Cambridge & Counties Bank Limited

Pillar 3 Disclosures

31 December 2022

Cambridge & Counties Bank
Growing business together

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2 Executive Summary

Introduction

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

Established in June 2012, Cambridge & Counties Bank has a 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 (PRA), regulated by the Financial Conduct Authority (FCA) and the PRA, and registered under the Financial Services Compensation Scheme.

The Bank does not have any subsidiaries.

Target Markets and Distribution Networks

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.

We lend to experienced commercial and residential property investors as well as to owner occupied businesses to invest in their own commercial premises, secured on property. The Bank provides finance for businesses to acquire essential assets such as equipment, plant, machinery, or vehicles, using hire purchase and finance lease facilities. The Bank also provides finance for the purchase of classic cars using hire purchase and finance lease products.

The Bank remains focused on supporting SME customers in our chosen markets. As our customers reassess their investment priorities in the challenging macroeconomic environment, we continue to lend responsibly while also helping our customers navigate the challenges they face.

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.

Financial performance

For the year ended 31 December 2022, the Bank had operating income of £59.3m (2021: £44.9m) and reported profit before tax of £28.5m (2021: £18.5m). Total Equity as of 31 December 2022 was £184m (2021: £164m). The Bank employed an average of 206 FTE employees (2021: 183) during the year. Full details on the Bank's financial results are reported in its statutory accounts which are published on its website (https://ccbank.co.uk/about-us/annualresults/).

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Legislative Framework

CCB has been subject to the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) requirements implemented by the European Union (EU) on 01 January 2014.

The UK withdrew from the EU on 31 January 2020 but remained subject to EU laws (*known as CRD V (Directive (EU) 2019/878) and Capital Requirements Regulation (CRR) II (Regulation (EU) 2019/876)*) till the end of the transition period (TP) on 31 December 2020. The latest EU legislations of CRD V and CRR II were subsequently on shored by the UK with amendments as assessed by the PRA under the EU (Withdrawal) Act 2018 (EUWA). These amendments are as described by the PRA Rulebook (CRR) Instrument 2021, PRA Rulebook (CRR firms) Leverage Instrument 2021 and PRA Rulebook (CRD V) Instrument 2020.

The UK CRR II came into effect on 01 January 2022. CCB throughout this document has followed the Pillar 3 disclosure requirements as set out for CRR firms and complies with the requirements in accordance with Article 433c of the Disclosure section of the PRA Rulebook.

Basel Committee on Banking Supervision (BCBS)

Most of the global banking and insurance regulations have been initiated or inspired by the work of the Basel Committee on Banking Supervision and its so-called "Basel regulations". The three pillars of this regulation are as follows:

Pillar 1

The first pillar focuses on the determination of minimum capital requirements to support exposures to credit risk, counterparty credit risk, credit valuation adjustment risk and operational risk. (See Section 5)

Pillar 2

Pillar 2 addresses risks not covered in the Pillar 1 framework. To calculate its Pillar 2 capital requirements the Bank has performed a detailed assessment of the risks facing the Bank including the impact of a severe economic downturn. The Bank has calculated the amount of capital that it considers necessary to cover these risks within its Internal Capital Adequacy Assessment Process (ICAAP). The Bank's ICAAP is reviewed and assessed by the PRA during its Supervisory Review and Evaluation Process.

Pillar 3

Pillar 3 complements Pillar 1 and Pillar 2 and sets out the disclosures that banks are required to make in order to promote market discipline through the external disclosure of its governance, capital resources, risk management objectives, remuneration and risk exposures. The Bank is required to publish its Pillar 3 report annually.

Purpose

The Pillar 3 disclosures on capital and risk management of 31 December 2022, have two principal purposes:

- To provide information on the policies and approach taken by CCB to risk management and the maintenance of its capital resources, including details of:
  - The governance structure of the Bank; and

  - Detailed information concerning the Bank's assets and capital resources.
- To meet the Pillar 3 regulatory disclosure requirements under the PRA rulebook effective 1st January 2022.

The Pillar 3 disclosures should be read in conjunction with the Annual Report and Financial Statements for the year ended December 2022, published on CCBs website.

Scope of Application

All the figures, governance, objectives and policies included within this document are as of 31 December 2022 (unless stated otherwise) and have been prepared to meet the disclosure requirements under PRA Rulebook for CRR firms. The Pillar 3 report disclosures are issued on an annual basis and are based upon the Bank's annual report and financial statements for the year ended 31 December 2022.

These disclosures have been reviewed by the Bank's Audit Committee and approved by the Board. The disclosures are not subject to external audit, although some of the information within the disclosures also appears in the audited 2022 financial statements. The processes for preparing this disclosure are laid out in the Bank's Pillar 3 Disclosures policy.

Publication

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

Regulatory changes

The PRA have issued a number of consultation papers on the implementation of the Basel 3.1 standards and the establishment of a 'Strong and Simple Framework'. These developments may change the content of future Pillar 3 reports.

Policy, Verification, Sign Off and Contact Details

The Bank's Pillar 3 disclosures have been verified and approved through internal governance procedures in line with the Bank's Pillar 3 Disclosure Policy. The Board reviewed and approved the disclosures in March 2023.

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4 Governance and Committees

How the business is managed

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

Structure of the Board and Board Committees

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

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

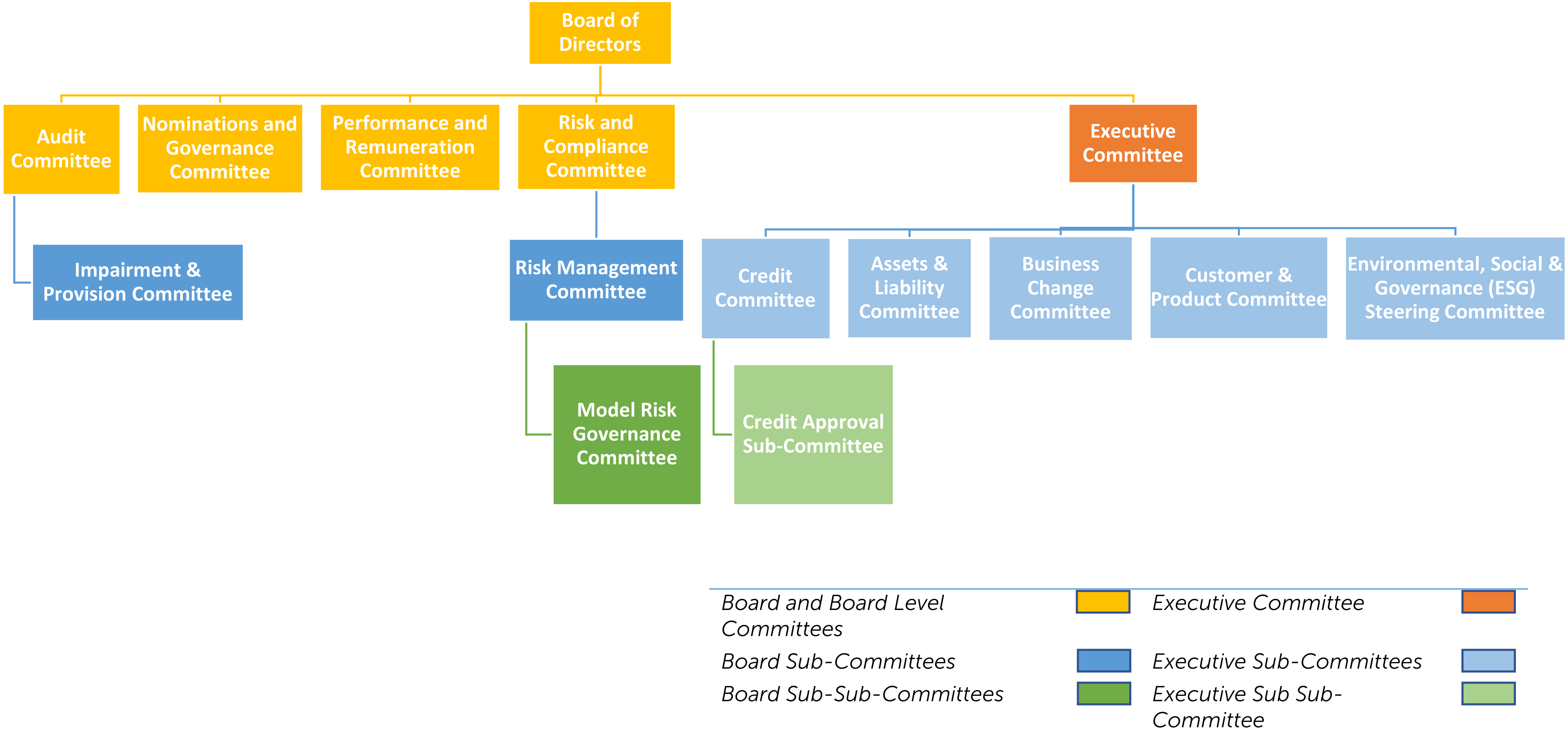
To ensure independence, and reduce the potential for conflict of interest, the sub-committees (excluding the Executive Committee) are each comprised entirely of non-executive directors (NEDs), although individual EDs and others attend either as a matter of course or when requested to provide advice and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

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 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.

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



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

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

The table below outlines the Bank's Committees structure (as of 31 December 2022). The table below sets out the Committee's purpose and key responsibilities (as delegated by the Board) and Chairs. The Bank reviews the committee structure on an ongoing basis to ensure that it remains fit for purpose and maximises the effective decision-making ability of the Board.

Committee	Chair	Purpose / Responsibilities relating to Risk Management
Board	Patrick Newberry; Chair	• Ensuring the framework of prudent and effective controls and risk management are maintained; • Review of the effectiveness of the risk and control processes to support the Bank's strategy and objectives; • Approval of regulatory documents including the Risk Appetites, ICAAP, ILAAP.
Audit	Mike Peck: NED	• Assisting the Board in carrying out their responsibilities relating to assuring the adequacy and effectiveness of the Bank's overall financial governance, control framework and processes, including compliance with legal, regulatory, and financial reporting requirements; • The appointment of internal and external audit and assessment of effectiveness.
Risk & Compliance	Nick Treble; NED	• Providing oversight and advice to the Board in relation to current and potential future risk exposures of the Bank and future risk strategy, including determination of risk appetite and tolerance; • Compliance with legal and regulatory requirements; • Assisting on such other matters as may be referred to it by the Board; • Promoting a risk awareness culture within the Bank; • Providing oversight of the Bank's risk and compliance functions and to receive and review reports on the Bank's compliance (including Anti-Money Laundering) with financial services regulations.
Performance & Remuneration	Caroline Fawcett; NED	• Overseeing the establishment and implementation of a remuneration policy for employees and Directors, which is designed to support long term business strategy and values of the Bank, as well as promoting effective risk management and compliance with applicable legal and regulatory requirements; • Reviewing performance and approval of remuneration arrangements as set out within its Terms of Reference.
Nominations & Governance	Patrick Newberry; Chair	• To consider and make recommendations in respect of appointments to the Board as well as the membership and chairmanship of Board Committees; • To monitor the governance arrangements of the Bank making recommendations to ensure that such arrangements are consistent with best corporate governance standards and to develop best practice.
Executive	Donald Kerr; Chief Executive Officer	• Implementation of the strategic objectives of the Bank in accordance with the Strategic Plan and compliance with the Company's Budget and Risk Appetite; • All day-to-day operational issues of the Bank which are delegated to the Business Management group; • Reviewing draft Board papers and recommending for submission to Board; • Approving the Terms of Reference and responsibilities of the Business Change Committee and the Customer & Product Committee and receive Minutes from these committees; • Ensuring all responsibilities are undertaken with due consideration given to the Bank's Strategic Plan, Board approved policies and good customer outcomes.
Assets & Liability (ALCO)	Andrea Hodgson; Chief	• Control and stewardship of the Bank's balance sheet risks and capital management in executing its chosen business strategy;

Committee	Chair	Purpose / Responsibilities relating to Risk Management
	Financial Officer	• Setting of limits in line with the Board's risk appetite, monitoring exposures and implementing controls across the dimensions of capital, credit, FX, funding and liquidity, and non-traded interest rate risk.
Risk Management	Mike Hudson; Chief Risk Officer	• To oversee and monitor the risks (other than Liquidity, Capital, ALM or Credit risks) facing the Bank on a day-to-day basis; • Specific responsibilities include operational risk, financial crime, conduct risk, operational resilience, legal risk and regulation; • Its key role is to provide the oversight, challenge, support and advice necessary to embed and maintain a robust risk management culture across the Bank; • To ensure that the Bank maintains an appropriate risk management culture and an effective Risk Management Framework; • To review the findings of Risk & Compliance reviews and monitoring the remediation of outstanding action items; • Oversight of the remediation of Internal Audit findings.
Credit	David Monks; Chief Lending Officer	• Manage and monitor the lending activities of the Bank on a day-to-day basis. • Formulating the Bank's lending policies, overseeing the Bank's solicitor and valuation panels, and monitoring the Bank's large exposures. The committee are also responsible for agreeing the Bank's standard facility letters and terms; • Monitor current and potential non-performing lending on an on-going basis, for the purpose of identifying and agreeing appropriate provisions for under-recoveries on those loans; • Responsibility for the ongoing oversight and management of current and potential non-performing loans lies with the Credit Committee.
Customer & Product	Christian Cowie; Director of Marketing & Savings	• Oversight of customer outcomes that result from Bank operations, as well as the suite of products offered, including the product design, pricing, performance, and customer suitability.
Business Change	David Holton; Chief Transform-ation Officer	• To manage the effective delivery of the business change agenda including the people side of change; • To prioritise the CCB Change Programme to align with business priorities and ensuring delivery to agreed timescales, scope, budget and available resources; • To assess all new business investment cases and change requests, ensuring that they are aligned with strategic business objectives and tactical priorities; • To ensure benefits realisation as a result of change investments; • Assessment, approval, or recommendation of significant changes to inflight Projects; • Management of the overall risks of the CCB Change programme within acceptable appetite, including people risks of change.
Impairment & Provisions	Andrea Hodgson; Chief Financial Officer	• The purpose of the Committee is to monitor current and potential non-performing lending on an on-going basis, for the purposes of identifying and agreeing appropriate provisions for under-recoveries on those loans; • Responsibility for the ongoing oversight and management of current and potential non-performing loans lies with the Credit Committee.
Model Risk Governance	Mike Hudson; Chief Risk Officer	• Responsibility for the management and oversight of financial models used within the firm.
Environmental, Social and Governance Steering	Richard Bryan; General Counsel	• To lead the Bank's response to the risks, challenges and opportunities presented by factors influencing environmental, social and governance; • The collection, management, and analysis of physical climate risk data in order to meet the changing expectations of society, investors, stakeholders, and the financial regulators.

5 Risk Management Objectives and Policies

Introduction

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

The following chapter covers the key elements of the Bank's approach to risk management. This includes how deterioration and/or non-compliance with appetite be detected, including consideration of the impact on capital requirements via the ICAAP process.

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 manages risk using the '*three lines of defence*' model, via clear responsibilities established for all colleagues in relation to risk management, including executive and non-executive responsibilities documented as applicable under the Senior Managers and Certification Regime. The model operates as follows:

First line of Defence **Responsibility: Chief Executive Officer (CEO)**

- The first line risk function undertakes an active role in maintaining and improving internal control frameworks, remediating weaknesses in operational processes, and supporting business areas in the implementation of the Bank's key risk management processes.
- The CEO, executives and their teams are responsible for managing risk on a day-to-day basis, including identification of risks as they emerge, evaluating and reporting them and ensuring that the Bank operates within risk appetite. In support of this, a dedicated first line risk function is in place to provide risk management expertise within an operational setting.

Second line of Defence **Responsibility: Chief Risk Officer (CRO)**

- A key role of second line is to provide an independent view to management and the Board of the risks within the Bank.
- The CRO is independently responsible for managing, designing, and continually updating the Enterprise Risk Management Framework and risk assessment and evaluation tools and systems, providing training, review, and challenge to the first line.

Third line of Defence **Responsibility: Internal audit - outsourced to Deloitte**

- Internal Audit is responsible for providing independent assurance that the Enterprise Risk Management Framework, including its operation by the first and second lines, is operating effectively.
- Under the supervision of the Chief Risk Officer and Chief Financial Officer, reporting to the Bank's Audit Committee.

Risk Appetite Introduction

The Risk Appetite is the amount and type of risks the Board is willing to take in pursuit of its strategy and objectives. The overall objective is to protect the Bank from unacceptable levels of risk while supporting and enabling overall business strategy (including the assessment of new business opportunities). The Bank's Risk Appetite Statement outlines a mixture of qualitative and quantitative measures (Statements and Key Risk Indicators). The regular review of the Bank's appetite for risk is facilitated and challenged by the second line of defence, driven by the recommendations of the appropriate executives and subject matter experts.

The Bank's performance against Risk Appetite is monitored via reporting to the executive risk committees. This is summarised within the Chief Risk Officer Risk Management Report, which is presented to Risk Management Committee and appropriate Board committees monthly. The periodic reporting shows status against each Key Risk Indicator (KRI) and overall rating, based on parameters set within the Enterprise Risk Management Framework, using a Red/Amber/Yellow/Green (RAYG) 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 has adopted a tiered structure of risk indicators and metrics.

Tier 1 - Recovery & Liquidity Contingency Plan Indicators

They are considered as being the most relevant in determining whether the Bank needs to trigger its Liquidity Contingency Plan or Recovery Plan as they show:

- when the Bank could be approaching a Financial Stress;
- whether the Bank retains adequate liquidity resources;

- whether internal risks or the external environment threaten the Bank's viability.

Tier 2 - Key Risk Indicators (KRIs)

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

Early Warning Indicators (EWIs)

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

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

Risk Reporting

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

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

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

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

The Risk Profile

The Bank's principal risks are defined below along with their associated risk appetites statements:

A. Strategic risk

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. 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.

B. Capital Adequacy risk

The risk that the Bank fails to hold sufficient capital to meet its regulatory obligations, support its growth plans or to absorb shocks. 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.

C. Liquidity and funding risk

The risk of being unable to fund assets and meet obligations as they fall due without incurring unacceptable losses. The Bank maintains a low-risk appetite for Liquidity & Funding Risk.

The Bank 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. We will maintain sufficient liquid assets to meet liabilities as they fall due in a stressed scenario, 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.

D. Market risk

The risk that changes in market rates negatively impact the earnings or market value of the Bank's assets or liabilities. The Bank has no appetite for foreign currency risk and a low appetite for interest rate and basis risk.

The Banks maintains its assets, liabilities and off-balance sheet exposures in Sterling are carefully manages mismatches between tenors of loans and deposits, hedging exposures where necessary within pre-determined limits.

E. Credit risk

The risk that counterparties fail to meet the commitments into which they have entered in a timely manner. The Bank has a moderate appetite for Credit Risk overall, maintaining conservative parameters, including a maximum LTV and a DSCR at a higher level than PRA requirements, 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. 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 on a monthly basis via the comprehensive suite of KRIs.

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.

F. Legal, Compliance & Regulatory

The risk that non-compliance with laws or regulations could give rise to fines, litigation, sanctions, reputational damage or financial loss. 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 or gifts/hospitality policy breaches. 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, rule changes are implemented within the applicable regulatory timelines and staff operate within the Bank's documented policies and controls and, where applicable, industry guidelines.

G. Financial crime

The risk that inadequate controls relating to financial crime could give rise to fines, litigation, sanctions, reputational damage, or financial loss. 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 & 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.

H. Operational risk

It is 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. The Bank maintains a low appetite for Operational Risk.

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.

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.

I. Conduct risk

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. The Bank maintains a low appetite for Conduct Risk.

We employ 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 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.

J. Financial models

The risk that the Bank incurs financial loss as a consequence 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. 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 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.

Additional disclosures on the risk profile and key mitigants are contained in the 2022 Annual Report and Financial Statements.

Emerging Risks and Uncertainties

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

Emerging Risk	Definition	The Bank's Response
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 – (growth/credit risk related). There remains a risk in relation to the broader economic pressures on the UK, including inflation and broader 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.

Emerging Risk	Definition	The Bank's Response
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's 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 tolerate low EPC grades) and impact on the Asset Finance and Classic Vehicles and Sports loan (CV&S) books. Both physical and transitional risks are being factored into Risk Appetite, Key Risk Indicators, and the credit grading model calculation.	This is a topic that the Bank takes very seriously and has 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 Banks General Counsel and supported by the Chief Risk Officer, continues to develop the Bank's action plans, in addition to working with external bodies, such as UK Finance, to assess sector preparedness, planning and actions to ensure the Bank's initiatives remain appropriate and relevant. Regular progress reports are provided to key stakeholders, including the Board.
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 essential 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.
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. CCB's operations are inherently reliant upon its technology infrastructure, and the performance of third-party technology firms to maintain cyber security defences.	CCB'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 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 body, as part of the wider industry response to these proposed regulatory changes.

The Bank does not consider settlement risk, group risk, pension risk and wrong way risk as applicable to its business model and operations.

Additional disclosures on Risk management and the framework are included in the 2022 Annual Report and Financial Statements

6 Capital Resources

Available Capital Resources

CCB manages its capital requirements in accordance with the PRA Rulebook for CRR firms. 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. Throughout the period to 31 December 2022, the Bank maintained its capital resources at a level above the minimum capital adequacy requirements.

The Board manages its capital levels for both current and future activities and documents its risk appetite and capital requirements during stress scenarios as part of the ICAAP. The Bank presents regular reports on the current and forecast level of capital to the Executive Committee, ALCO, Risk & Compliance Committee and to the Board.

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

Under PRA Rulebook, the Bank must set aside capital equal to 8% of its total risk weighted assets to cover its 'Pillar 1' capital requirements. The Bank must also set aside 'Pillar 2' capital to provide for additional risks. The ICAAP is the Bank's internal assessment of its Pillar 2 capital requirements, which the PRA reviews and advises its expectations of the level of Pillar 2 capital to be held. The PRA will set Pillar 2A requirements for risks not captured under Pillar 1 capital requirements and it will set Pillar 2B requirements to meet potential shortfalls in capital that may occur in the future due to severe stress scenarios like economic downturns. Pillar 1 and Pillar 2A requirements are referred to as the Bank's Total Capital Requirement (TCR). CCB maintains its capital base in excess of its TCR and PRA Buffer and has complied with all externally imposed capital requirements during 2022. The PRA monitors capital adequacy through regulatory returns.

In addition to the TCR and PRA Buffer requirements, the Bank hold capital to meet the Capital Conservation Buffer (CCoB) and Countercyclical Capital Buffer (CCyB).

Under the Bank Recovery and Resolution Directive (BRRD I and II), the Bank of England has assigned CCB to the 'Modified Insolvency' category. The Bank meets this requirement by holding sufficient capital to meet its Total Capital Requirements (TCR) which comprises Pillar 1 and Pillar 2A.

Key metrics

The table below presents CCBs key metric positions using its audited accounts as of 31-Dec-2022, with only items applicable to the Bank being shown.

As of 31 December 2022, the Bank's regulatory capital base was £186m (2021: £167.6m), all of which was Tier 1 capital.

		31-Dec-22 £'000	31-Dec-21 £'000
Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	163,071	144,655
2	Tier 1 capital	185,972	167,555
3	Total capital	185,972	167,555
Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount	787,621	728,379
Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	20.70%	19.86%
6	Tier 1 ratio (%)	23.61%	23.00%
7	Total capital ratio (%)	23.61%	23.00%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
UK 7a	Additional CET1 SREP requirements (%)	5.19%	3.10%
UK 7d	Total SREP own funds requirements (%)	13.19%	11.10%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2.50%	2.50%
9	Institution specific countercyclical capital buffer (%)	1.00%	0.00%
11	Combined buffer requirement (%)	3.50%	2.50%
UK 11a	Overall capital requirements (%)	16.69%	13.60%
12	CET1 available after meeting the total SREP own funds requirements (%)	7.51%	7.41%
Leverage ratio			
13	Leverage ratio total exposure measure	1,335,869	1,298,284
14	Leverage ratio	13.92%	12.83%
Liquidity Coverage Ratio *			
15	Total high-quality liquid assets (HQLA) (Total Weighted value)	265,556	255,526
UK 16a	Cash outflows - Total weighted value	97,431	99,787
UK 16b	Cash inflows - Total weighted value	13,037	9,625
16	Total net cash outflows	84,394	90,162
17	Liquidity coverage ratio (%)	315%	283%
Net Stable Funding Ratio **			
18	Total available stable funding	1,104,235	
19	Total required stable funding	842,391	
20	NSFR ratio (%)	131%	

Table 1: Key metrics

* Average of 12 months

** Average of submitted returns post implementation of CRR II

Overview of risk weighted exposures

The assets of the Bank are analysed by risk category and are assigned weightings which reflect the level of risk exposure under the Standardised Approach. The Bank's credit risk consists of counterparty credit risk and all other credit risk, principally arising from its loans and advances to customers. The Bank's minimum capital requirements for credit risk are calculated by applying the Pillar 1 capital requirement of 8% to the risk weighted assets of CCB. Credit risk weightings are determined by the "Standardised Approach" as set out in the CRR. The Bank uses Moody's Investors Service as its nominated External Credit Assessment Institution (ECAI) for all standardised counterparty credit risk exposure classes.

CCB is subject to Pillar 1 capital requirements related to the following risk items:

- credit risk (including counterparty credit risk);
- operational risk;
- credit valuation adjustment risk;
- counterparty credit risk.

The assets of the Bank are analysed by risk category and are assigned weightings which reflect the level of risk exposure under the Standardised Approach. The Bank's credit risk consists of counterparty credit risk and all other credit risk, principally arising from its loans and advances to customers. The Bank holds derivative instruments to manage its minimal interest rate risk and does not hold a trading book. Derivatives follow the original exposure method for credit risk.

	Risk weighted exposure amounts (RWEAs)*		Total own funds requirements	
	31-Dec-22 £'000	31-Dec-21 £'000	31-Dec-22 £'000	31-Dec-21 £'000
Credit risk (excluding CCR)	690,434	640,391	55,235	51,231
Of which the standardised approach	690,434	640,391	55,235	51,231
Counterparty credit risk - CCR	232	46	19	4
Of which credit valuation adjustment - CVA	133	23	11	2
Of which other CCR	99	23	8	2
Securitisation exposures in the non-trading book (after the cap)	7,991	9,158	639	733
Of which SEC-SA approach	7,991	9,158	639	733
Of which 1250%/ deduction	(1,688)	(1,688)	(135)	(135)
Operational risk	88,964	78,784	7,117	6,303
Of which basic indicator approach	88,964	78,784	7,117	6,303
Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	2,749	1,984	220	159
Total	**787,621**	**728,379**	**63,010**	**58,271**

Table 2: Overivew of risk weighted exposure amounts

* RWEAs after application of SME supporting factor

Credit risk exposure comprises of the following exposure classes for 31-Dec-2022 along with their exposure values and risk weighted exposures.

31-Dec-22					
	Exposure value *		Net exposure **		Risk weighted exposure
Credit risk exposure classes	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet	
Central banks	288,095	-	318,338	-	-
Corporates	90,347	8,208	90,004	1,917	76,789
Multilateral	30,412	-	30,412		-
Default	21,451	-	21,196		23,434
Immovable	801,652	94,258	800,790	21,366	512,223
Retail	61,014	12,717	61,014	-	36,518
High risk	21,179	300	21,179	60	32,074
Insitutions	14,128		14,128		3,221
Securitisation Exposures	42,140		10,209		7,991
Other items	4,624	-	4,624	-	6,274
Total	1,375,042	115,483	1,371,894	23,343	698,524

Table 3: Breakdown of credit risk exposures including counterparty credit risk

* After value adjustments and provisions

* Exposure post CRM and CCF

Composition of regulatory own funds

CCB holds CET1 capital consisting of Share capital and retained reserves. The regulatory CET1 capital is stated in the table after regulatory adjustments. The Bank also holds perpetual convertible loan notes eligible for AT1.

	31-Dec-22 £'000	31-Dec-21 £'000	References to table 5
Common Equity Tier 1 (CET1) capital: instruments and reserves			
Capital instruments and the related share premium accounts	44,955	44,955	(a)
of which: share capital	44,955	44,955	
Retained earnings	118,200	96,437	(b)
Accumulated other comprehensive income (and other reserves)	(1,209)	(475)	(c)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**161,946**	**140,917**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Additional value adjustments (negative amount)	(30)	(38)	
Intangible assets (net of related tax liability) (negative amount)	(1,774)	(163)	
Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	(1,688)	(1,688)	
of which: securitisation positions (negative amount)	(1,688)	(1,688)	
Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	4,618	5,627	
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**1,126**	**3,738**	
Common Equity Tier 1 (CET1) capital	**163,072**	**144,655**	
Additional Tier 1 (AT1) capital: instruments			
Capital instruments and the related share premium accounts	22,900	22,900	(d)
of which: classified as equity under applicable accounting standards	22,900	22,900	
Additional Tier 1 (AT1) capital before regulatory adjustments	**22,900**	**22,900**	
Additional Tier 1 (AT1) capital	**22,900**	**22,900**	
Tier 1 capital (T1 = CET1 + AT1)	**185,972**	**167,555**	
Total capital (TC = T1 + T2)	**185,972**	**167,555**	
Total Risk exposure amount	787,621	728,379	
Capital ratios and buffers			
Common Equity Tier 1 (as a percentage of total risk exposure amount)	20.70%	19.86%	
Tier 1 (as a percentage of total risk exposure amount)	23.61%	23.00%	
Total capital (as a percentage of total risk exposure amount)	23.61%	23.00%	
Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	13.19%	11.84%	
of which: capital conservation buffer requirement	2.50%	2.50%	
of which: countercyclical buffer requirement	1.00%	0.00%	
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	12.70%	11.86%	
Amounts below the thresholds for deduction (before risk weighting)			
Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	1,099	794	(e)

Table 4: Composition of regulatory capital

Reconciliation of regulatory own funds to balance sheet in the audited financial statements

The following table shows comparison of items reported on the Banks financial statements and their corresponding scope for prudential reporting.

	Balance sheet as in published financial statements 31-Dec-22 £'000	Under regulatory scope of consolidation 31-Dec-22 £'000	References to table 4
Assets			
Cash and 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	1,037,783	
Other assets and prepayments	2,573	2,574	
Property plant and equipment	2,366	2,366	
Intangible assets	1,774	1,774	
Deferred tax asset	1,099	1,099	(e)
Total assets	**1,376,545**	**1,376,619**	
Liabilities			
Customer accounts	1,103,256	1,103,256	
Central Bank facilities	78,000	78,000	
Derivatives financial liabilities	1,010	1,010	
Other Liabilities and accruals	9,107	9,107	
Current tax liability	326	326	
Total liabilities	**1,191,699**	**1,191,699**	
Shareholders' Equity			
Share Capital	44,955	44,955	(a)
Convertible Loan Notes	22,900	22,900	(d)
Fair Value through other comprehensive income reserve	(1,209)	(1,209)	(c)
Retained Earnings	118,200	118,200	(b)
Total shareholders' equity	**184,846**	**184,846**	

Table 5: Breakdown of audited financial accounts and the items under regulatory scope

A reconciliation between Shareholders equity and Regulatory capita is shown below. The regulatory capital post adjustments are detailed in table 4.

Reconciliation between Shareholders equity and Total Regulatory capital

	£'000
Shareholders equity as per Financial accounts	**184,846**
Regulatory adjustments	
Prudent valuation adjustment	(30)
Securitisation first loss	(1,688)
Intangible	(1,774)
IFRS 9 transitional adjustment	4,618
Total regulatory capital	185,972

Table 6: Regulatory adjustments

7 Remuneration

As a Small CRR Firm with less than £13bn of assets, the Bank is classified as a "Proportionality Level 3" firm for the purposes of the disclosure of remuneration under the Bank of England Supervisory Statement SS2/17 (July 2021 update) and in compliance with the CRR on Remuneration Disclosure. The Bank has followed the regulator's guidance on materiality and proportionality. The following disclosures meet the requirements for a Level 3 proportionality firm:

The Performance and Remuneration committee is chaired by Caroline Fawcett, an independent Non-Executive Director, and is composed entirely of NEDs and met three times during 2022. In these meetings, the committee, in carrying out its responsibility for overseeing the performance and remuneration arrangements of the Bank, discussed the performance of all Executive Directors and the Chair.

During the year, the Committee reviewed and, where felt appropriate, approved the Bank's profit share scheme and the sales and executive bonus schemes, upon agreed metrics and performance criteria, as well as upon advice from the Bank's auditors and risk function. It also oversighted the annual pay review. The Committee has followed the rules under the Renumeration section of the PRA Rulebook.

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 clearly document 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

The 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 policy also covers fees paid to non-executive directors.

Policy

The 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 Board's risk appetite across all types of risk including credit, market, operational, liquidity, reputational and other risks identified by the Bank.

This is achieved through the application of the following 6 principles which are adhered to when designing 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.

Policy Detail

Remuneration Components

Remuneration consists of two elements: fixed and variable payments.

a) Fixed Remuneration:
The fixed element of remuneration 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 awards. 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 the Committee's composition, tasks and authority are available in its Terms of Reference. 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.

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.

Further details on the trigger events are described in the Bank's 2022 Annual Report and Financial Statements.

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 schemes do include 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.

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	– Reviewed annually – Takes periodic account of practices of financial institutions of similar size, characteristics,	– There is no prescribed maximum annual increase The Performance & Remuneration Committee is guided by the general increase for the broader	– An element of performance-related pay applies

Element of Remuneration	Purpose and Link to Strategy	Operation	Maximum	Performance Targets
	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	and sector comparators	employee population and on occasions may need to recognise, for example, an increase in the scale, scope, or responsibility of a role.	
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 – Maximum bonus only payable for achieving business and personal targets	– Paid in cash – Not pensionable	– 50% of salary	– A combination of 50% company and 50% individual performance measures with a deferred element of amounts over 20% of salary paid over 3 years
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.

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.

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.

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

Remuneration of Material Risk Takers

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

Business Area	31-Dec-22	31-Dec-21
No of material risk takers	29	27
Total Remuneration (£m)	4.9	4.8
Variable remuneration as a % of total remuneration	23%	25%
Variable remuneration (£m)	1.1	1.2
Amounts receivable under long term incentive schemes (£m)	0	0.1

Remuneration of Staff by Business Area

The table below shows the breakdown of staff costs by Business area during 2022.

Business Area	31-Dec-22	31-Dec-21
Average staff numbers	**206**	**183**
Staff costs (£m)		
- Customer facing	7.3	3.6
- Non customer facing	10.0	11.3
Total costs	**17.31**	**14.9**

Additional disclosures on Renumeration are contained in the 2022 Annual Report and Financial Statements.