterling Monetary Framework facilities

  The Bank is a participant in the Bank of England's Sterling Monetary Framework facilities. The Bank has drawn £78m of funding in the form of cash under the Bank of England's TFSME scheme (Term Funding Scheme with additional incentives for SME), this is repayable in September 2025.

The Bank continues to pre-position eligible loan collateral with the Bank of England to enable it to access, if required, the Bank of England's Sterling Monetary Framework facilities, including the Discount Window Facility (DWF).

The Bank monitors its liquidity risk using several metrics including the liquidity coverage ratio (LCR), its loan to deposits ratio (LDR) and an internal survival days metric. The Bank's LCR at 31 December 2022 was 361% (2021: 287%) and the LDR was 94% (2021: 95%).

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

Contractual maturity analysis at 31 December 2022 £'000	Due within one year	Due after more than one year	No contractual maturity	Total
Assets				
Cash and balances at central banks	286,680	–	–	286,680
Loans and advances to banks	13,931	–	–	13,931
Debt Securities	19,699	10,713	–	30,412
Loans and advances to customers	92,512	945,198	–	1,037,710
Other assets	–	–	7,812	7,812
Total Assets	**412,822**	**955,911**	**7,812**	**1,376,545**
Liabilities				
Customers' accounts	948,438	154,818	–	1,103,256
Central Bank facilities (TFSME)	–	78,000	–	78,000
Lease liabilities	–	1,995	–	1,995
Derivative financial liabilities	–	1,010	–	1,010
Other Liabilities	326	–	7,112	7,438
Total liabilities	**948,764**	**235,823**	**7,112**	**1,191,699**

Contractual maturity analysis at 31 December 2021 £'000	Due within one year	Due after more than one year	No contractual maturity	Total
Assets				
Cash and balances at central banks	240,158	–	–	240,158
Loans and advances to banks	12,293	–	–	12,293
Debt Securities	–	37,137	–	37,137
Loans and advances to customers	100,830	877,004	–	977,834
Other assets	–	–	7,449	7,449
Total Assets	**353,281**	**914,141**	**7,449**	**1,274,871**
Liabilities				
Customers' accounts	878,320	147,200	–	1,025,520
Central Bank facilities (TFSME)	–	78,000	–	78,000
Lease liabilities	–	2,056	–	2,056
Derivative financial liabilities	–	254	–	254
Other Liabilities	–	–	5,224	5,224
Total liabilities	**878,320**	**227,510**	**5,224**	**1,111,054**

The table below analyses the Bank's contractual financial liabilities including any accrued interest up to the point of maturity as at 31 December. The contractual date is the earliest repayment date of the deposits.

Contractual maturity analysis at 31 December 2022	Due within one year	Due after more than one year	No contractual maturity	Total
Customer accounts	954,842	165,213	–	1,120,055
Central Bank facilities (TFSME)	–	85,508	–	85,508
Lease liabilities	–	1,995	–	1,995
Derivatives financial liabilities	–	1,010	–	1,010
Other liabilities	326	–	7,112	7,438
Total liabilities	**955,168**	**253,726**	**7,112**	**1,216,006**

Contractual maturity analysis at 31 December 2021	Due within one year	Due after more than one year	No contractual maturity	Total
Customer accounts	880,586	153,039	–	1,033,625
Central Bank facilities (TFSME)	–	79,371	–	79,371
Lease liabilities	104	1,952	–	2,056
Derivatives financial liabilities	–	254	–	254
Other liabilities	–	–	5,224	5,224
Total liabilities	**880,690**	**234,616**	**5,224**	**1,120,530**

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

£'000	2022	2021
Balances with Central banks	286,680	240,158
Loans and advances to banks	13,931	12,293
Debt securities	30,412	37,137
Total	**331,023**	**289,588**

– **Asset encumbrance**

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

The Bank drew £78m of funding in cash under the Bank of England's TFSME scheme (Term Funding Scheme with additional incentives for SME) in 2021. The Bank has a total of £145m (2021: £188m) of loans and debt securities which are available as collateral to support drawings under the Bank of England's Sterling Monetary Framework (SMF) facilities.

– **Market risk**

Market risk is the risk that changes in market rates negatively impact the earnings or market value of the Bank's assets or liabilities. All the Bank's exposure to market risk relates to non-trading portfolios.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

– **Interest rate risk**

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

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

– Asset-liability gap risk

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

– Basis risk

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

The Bank's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed in line with PRA guidance. The following table summarises the re-pricing periods for the Bank's assets and liabilities. Items are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date. The interest rate sensitivity exposure of the Bank at 31 December 2022 was:

31 December 2022 £'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	286,680	–	–	–	–	–	286,680
Loans and advances to:							
Banks	13,931	–	–	–	–	–	13,931
Customers	949,297	6,742	13,197	78,708	6,349	(16,583)	1,037,710
Debt Securities	–	–	19,699	10,713	–	–	30,412
Other	–	–	–	–	–	7,812	7,812
Total Assets	**1,249,908**	**6,742**	**32,896**	**89,421**	**6,349**	**(8,771)**	**1,376,545**
Off balance sheet derivatives	–	–	–	9,000	–	–	9,000
Liabilities	–	–	–	–	–	–	–
Customers' accounts	(807,274)	(74,602)	(138,310)	(154,432)	–	(7,648)	(1,182,266)
Other Liabilities	–	–	–	–	–	(9,433)	(9,433)
Total Equity	(22,900)	–	–	–	–	(161,946)	(184,846)
Total liabilities	**(830,174)**	**(74,602)**	**(138,310)**	**(154,432)**	**–**	**(179,027)**	**(1,376,545)**
Off Balance sheet derivatives	(9,000)	–	–	–	–	–	(9,000)
Interest Rate Sensitivity Gap	**410,734**	**(67,860)**	**(105,414)**	**(56,011)**	**6,349**	**(187,798)**	**–**
Cumulative gap	**410,734**	**342,874**	**237,460**	**181,449**	**187,798**	**–**	**–**

The interest rate sensitivity exposure of the Bank at 31 December 2021:

31 December 2021 £'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	240,158	–	–	–	–	–	240,158
Loans and advances to:							
Banks	12,293	–	–	–	–	–	12,293
Customers	904,921	9,551	15,054	59,898	4,335	(15,925)	977,834
Debt Securities	–	–	10,210	26,958	–	(31)	37,137
Other	–	–	–	–	–	7,449	7,449
Total Assets	**1,157,372**	**9,551**	**25,264**	**86,856**	**4,335**	**(8,507)**	**1,274,871**
Off balance sheet derivatives	12,000	–	–	9,000	–	–	21,000
Liabilities	–	–	–	–	–	–	–
Customers' accounts	(792,286)	(52,903)	(108,183)	(146,374)	–	(4,027)	(1,103,773)
Other Liabilities	–	–	–	–	–	(7,281)	(7,281)
Total Equity	(22,900)	–	–	–	–	(140,917)	(163,817)
Total liabilities	**(815,186)**	**(52,903)**	**(108,183)**	**(146,374)**	**–**	**(152,225)**	**(1,274,871)**
Off Balance sheet derivatives	(21,000)	–	–	–	–	–	(21,000)
Interest Rate Sensitivity Gap	**333,186**	**(43,352)**	**(82,919)**	**(50,518)**	**4,335**	**(160,732)**	**–**
Cumulative gap	**333,186**	**289,834**	**206,915**	**156,397**	**160,732**	**–**	**–**

Sensitivity analysis

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

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

+200bps: -£1.8m (2021: -£2.3m)

-200 bps: £1.8m (2021: £2.4m)

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

– Foreign currency risk

The Bank has no deposit accounts denominated in € or $ and is not exposed to any foreign currency risk.

– Equity price risk

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

- **Operational risk**

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

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

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

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

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

29 Capital management

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

The Bank's policy is to maintain a strong capital base, to maintain investor and market confidence, and to sustain the future development of the business. The Board manages its capital levels for both current and future activities, and documents its risk appetite, and capital requirements during stress scenarios as part of the Bank's Internal Capital Adequacy Assessment Process (ICAAP). The Bank's ICAAP was updated during the year and approved by the Board in October 2022.

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

The Bank's Total Capital Requirement (TCR) is set by its Regulator, the PRA. The Bank's TCR was 13.19% of Risk Weighted Assets (RWA) at 31 December 2022. The Bank's regulatory capital at 31 December 2022 totalled £185.1m (2021: £167.5m), (after IFRS 9 transitional relief). In addition to the TCR requirement the Bank is required to hold additional capital buffers, referred to as Pillar 2B, which includes the Counter Cyclical Buffer and the Capital Conservation Buffer. The Capital Conservation Buffer remained at 2.5% of RWA in 2022 whilst the Counter Cyclical Buffer increased from 0% RWA at 31 December 2021 to 1% in December 2022.

As at 31 December 2022, the Bank's regulatory capital consists entirely of Tier 1 capital which includes ordinary share capital, convertible loan notes, retained earnings, reserves, and deductions for intangible assets. The Bank's intangible asset deduction as at 31 December 2022 are fully deducted from CET1 (Common Equity Tier 1) capital.

Impact of IFRS 9 on capital planning

The Bank elected to adopt the phased IFRS 9 transitional relief approach from 1 January 2018. Under the transition guidelines, the financial impact of the increase in provision balances on CET 1 regulatory capital is phased in over 5 years, with 25% of the increase in requirements being excluded in 2022 (50% in 2021).

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

The Bank's capital requirement is calculated based on the gross exposures net of specific provisions. The tables below set out the Bank's capital resources at 31 December and reconciles these resources to the Bank's reported regulatory capital.

£'000	2022	2021
Tier 1		
Ordinary share capital	44,955	44,955
Perpetual subordinated contingent convertible loan notes	22,900	22,900
Retained earnings	118,200	96,437
FVOCI reserve	(1,209)	(475)
Deductions: Intangible assets	(1,774)	(163)
Other deductions*	(1,718)	(1,726)
Total Tier 1 capital	181,354	161,928
Total regulatory capital before IFRS 9 transitional relief**	181,354	161,928
IFRS 9 transitional relief	4,618	5,627
Total regulatory capital after IFRS 9 transitional relief	185,972	167,555
Equity as per statement of financial position	184,846	163,817
Regulatory adjustments	(3,492)	(1,889)
Total regulatory capital before IFRS 9 transitional relief**	181,354	161,928
IFRS 9 transitional relief	4,618	5,627
Total regulatory capital after IFRS 9 transitional relief	185,972	167,555

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

** After applying the transitional factors to both the original and CRR Quick FIX relief values.

30 Leases

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

2022 Right of use asset (£'000)	Property	Computer Hardware – Printers	Total
Balance at 1 January 2022	1,761	62	1,823
Additions	52	–	52
Depreciation charged to P&L	(151)	(24)	(175)
Balance at 31 December 2022	**1,662**	**38**	**1,700**

2021 Right of use asset (£'000)	Property	Computer Hardware – Printers	Total
Balance at 1 January 2021	1,955	86	2,041
Lease additions/modifications/disposals	–	–	–
Depreciation charged to P&L	(194)	(24)	(218)
Balance at 31 December 2021	**1,761**	**62**	**1,823**

2022 Lease liability (£'000)	Property	Computer Hardware – Printer	Total
Balance at 1 January 2022	1,993	63	2,056
Lease additions	52	–	52
Interest charged to P&L	122	4	126
Lease payments	(211)	(28)	(239)
Balance at 31 December 2022	**1,956**	**39**	**1,995**

2021 Lease liability (£'000)	Property	Computer Hardware – Printer	Total
Balance at 1 January 2021	2,116	86	2,202
Lease additions/modifications/disposals	–	–	–
Interest charged to P&L	127	5	132
Lease payments	(250)	(28)	(278)
Balance at 31 December 2021	**1,993**	**63**	**2,056**

The majority of the Bank's lease costs relates to its Leicester Head Office. This lease is for a period of 15 years, ending on 13 August 2034. The rent was fixed for the first five years and is next subject to a rent review on 14 August 2024.

The Bank has not recognised right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application – namely its Sheffield regional office. The short-term nature of these leases provides the Bank with the flexibility to move premises as business needs change. The Sheffield office is located in a major UK city and alternative premises are readily available should the Bank require larger or smaller offices. Whilst the leases include renewal options, the renewal is not certain and therefore no value for the lease is recorded within the Bank's property, plant, and equipment balance sheet category. During the year, the expense incurred on all the Bank's short term property leases was £39k (£79k). The Bank is expected to make payments totalling £38k in respect of the Sheffield lease in 2023. These payments are recorded as an operating expense in the income statement.

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

£'000	2022	2021
Less than one year	256	228
Between one and five years	921	905
More than five years	1,616	1,843
Total	**2,793**	**2,976**

31 Commitments

At 31 December 2022, the Bank had undrawn credit line commitments of £103m (2021: £111.5m) and capital commitments of £nil (2021: £nil).

At 31 December 2022, the Bank had contingent liabilities of £nil (2021: £nil).

32 Related parties

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

- **Transactions with Controlling parties**

£'000	2022	2021
Cambridgeshire County Council		
Sums paid in respect of Directors' services	13	53
Interest payments on perpetual subordinated contingent convertible loan notes	1,439	1,283
Trinity Hall, Cambridge		
Hospitality services	4	–
Interest on 31-day business notice account	–	1

Trinity Hall held a 31-day business notice account with the Bank. The account was closed in February 2022. The account earned interest at the standard rate for this type of account.

The Bank used the services of Aula Hospitality Ltd for hospitality and conference facilities in 2022. Aula Hospitality Ltd is part of Trinity Hall.

- **Key management personnel compensation**

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

£'000	2022	2021
Directors' remuneration	2,286	2,202
Social security costs	284	246
Amounts receivable under long term incentive schemes	–	50
Amounts paid to third parties in respect of Directors' services	13	53
Total	**2,583**	**2,551**

* Emoluments of the highest paid director were £591k (2021: £596k).

- **Transactions with key management personnel:**

The amounts paid to third parties in respect of director's services relate to the non-executive director fees for Richard Perry in 2022 and 2021. These amounts were paid to Cambridgeshire Local Government Pension Fund for the period January to March 2022 (January to April 2021 to Cambridgeshire County Council, May 2021 to December 2021 Cambridgeshire Local Government Pension Fund).

Caroline Fawcett, an Independent Non-Executive Director, is the Director of a company which had a balance of £48k on deposit at the 31 December 2021. The account was closed during 2022. The account earns interest at the standard rate for this type of account.

Mike Hudson, an Executive Director, is a trustee of a not-for profit organisation that had £83k (2021: £81k) on deposit at the end of the year. The account earns interest at the standard rate for this type of account.

There were no other transactions with key management personnel in 2022 (2021: nil).

There were no loans outstanding to any directors at 31 December 2022 (2021: nil).

33 Ultimate parent company

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

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

34 Subsequent events

There have been no significant quantifiable events between 31 December 2022 and the date of approval of the financial statements which would require a change to, or additional disclosure, in the financial statements. Management and the Board continue to monitor the economic outlook across the UK and globally on a regular basis. As part of this monitoring the Bank aims to identify and address the likelihood of any financial impacts materialising.

Standards issued but not yet adopted

A number of new revised standards issued by the International Standards Board have not yet come into effect. None of these are expected to have a material impact on the Bank's financial statements.

COUNTRY-BY-COUNTRY REPORT

DISCLOSURE REQUIREMENTS UNDER CRD IV COUNTRY-BY-COUNTRY REPORTING

The Bank is required to disclose the following information in the Annual Report and Accounts to comply with the Regulations of Article 89 of the Capital Requirements Directive IV (CRD IV) country-by-country reporting (CBCR). This regulation requires us to disclose financial information by country.

Cambridge & Counties Bank operates as a single entity exclusively in the United Kingdom. Therefore, total income and profit before tax shown in the Income Statement and corporation tax paid shown in the Statement of Cash Flows, as well as the average number of employees disclosed in note 10 to the financial statements, are related to the United Kingdom. No public subsidies were received in 2022 or 2021.

Independent auditors' report to the directors of Cambridge & Counties Bank Limited

Report on the audit of the country-by-country information

Opinion

In our opinion, Cambridge & Counties Bank Limited's country-by-country information for the year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 December 2022 in the Country-by-Country Report.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to country-by-country report of the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- We reviewed and challenged the key assumptions used by the directors in their determination of the going concern of the Company.
- We reviewed management's stress test scenarios and considered whether the Company would continue to operate above required regulatory capital and liquidity minima during times of stress.
- We considered as to whether our audit work had identified events or conditions which may give rise to uncertainty of the Company's future ability to trade; and
- We reviewed legal and regulatory correspondence to ensure that any compliance issues which may impact the going concern of the Company had not been identified.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Responsibilities for the country-by-country information and the audit

Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation in the country-by-country information, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this country-by-country information.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure and management bias in accounting estimates. Audit procedures performed included:

- Review of correspondence with and reports to the regulators.
- Testing significant accounting estimates.
- Testing of journal entries which contained unusual account combinations back to corroborating evidence.
- Discussions with management and those charged with governance in relation to known or suspected instances of noncompliance with laws and regulation and fraud; and
- Review of internal audit reports.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the company's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

The engagement partner responsible for this audit is Chris Shepherd

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

30 March 2023

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Contact Details

If you require any further information on Cambridge & Counties Bank, please contact us using the details below.

Cambridge & Counties Bank Limited
Charnwood Court
5B New Walk
Leicester
LE1 6TE

Telephone: 0344 225 3939
Email: Info@ccbank.co.uk
Web site: www.ccbank.co.uk

Cambridge & Counties Bank
Built on understanding

0344 225 3939 0116 254 4637 info@ccbank.co.uk ccbank.co.uk

Cambridge & Counties Bank, Charnwood Court, 5B New Walk, Leicester LE1 6TE