Cambridge & Counties Bank

Built on understanding

FINANCIAL STATEMENTS & ANNUAL REPORT 2023

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STRATEGIC REPORT

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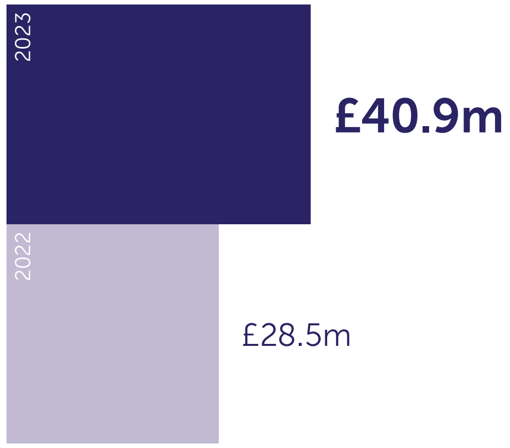
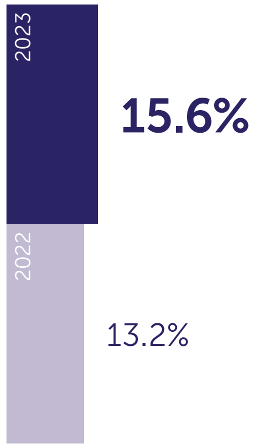


Return on Capital Employed
(ROCE)



Gross lending balances

Customer deposit balances

Total Equity

Gross new lending

Total capital ratio
26.0%
23.6%

Common Equity Tier 1 capital ratio
22.7%
20.7%

Cost:income ratio
37%
44%

Net interest margin
5.4%
4.5%

Impairment coverage ratio
2.1%
1.6%

Cost of risk
67bps
47bps

Liquidity coverage ratio
718%
361%

Definitions:

All capital ratios include IFRS9 transitional relief

Return On Capital Employed (ROCE) – Profit after tax/Total equity (Retained Earnings+Ordinary Shares+AT1 capital) (at the start and end of the period)

Gross new lending – new loans drawn down during the period

Total capital ratio – all forms of capital (CET 1 and AT1)/risk weighted assets (at the reporting date)

Common Equity Tier 1 capital ratio – ordinary shares and reserves (common equity)/risk weighted assets (at the reporting date)

Cost:income ratio – total operating costs/total operating income

Net interest margin – net interest income/average interest earning assets (at the start and end of the period)

Impairment coverage – impairment provisions/gross loans and advances to customers

Cost of risk – loan loss impairment charge/average gross lending balance (at the start and end of the period)

Liquidity Coverage Ratio – calculated by dividing a bank's high-quality liquid assets by its total net cash flows, over a 30-day stress period.

Chair's Statement

2023 was a year of stellar performance for Cambridge & Counties Bank. We significantly exceeded our budget, delivering record profits and return on capital, despite a most volatile and challenging economic climate and geopolitical environment. We entered the year knowing that it was going to be tough and unpredictable and so it turned out to be with soaring inflation, rapid interest rate rises and continuing adverse international developments. However, by deploying the Bank's strengths – strong customer and broker relationships, good credit risk and arrears management, and nimble deposit gathering mechanisms – we were able to navigate the stormy waters, deliver for our customers and generate superior returns. Both real estate finance and asset finance delivered good results, despite significant uncertainties in many markets, as a result of the continuing forensic focus of our front-line teams.

But the year was not just about strong revenue performance. Whilst we increased loan loss impairment provisions, tight cost control, continuing investment in front end systems and processes, careful capital management and ongoing development of our people, all contributed to our excellent outturn. It is true that the interest rate movements during the year worked in banks' favour, however, it is not axiomatic that bank profitability will increase in times of rising rates and action is always needed to capitalise on the opportunities.

Our Strategy

The Bank's core strategy remains servicing the SME real estate and asset finance markets with manually underwritten focused products. We remain strongly committed to a customer-centric lending process based on enduring relationships with clients and brokers and have invested significantly during the year in improving the technology platforms that support our client and broker teams with the aim of remaining a 'high-touch' bank whilst maximising efficiency and speed of processing.

Good environmental, social and governance operating standards and reporting also remain a central part of our strategy. This year we secured membership of B Corp, a global initiative which helps companies to better understand and manage their environmental and social impact, scoring highly against B Corp's criteria. Holding ourselves to account against independently set standards is a central part of our ethos, particularly in an area such as ESG where, rightly, our customers, shareholders and employees expect high standards. More information on our sustainability work is given in the relevant sections later in the Annual Report.

Our Board and Senior Executive Team

I am delighted to welcome two new Board members to the bank this year. Elizabeth Lockwood joined us as a Non–Executive director and Chair of our Risk & Compliance Committee. Elizabeth brings a wealth of risk management experience having held senior positions in risk with Deutsche Bank and RBS, culminating in the role of Deputy Chief Risk Officer of NatWest Holdings. Her breadth of risk experience is an immensely valuable asset for the Bank as we continue to refine and develop our risk management framework and her broader experience of commercial banking has brought a welcome new challenge to our strategic thinking.

Michele Ibbs has joined the Board as a Non-Executive director and shareholder representative for the Cambridgeshire Local Government Pension Fund. Michele brings considerable commercial and strategic experience and capability, particularly in marketing and customer related activities. She is an experienced Non–Executive director, having held roles in the retail, manufacturing, and educational sectors. Her experience from these different sectors brings valuable cognitive diversity to the Board.

We also said farewell to two Non–Executive Board members this year, Nick Treble and Christiane Wuillamie, respectively Chair of the Risk & Compliance Committee, and Shareholder Representative for the Cambridgeshire Local Government Pension Fund. Nick joined us in September 2019, following a distinguished career as a senior banking executive and Non–Executive director, and played a very significant part in strengthening our risk management framework, ensuring that the Bank had the right tools and culture to manage risk effectively in difficult times. Nick also always made a stimulating and constructively challenging contribution to strategic and commercial Board discussions. He will be much missed, and we wish him well in his future endeavours.

Christiane joined us early in 2022 as a Non–Executive director and Shareholder Representative for the Cambridgeshire Local Government Pension Fund. She brought much useful advice and rigorous challenge to the Board, particularly in the areas of technology and operations as well as very useful experience of the wider financial sector. We also wish Christiane well in the future.

After nearly seven years since joining us as CFO, Andrea Hodgson advised the Board that she intends to step down from her full-time role in 2024 and pursue a portfolio career. I am pleased to say that she has agreed to stay on to quarter four 2024 to enable a thorough search to take place and identify and bring on board her successor. Andrea has made a meaningful and lasting contribution to the success of the Bank, for which she has our thanks.

With Elizabeth and Michele joining us, together with several appointments to the senior executive team reported in the Chief Executive's report later, we have a complete refresh of the Board and the senior team, positioning the Bank well for the next stage of its development.

Our Wider Team

I would also like to pay tribute to the wonderful wider team who work at Cambridge & Counties Bank. Despite the tremendous pressures of the cost-of-living crisis, unsettling uncertainty on the global stage, and the general negativity that permeates so many aspects of life at present, our people remained steadfast and committed, working tirelessly to make the best of the opportunities that were available to us. We would not have come through the year in such good order were it not for the untiring efforts of our people and the Board and I would like to place on record our deep gratitude for those efforts.

Conclusion

There are still many challenges ahead in 2024, extensively reported by every news channel. It is evident that, although many of the economic challenges are responding to central bank and political interventions, and there are some encouraging upticks in various economic indicators, continuing global instability and political change could bring significant additional complications. Cambridge & Counties Bank has well thought through plans for 2024 which should enable us to deliver another good performance. However, we recognise that we need to remain extremely vigilant to anticipate exogenous developments and extremely agile to deal with them.

The remainder of the Annual Report explores the opportunities and challenges that we face and our plans as well as describing the Bank's progress through 2023.

Patrick Newberry
Chairman
28 March 2024

Chief Executive Officer’s Review

Overview

This time last year we anticipated continued inflation into 2023, interest rates expected to peak mid-year, and we were acutely focused on the impact of these factors on market behaviour, our customers, and our people. Indeed, 2023 saw heightened levels of uncertainty in the economic environment and, whilst current economic forecasts reflect improvements in key macroeconomic variables, with less pronounced property price reductions anticipated, and projected reductions in Bank of England base rate, the economic uncertainty and inflationary impact on our core SME customer base operating costs, and supply chain challenges, are expected to persist. Against this backdrop we are pleased to present a strong set of financial results delivering record earnings reporting profit before tax of £40.9m (2022: £28.5m) and our focus on sustainable organic growth helping us to successfully steer through the year.

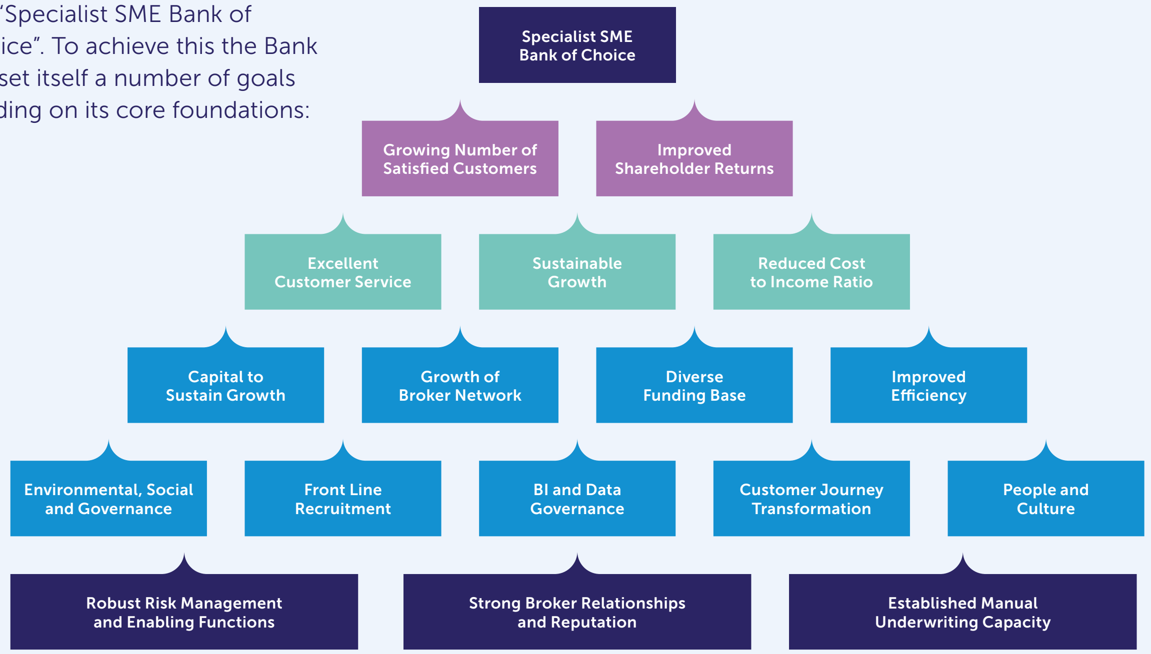
During the second year of our current strategic cycle, we have continued to execute against our strategic priorities to become the specialist SME Bank of choice, adjusting our growth ambitions in this challenging environment, focusing on our multi-year investment programme to drive improvement in our customer journey transformation, alongside enhanced business intelligence and data governance. This investment continues to improve efficiency, positively impacting our cost:income ratio and helping to future proof our income generation capabilities that underpin improved shareholder returns. Our relentless focus on benefit realisation will continue to see further tangible improvements in product development, capacity, and customer service levels, and enable us to continue to support our customers as business confidence begins to recover.

Strategy

Despite cautious optimism, our strategy continues to be 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
- to use proven technology to support our colleagues’ interactions with brokers and customers

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:



Our strong balance sheet has enabled us to deliver record earnings

Performance

This year has been marked by a challenging market backdrop, where mixed economic conditions in the UK have created substantial uncertainty for our customers. Whilst we saw dampened customer demand and reduced transaction volumes across the Real Estate Finance market, we experienced record customer drawdowns and net book growth across our Asset Finance business reflected in an overall 4.9% growth in total balance sheet customer loans and advances to £1.1bn (2022; £1.0bn).

The persistent inflation led to bank base rate rises throughout 2023 which had a positive effect (53% increase) on the Bank’s £116.0m (2022; £76.0m) interest income, further benefitted by the lag in the repricing of customer deposits to market levels contributing to a pleasing 5.4% net interest margin (2022; 4.5%). However, we expect net interest margins to narrow into 2024/25 as the repricing of deposits takes place. Our cost base, whilst reflecting inflationary increases, continues to be well managed and we are pleased with the improvement in the cost:income ratio (2023: 37%; 2022: 44%) reflecting consistent cost discipline and strong income performance.

The difficult conditions faced by our customers in the current environment are reflected in the Bank’s forward looking impairment provision charge of £7.3m (2022: £4.8m). Noting that the Bank’s diligent manual underwriting approach, average 55% LTV ratio and impairment provision coverage ratio of 2.1% (2022; 1.6%) position the Bank well to exit any defaults with little or no additional loss.

The outlook for the economy continues to be uncertain and we remain alert to potential increases in credit risk that may result from an economic downturn. However, given the improved profitability and robust financial strength, the Bank remains well positioned to resume our disciplined growth ambitions into 2024/25.

Deposits balances grew to £1.2bn (2022; £1.1bn) during 2023 despite a number of banking failures and turbulence across the banking sector. The Bank’s strategy to hold conservative levels of liquidity reflected in an LCR in excess of 700%, and 94% LDR, without any reliance on wholesale funding, enabled the Bank to maintain a consistently strong liquidity position throughout the year. The improving rate environment, combined with our focus on sustainable organic growth, saw continued strong underlying capital generation to support the Bank’s growth ambitions.

The events impacting the global banking sector in 2023 highlighted the benefits of our robust approach to managing financial resources. Our capital base was further strengthened by the successful issuance of a £20m Tier 2 investment with British Business Investments Ltd contributing to a 22.7% CET1 ratio and total capital ratio of 26.0%. This presents the Bank with flexibility to take advantage of the emerging business confidence and significantly increases our SME lending capacity. The changes in the interest rate environment may result in a reduction in credit supply across the market, similar to that which we have seen in previous cycles. Given our through-the-cycle model and strong balance sheet, this environment could provide opportunities to retain our pricing and underwriting appetite and we will seek to maximise opportunities for loan book growth.

Supporting our customers

Our focus on supporting our customers and servicing their needs through a personal relationship approach builds on our deep understanding of their requirements and is evidenced by the growing number of satisfied customers and broker partners. We regularly capture feedback and insights from our brokers and customers across the end-to-end journey to evolve our proposition and meet their changing needs. We are also looking at how we can further enhance our customer onboarding and servicing. Our investment in front-end customer servicing technology is simplifying the customer journey, streamlining our internal processes, generating faster lending decisions and providing improved access to funding solutions for our customers. Our customer research has shown record numbers of new customers validating our customer-centric approach.

We recognise the challenging economic conditions and continue to monitor closely the potential impact on our customers, pleased that our through-the-cycle business model and financial strength enable us to continue to support customers through the deployment of dedicated experienced bankers offering additional support where needed.

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 (Asset Finance Provider of the Year; BDM Team of the Year; Business Bank of the Year; Community Lender of the Year) and by Business Moneyfacts for our products (Best Business Variable Rate Deposit Account Provider; Best Business Fixed Account Provider; Best Commercial Mortgage Provider; Best Service from a Commercial Mortgage Provider; Best Service from an Asset Based Finance Provider). We value the long-term relationships we have with our brokers and intermediary partners and are delighted with the recognition received during the year.

Investment in our online deposit transformation programme in Savings has enabled us to expand our direct product offering, delivering fair value through our reinvestment offerings, and grow our customer numbers as we adapt to changing customer preferences in utilising digital channels. This has been embodied in our adoption of the new Consumer Duty regulations which seek to ensure good outcomes for customers. Our Savings business has become increasingly agile in its pricing to take advantage of market opportunities arising from increasing market rates and frequent competitor repricing. We are continually assessing the market to ensure our rates are priced fairly for our customers.

We are excited about our investment and planned technology development to reduce the time taken to make credit underwriting decisions in our Asset Finance business. We continue to invest in enhancing our IT infrastructure and platforms, as well as our operational and cyber resilience, with a strategic cyber resilience programme covering our people, systems, and processes.

The Bank continues to have 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 fourth year running, the Bank has been independently accredited as Carbon Neutral Plus. I am pleased with the considerable progress we continue to make in developing our ESG agenda. Notwithstanding the progress we have made, we recognise there is more to do to develop our indirect scope three 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.

People

Following the retirement of Simon Lindley, Chief Development Officer, and Sara Thorpe, Chief People Officer in the first half of 2023, we were delighted to welcome Sarah Barker, Chief Commercial Officer, and Lynsey Harrell, Chief People Officer, who joined the Bank's Executive team mid-2023. Sarah joined from The Co-operative Bank where she was Director of Relationship Banking and will focus on sustainably growing Cambridge & Counties Bank's real estate finance, asset finance, deposit, and marketing businesses to deliver enhanced dedicated solutions to our customer base. Lynsey joined the team from Centrica where she held an interim role as HR Director, prior to which she held roles at Moody's Corporation and Banco Santander and brings deep experience in HR business partnering and project management, leading strategic people plans and transformational projects.

We are delighted with the skill set and competencies that Sarah and Lynsey bring; complementing the Executive with the expertise to help the Bank deliver on its strategic ambitions and achieve our pledge to increase women in senior management. We now have 40% female representation at management levels and 44% of our Executive Committee is female.

As a bank we consistently focus on employee engagement and support of our people. I am delighted with the strong results from our most recent employee engagement survey, reflecting our strong values driven culture. I am particularly pleased that we continue to retain an engagement score in excess of 70%. We are committed to fostering a culture that attracts and retains talent, whilst also growing and investing in our people. Recruitment and retention of diverse talent with a key focus on inclusion and 'grow our own' are critical to the Bank's continued success. Our unique culture is key to the success of Cambridge & Counties Bank. Our people are actively involved in leading initiatives beyond the products and services which we offer, including charity engagement, leading green initiatives, and community social events; each underpinning our passion to make a positive impact on society and the communities in which we operate as recognised in our B Corp accreditation received last year.

Outlook

We are pleased to see the continued progress made on the delivery of our strategic initiatives which places Cambridge & Counties Bank well to respond to the opportunities that 2024 will present. Whilst the headwinds faced by the UK economy will continue to put pressure on our customers, we believe we have the right business model and experience to navigate the current environment. The unwavering commitment, energy, and expertise of our people, coupled with strong relationships and focus on customer service, represent the essence of our culture and purpose, and I extend my enormous thanks to everyone across the Bank for their significant contribution.

The regulatory landscape for the financial services sector is set to undergo important changes with the introduction of Basel 3.1, and we look forward to learning more about the impact of this and the simplified regime on Small Domestic Deposit Takers when the Bank of England publish further guidance later in 2024.

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 suitable 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 continued during 2023. We 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
28 March 2024

The Bank continues to be well capitalised, with strong liquidity and an asset backed lending portfolio

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.

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 customers 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 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 believe, both individually and together, that they have acted in what they consider good faith and 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 2023.

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 10,000 deposit customers and 1,600 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. We also use this feedback to monitor and validate our approach to products, services, and the way we interact with customers. 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 unpredictable economic environment. 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 and deposit product offering.
Employees	The average number of people employed by the Bank during the year was 225	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 Board reviews the employee staff survey results and receives regular reports from the CEO on the activities of the Employee Forum. The Bank has reviewed its engagement with staff through employee led forums in 2023 and re-launched the Colleague Forum (previously the Staff Forum), Green Team, Charities Group, and a new Social Group. The re-launch enhances the governance and support offered by the Bank in creating effective employee-led engagement on employee issues and interests. Following the successful launch of our electric vehicle scheme last year, this year we will launch a new cycle to work scheme for colleagues, which will include various bicycle options including electric bikes. 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 93% of suppliers within 30 days and has implemented a new purchasing system in 2023. The Bank is also actively engaging with property valuers & consultants to help understand what climate change risks and opportunities may evolve for the lending portfolios

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 in the current economic environment, the Board has maintained the Bank's level of activity and support for local communities. Further details of the Bank's activities in local communities are set out in the ESG – Supporting our Local Communities section. The Board receives regular updates on the Bank's delivery of these activities and how the Bank supports the local community.
B Corp	The B Corp community and the expectation that B Corps have a material positive impact on society and the environment	In April 2023, the Bank made a constitutional change to complete the 'Mission Lock' required as part of becoming a B Corp. The aim of Mission Lock is to allow the Board to promote the success of the Company through its business to have a material positive impact on society and the environment, as well as for the success of its shareholders. This allows the Bank to balance its stakeholder engagement and the feedback received in order to use business as a force for good. As a certified B Corp, we commit to annually publishing an impact report that outlines our material positive contributions to society and the environment.

Proud to have achieved B Corp certification

Decisions made during the year

The Board reaffirmed the Bank's current strategy, business structure, dividend policy and capital structure during 2023. The Bank's strategy has remained broadly unchanged since it started trading in 2012 and has resulted in balance sheet assets exceeding £1.4bn, delivering profit before tax of £40.9m.

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 Board considered various risks and trends that shaped the financial services industry in 2023, and how they affected our strategic direction and operational performance. Some of the key risks and trends that influenced the Board are:

- The longer-term impact of the COVID-19 pandemic and the related economic and social challenges.
- The escalation of geopolitical tensions which threaten the stability and security of regions, disrupt trade and energy supplies, and increase the risk of sanctions and cyber-attacks.
- The changes in competition and market demand, driven by the emergence of new entrants, as well as the changing customer preferences and expectations, which required us to innovate and differentiate our products and services, and enhance our digital capabilities.
- The liquidity costs and commoditisation, in both the retail and SME markets, which put pressure on our net interest margin and profitability.
- The long-term trends in technology investment, including IT data security and cyber security threats, which required us to enhance our IT infrastructure, systems, and controls to improve our efficiency, resilience, and customer experience.
- The operational resilience, including the impact of supplier/outsourcing risks, which required us to ensure the continuity and quality of our critical services, and manage the risks and performance of our third-party providers, in line with the regulatory expectations and standards.
- The increased focus on climate change risk, which required us to align our business strategy and practices with the environmental and social goals, and measure and disclose our climate-related risks and opportunities, in line with the regulatory and stakeholder expectations.
- During 2023 the Bank successfully implemented the FCA's Consumer Duty regulatory requirements.

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 put pressure on our gross lending margins. We continue to ensure that our customers enjoy rates that compare well with those that are 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 can continue to 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 risk 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.

We continue to maintain our Carbon Neutral status

Environmental, Social and Governance

Introduction

The Environmental, Social and Governance (ESG) agenda remains 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 40–65.

The Board also 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.

The Bank is proud to announce that it has achieved B Corp certification in 2023, joining a global movement of businesses that use their power for good. B Corp certification is a rigorous assessment of a company's social and environmental performance, transparency, and accountability. By becoming a B Corp, the Bank demonstrates its commitment to creating positive impact for its stakeholders, including its customers, employees, suppliers, community, and the environment along with shareholders. Cambridge & Counties Bank is one of 1,500 UK businesses that have earned this prestigious recognition and one of the few in the financial sector. The Bank believes that being a B Corp aligns with its vision of building a more inclusive, equitable and regenerative economy for all people and the planet.

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 2023, the Bank continued with its 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 continue to assess 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 2021 all its offices have 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 and changing behaviours relating to minimum Energy Performance Certificate (EPC) gradings and the energy efficiency of buildings. Through 2023, the Bank has continued its analysis on properties subject to a high flood risk and has identified 128 properties out of a total of over 2,682 properties where the Bank has exposure to a property in a high flood risk area. Work continues 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 95% having an EPC rating at E or better. The Bank has a programme underway to understand customer proposals for their property EPC grades of F and G.

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 2023 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 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 2023 were 92.8 tonnes of CO_2e, an increase of 36.8% in year from 2022, which was re-

Unaudited

Scope	Activity	2020 tCO_2e[1]	2021 tCO_2e[1]	2022 tCO_2e[1]	2023 tCO_2e[1]
Scope 1	No operations	–	–	–	–
Scope 2	Leicester – electricity generation and transmission & distribution[2]	8.83	7.34	8.45	9.54
Scope 2 Sub Total		**8.83**	**7.34**	**8.45**	**9.54**
	Home-workers	44.05	44.36	15.75	35.63
	Grey Fleet	3.18	16.67	32.33	36.90
Scope 3	Sheffield site	2.77	10.97	9.07	8.17
	Bristol site	0.94	0.31	1.99	2.17
	Water (and wastewater)	n/a	n/a	0.29	0.43
Scope 3 Sub Total		**50.94**	**72.31**	**59.43**	**83.30**
Total emissions as tonnes of CO_2e		59.77	79.65	67.88	92.84
Tonnes of CO_2e per employee[3]		0.32	0.40	0.32	0.42
Tonnes of CO_2e per £m		1.58	1.61	0.89	0.80
Carbon Offsetting					
Verified Carbon Offsets		(100)	(100)	(100)	(140)

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

set as our baseline year following the introduction of a hybrid working pattern. Our Scope 1 and 2 emissions have increased by 12.9% in year, which is slightly above our growth in headcount (9%). Our Scope 3 emissions have grown by 40.2% in year.

These increases in Scope 3 emissions represent a combination of factors. Integrity of data remains a challenge and, whilst we have worked to capture more data around Scope 3 emissions, we still have an error margin of 50% (17.82 tonnes of CO_2e) in home-workers. This is due to a 70% response rate from employees (which has been scaled up to 100%) and limitations in the data we collect around energy tariffs. We also have an error margin of 10% (3.69 tonnes of) in our grey fleet. This is due to assumptions made over vehicle and fuel type and does not recognise the impact of our introduction of electric car salary sacrifice scheme in 2022. Our focus in 2024 is on reducing the error margins to reduce the volatility in our Scope 3 emissions captured and to commence assessing the impact of our financed emissions.

We have defined our intensity ratio as scope 1, 2 and 3 emissions in tonnes of 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.

Cambridge & Counties Bank has qualified for the Carbon Neutral Plus status for the fifth year due to offsetting 140 tonnes of CO_2 emissions through the UK Tree Planting project, buddied with the Gold Standard projects around the world. The Bank has in total offset 540 tonnes of CO_2e emissions over the past 5 years. The carbon credits were supplied by Carbon Footprint Ltd from the Zambia Western Province Safe Water Project (Reference: GS11010 and GS11011). Details of this project with full project documentation is available on Gold Standard's website:

registry.goldstandard.org/projects/details/2969
and
registry.goldstandard.org/projects/details/2970

The Bank's carbon footprint calculations have been verified by Carbon Footprint Ltd.

Supporting our Local Communities

2023 saw continued challenges upon local communities created by the cost-of-living crisis and other inflationary pressures. 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 2023, the Bank donated a total of £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 'Community Lender of the Year' at the NACFB Commercial Lender Awards.

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, Christmas initiatives including; wrapping of gifts for less privileged children as well as funding and volunteering towards an Age Concern Leicester Christmas lunch, and employee donations to make up raffle hampers;
- 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;
- Participating in the 'We Care Food Bank' collection across our offices;
- Christmas fundraising for LAMP, a Leicestershire Mental Health support charity.

The Bank also has a number of employees that are active members in the organising and running of local charities, including Board Trustees' for Age UK Leicestershire & Rutland and the Symphony Learning Trust.

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. 93% of suppliers were paid within 30 days for the year ending 31 December 2023 (2022: 98%). This was reflected in the Bank's '2023 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 Cambridge and Counties' culture. We are committed to creating an inclusive environment where all colleagues thrive and reach their full potential, whatever their identity or background.

We believe that individual differences and the contributions of everyone in our teams enables us to work effectively together to deliver a great customer experience. In 2024, we are evolving our mission, vision and values focussing on customer, colleagues, and community – we actively embrace our differences to enable a more effective experience for customers and ensure we make a positive difference in the communities in which we serve. The Board believes that greater diversity leads to wider thinking and skill sets, creating increased innovation and ultimately to better customer service.

Our employee proposition is to actively attract, develop and retain 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 have 5 core pillars:

- **Data & Reporting** – our focus has been to ensure colleagues understand the benefits of self-disclosure; ensuring we have a robust data set so we can focus on priority areas and where we can add further value. At end of 2023, our self-disclosure was 84%, covering a wider range of characteristics including experiences, education, and socio-economic backgrounds as well as protected characteristics. For 2024, we have developed a Diversity Equality & Inclusion dashboard which will report on aspects of our employee lifecycle and reporting trends on our key metrics which will be shared with Board and the Executive on a quarterly basis. We believe we now have focus on input data through the employee lifecycle in order to report and measure our progress across our diversity strategy, informing our plans to become even more inclusive as we continue our growth.

Committed to supporting our customers, local communities and suppliers

- **Recruitment & Selection** – A key part of our strategy is widening our recruitment sources and attracting people who are underrepresented in Financial Services. 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 at application stage. 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 2023, 58% of roles have been filled from our own direct recruitment advertising. We are actively working to build relationships with organisations that support and represent under-represented groups in FS as well as liaising with local schools and colleges to attract apprentices straight from secondary education.
- **Colleague Insights** – Here at CCB, having an inclusive workplace culture helps us attract and retain diverse talent. We recognise the importance of increasing opportunity for everyone. We have continued with our internal annual colleague survey, frequent 'pulse' surveys, as well as our Bank wide All Colleague Meetings including quarterly Townhall in person meetings. These forums provide the opportunity for colleagues to ask questions as well as share ideas and experiences. The Bank continues to record consistently high participation rates and strong scores in its recent survey. In October 2023, our response rate to the annual survey was over 80% and positivity across all themes was strong/very strong – scoring between 70-95% on all questions. In 2023, we evolved the colleague working groups and created the new Colleague Forum, providing more colleagues with opportunities to get involved with shaping how the Bank develops and operates. We have plans in place for our Social, Charities, Mental Health First Aider and Green teams with events happening throughout the forthcoming year. To improve communication, we have rebranded the colleague newsletter with a focus on business and social updates and key calendar dates.
- **Talent & Development** – 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 full potential whilst enabling the Bank to have strong internal succession in place. Gender diversity is one element of our inclusivity strategy. In 2023, we achieved our pledge to increase women in senior management – we now have 40% female representation at management levels and 44% of our Executive Committee is female. We are proud of this evolution; we have achieved our target of female representation at all levels of management 18 months early.*
In 2023, we have reduced our Gender Pay Gap to 22% and have committed to increasing our ethnicity at senior levels within the Bank and reducing our Ethnicity Pay Gap over the next 3 years. We have developed our learning and development proposition for the forthcoming year, a key focus is diversity and inclusion with various learning interventions taking place throughout the year.
- **Policies and procedures** – Throughout 2023, we have continued to review people policies and procedures to ensure that they promote our beliefs and stance on inclusivity. Our hybrid working arrangements continue to operate effectively across the business, and we have continued to develop the infrastructure and management practices required to effectively support this way of working. This approach is still welcomed by colleagues who provided very positive feedback in our internal colleague surveys. 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. We have developed our mental health support proposition and worked with the business areas to ensure our policies and procedures remain equitable, relevant, and inclusive.

* Gender target was 40% female management by 2025.

Achieved our pledge to increase the number of women in senior management

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Financial Performance

Macroeconomics

The UK's economic environment has seen significant changes in 2023 with Bank of England base rate increasing 5 times to 5.25% and inflation falling from 10% to 4%. The outlook for 2024 remains uncertain although there are some signs that the actions of Central Banks and Governments are starting to deliver an improved operating environment.

The Bank remains committed to supporting and growing its presence in the UK SME market despite the more unpredictable economic environment.

Prudential framework

The prudential framework has remained relatively unchanged during 2023, with the next significant change expected with the implementation of Basel 3.1 from 1 July 2025. The Bank awaits the publication of the final Basel regulations due in mid-2024 before completing its preparations for the change to the new framework.

Financial review

The Bank has delivered a very strong financial performance in 2023 despite the economic environment.

- Net Interest income increased by £16.7m compared to the prior period as a result of the increase in the Bank's net interest margin and the growth in customer loans and advances. Pricing in both the lending and deposit markets remains competitive. However, the increases and the timing of Bank base rate rises and the mix of the Bank's loans and deposits in terms of fixed and variable rates has enabled the Bank to increase its NIM to 5.4% (2022: 4.5%) and maintained a strong liquidity position with an LDR of 94%.
- The Bank's loans and advances to customers continue to perform with low levels of defaults. The Bank ensures it remains well positioned should the value of loans and advances in default increase with its balance sheet provisions uplifted from £16.9m to £22.8m reflecting the growth in loan balances, and an increased impairment coverage ratio of 2.1% (2022: 1.6%).
- The Board maintained their commitment to invest in infrastructure, capacity, and capability to ensure that the Bank continues to develop the people skills and expertise it needs to support both the current business demands and future growth aspirations. The average number of employees increased by 9% to 225 during the year. The strong growth in income more than offset the cost of this investment with the cost income ratio reducing from 44% in 2022 to 37% in 2023.
- The Board are pleased with the Bank's performance delivering record Profit after tax of £31.3m (2022: £23.2m) and ROCE of 15.6% (2022: 13.2%).
- The Bank continues to maintain strong liquidity and capital position. At the end of December 2023, the Bank held liquid assets of over £360m with an LCR of 718%, significantly above the regulatory requirement of 100%. The Bank's total capital ratio was 26.0% at the end of December with a CET1 ratio of 22.7%.
- The Board are committed to continuing to support our customers and the SME market. The Bank is planning for continued growth in balance sheet assets 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 14. The 2023 Financial Statements have been prepared under UK-adopted international financial reporting standards (IFRS). The Bank's primary Financial Statements are reported on pages 78–81, with a summary of these shown below. There have been no changes in the Bank's accounting policies in 2023.

Summary Income Statement £'000	2023	2022
Interest income	116,023	75,977
Interest expense	(40,172)	(16,753)
Net interest income	75,851	59,224
Other income	553	28
Total Operating Income	**76,404**	**59,252**
Operating expenses (including depreciation)	(28,231)	(25,940)
Impairment charge	(7,263)	(4,773)
Profit Before Tax	**40,910**	**28,539**
Taxation charge	(9,620)	(5,337)
Profit After Tax	**31,290**	**23,202**

Summary Balance Sheet £'000	2023	2022
Liquid assets	360,302	331,023
Loans and advances to customers	1,083,278	1,037,710
Other assets and prepayments	7,142	7,812
Total Assets	**1,450,722**	**1,376,545**
Customer deposits	1,155,224	1,103,256
Central Bank facilities	65,000	78,000
Derivative financial liabilities	652	1,010
Other liabilities and accruals	10,317	9,433
Subordinated debt	4,751	–
Shareholders' funds	214,778	184,846
Total Liabilities and Equity	**1,450,722**	**1,376,545**

Key Performance Metrics	2023	2022
Gross new lending	£328m	£310m
Net interest margin	5.4%	4.5%
Cost:income ratio	37%	44%
Cost of risk	67bps	47bps
Common Equity Tier 1 capital ratio	22.7%	20.7%
Total capital ratio	26.0%	23.6%
Liquidity Coverage Ratio	718%	361%
Return On Capital Employed (ROCE)	15.6%	13.2%

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
Liquidity Coverage Ratio – calculated by dividing a bank's high-quality liquid assets by its total net cash flows, over a 30-day stress period.
Return On Capital Employed (ROCE) – Profit after tax/Total equity (Retained Earnings+ Ordinary Shares+AT1 capital) (at the start and end of the period)

Loans and liquid assets

The Bank continued to grow its loans and advances to customers in 2023 with total gross and loans increasing by 4.9% to over £1.1bn. The Bank's balance sheet reflects growth in each of its Real Estate Finance, Asset Finance and Classic Cars & Sports Vehicle loan portfolios in 2023.

The Bank's portfolio of £972m (2022: £942m) 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 is making good progress in growing its Asset Finance business. The 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 Asset Finance customer exposures increased by 17% from £71m to £83m during 2023. The Bank also provides finance for the purchase of classic cars and sports vehicles using hire purchase and finance lease products which increased from £42m to £51m.

The majority of the Bank's Real Estate loans are linked to bank base rate, although in 2023 the Bank has increased the value of its fixed rate Real Estate lending as a result of increased customer demand. All of the Bank's Asset Finance and Classic Car & Sports Vehicle loans are set at a fixed rate.

The Bank holds a portfolio of highly liquid assets which are available and accessible to meet cash outflows. The Bank's liquid assets are primarily cash reserves held at the Bank of England as well as bonds issued by the European Investment Bank and the Asian Development Bank.

The Bank monitors its liquidity on a daily basis using a broad range of performance metrics. A key regulatory measure of liquidity adequacy is the LCR (Liquidity Coverage Ratio), which is designed to assess the short-term resilience of the Bank's liquidity risk profile. The Bank's LCR was 718% (2022: 361%), significantly higher than the regulatory 100%. The LCR increased during the year as a result of the growth in the Bank's liquid asset portfolio, as well as changes in the proportion of the Bank's nostro account inflows which are eligible for inclusion in the ratio. The increasing tenor of the Bank's deposit balances, as well as the proportion of balances acquired through the direct channels, has also contributed to the higher LCR. The Bank's Loan to Deposit ratio (LDR) remained strong at 94%.

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's customer deposit balances totalled £1.2bn (2022: £1.1bn) at the end of 2023. These balances are held across a mix of fixed rate, fixed term bonds as well as a range of notice accounts, with only a very small proportion of balances held in instant (next day) access accounts.

The Bank continued to grow the proportion of balances acquired through its direct channels in 2023 reducing its reliance on the Deposit Intermediary market. The Bank has no wholesale funding, and during 2023 repaid £13m (17%) of the funds drawn through the Bank of England TFSME facility.

The cost of funds increased during the year reflecting increases in the deposit rates offered across the market. The mix and tenor of the Bank's deposit balances enabled it to mitigate an element of the impact of the 1.75% increase in UK bank base rate announced during 2023 with 50% of balances held in fixed rate accounts.

Operating income

Total operating income for the year was £76.4m (2022: £59.3m).

Interest income increased by £40.0m (53%) driven by higher rates of interest as well as growth in lending balances. 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 £23.8m (140%) as a result of an increase in the interest rates paid on the Bank's deposit accounts and the higher cost of the Bank's TFSME drawings.

The Bank continues to generate a strong asset yield of 8.2% (2022: 5.8%) with the increase principally reflecting the increase in Bank base rate during the year.

The Bank's liability yield was 2.9%, up from 1.3% in 2022, reflecting the increase in the market rates offered to deposit customers. The cost of the Bank's deposit balances increased from 1.5% in 2022 to 3.2%.

In total, the Bank's net interest margin increased from 4.5% to 5.4% in 2023.

Expenditure

Total operating expenses (including depreciation) increased from £25.9m in 2022 to £28.2m. The key driver of the increase in costs was the increase in the Bank's employees. The average number of people employed during the year increased from 206 in 2022 to 225 in 2023.

The Bank continues to invest in developing its people and IT systems. During 2023 the Bank has enhanced its credit grading models as well as continuing to invest in improving the customer service experience for its lending and deposit customers.

The combination of strong income growth and good cost control has resulted in the Bank's cost: income ratio reducing from 44% to 37% in 2023.

Impairment

£'000	2023	2022
Value of loans past due – Up to 3 payments missed	23,012	20,263
Value of loans in default – inc. credit impaired and IFRS 9 stage 3 loans	35,877	27,423
Impairment loan provisions	22,777	16,928

The Bank has continued to successfully manage customers who have been unable to meet the terms and conditions of their loans. Arrears cases and values have increased as a result of the increased UK bank base rate. However, the Bank's lending criteria, manual underwriting and Business Support teams have helped to mitigate actual impairment losses. The Bank's average loan to value (LTV) has remained at 55% with the average loan exposure being c.£600k.

The Bank's balance sheet impairment provision increased from £16.9m to £22.8m in 2023. The Bank's loan loss provision coverage ratio increased to 2.1% during the year (2022: 1.6%).

The IFRS 9 calculated income statement impairment charge was £7.3m in 2023, an increase of £2.5m compared to 2022 (£4.8m). The charge reflects net write-offs of balances totalling £1.9m, an increase in balance sheet provisions of £5.9m partially offset by £0.6m of income on impaired stage 3 assets. The Bank's expected credit loss is regularly updated to reflect current economic scenarios and forecasts. The increase in the loan impairment charge combined with the growth in total loan balances results in an annual cost of risk of 67bps (2022: 47bps).

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 29. The Bank enhanced its Expected Credit Loss (ECL) Real Estate model during 2023 with a particular focus on the way in which forward looking economic forecasts are applied to the probability of default calculation, as well as improvements to the customer affordability metrics and the life-time probability of default calculation. The Bank reviews all of its IFRS 9 model assumptions on a regular basis to ensure they reflect actual performance as well as management's future expectations.

The Bank is acutely aware of the impact of higher interest rates on its customers' debt servicing ability. In assessing each customer loan application, the Bank tests customer's ability to service loans at levels significantly higher than actual market interest rates. The Bank remains committed to supporting its customers through this less favourable and more unpredictable economic environment.

Subordinated debt liability – Tier 2 Capital

In August 2023, the Bank agreed a £20m Tier 2 capital facility with British Business Bank Investments ("BBI") – a subsidiary of British Business Bank ("BBB"). The Bank drew £5m of these funds in Q4 2023 with further drawdowns planned in 2024 as the Bank continues to support and grow its lending to SME customers. The loan notes have an initial coupon rate of 11.5% for the first 5 years and mature after 10 years.

Taxation

The taxation charge of £9.6m (2022: £5.3m), reflects an effective corporation tax rate of 23.5% (2022: 19%). The charge includes a payment of £266k in respect of the Banking Surcharge. The taxation charge also includes a £101k charge (2022: £176k) in respect of deferred tax, and a credit of £516k in respect of the Bank's convertible loan note interest payment (2022: £274k).

Dividends and convertible loan note payments

The Bank paid a £2.2m coupon on 30 September 2023 (2022: £1.4m) 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 2023 and does not plan for an ordinary share dividend in 2024 as it continues to focus on reinvesting retained earnings to maintain a strong, well-capitalised balance sheet to support the Bank's growth aspirations.

Shareholders' funds

£'000	2023	2022	Change %
Share capital	44,955	44,955	–
Convertible loan notes	22,900	22,900	–
Retained earnings	147,299	118,200	24%
Fair value through other comprehensive income reserve	(376)	(1,209)	–
Total Shareholder Funds	**214,778**	**184,846**	**16%**

	31 December 2023		31 December 2022	
Unaudited	Before transitional relief	After transitional relief	Before transitional relief	After transitional relief
Risk weighted assets (RWA) £m	835.7	841.6	783.7	787.6
Common Equity Tier 1 ratio (CET1)	22.5%	22.7%	20.1%	20.7%
Tier 1 capital ratio	25.2%	25.4%	23.1%	23.6%
Total capital ratio	25.8%	26.0%	23.1%	23.6%

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 £184.8m to £214.8m 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. The 2018 transitional relief ended on 31 December 2022, with the 2020 relief scheme relief factor reducing from 50% in 2023 to 25% in 2024. In total the Bank's IFRS 9 transitional relief was £2.8m in 2023 (2022: £4.6m).

The Bank continues to benefit from its British Business Bank 'Enable' Guarantee facility. As at the 31 December, £44m of loans were included within the guarantee facility (2022: £43m). 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 zero percent. This benefit is partially offset by the cost of the first loss tranche which is reported as a capital deduction of £1.9m.

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 2023 was 22.7% (2022: 20.7%). The Bank's total capital ratio (including the impact of the transitional arrangements) at 31 December 2023 was 26.0% (2022: 23.6%). The Bank's Common Equity Tier 1 capital ratio and total capital excluding the transitional arrangements were 22.5% and 25.8% at 31 December 2023 respectively.

Agreed a £20m Tier 2 capital facility with British Business Bank Investments

Risk Management

Approach to risk, enterprise risk management framework and accountability

The Enterprise Risk Management Framework (ERMF) 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 robust 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 Board, Executive, Second Line and Third Line control functions is confirmed.

A Risk and Control Self-Assessment programme and top and emerging risk reporting processes exist to support monitoring and management of the Bank's risk profile.

A forward-looking risk management approach is adopted 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 ERMF. The Board has responsibility for the setting and approval of the Bank's Risk Appetite and ERMF, 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 a '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 its Internal Audit function to Deloitte LLP, who report directly into the Bank's Audit Committee.

Risk Appetite

The Risk Appetite articulates 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 (RAS) outline a mixture of qualitative and quantitative measures (Principal Risk Statements and Key Risk Indicators (KRIs)). An annual review of the Bank's RAS 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 Board reviews and approves the Bank's Risk Appetite on an annual basis.

The Bank's performance against Risk Appetite is monitored via reporting to the Executive risk committee. This is summarised within the Chief Risk Officer Risk Report, presented monthly to the Risk Management Committee and bi-monthly to the Board Risk Committee. The reporting shows status against each KRI and overall rating, based on parameters set within the ERMF, using a Red/Amber/Yellow/Green scale and the expert judgement of the First and Second lines. These KRIs 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:

Total Risk		
Description	Total exposure to all types of risk in aggregate.	
Governance	Board Strategic Plan Board Risk & Compliance Committee	Assets & Liabilities Committee Risk Management Committee Enterprise Risk Management Framework
Risk Appetite Statement	The Bank takes a conservative approach to risk management, having a low-risk appetite for all risk types, apart from Credit Risk, for which the appetite is moderate, operating within strict parameters/protocols. There are certain types of risk to which the Bank has no appetite (e.g., fraud). However, recognises that instances can and do occur. The Bank takes active steps to minimise the possibilities of such events arising and strives to mitigate the impact when they occur, learning from mistakes.	
Key Mitigants	Monthly assessment by the Chief Risk Officer of the Bank's overall risk profile, based on performance against appetite in all risk categories.	
Comments	The Bank monitors its overall risk profile closely via its governance structure to ensure that it remains within Risk Appetite, and that it is aligned to delivery of its strategy.	

Strategic		
Description	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.	
Governance	Board Strategic Plan Board Risk & Compliance Committee	Executive Committee Risk Management Committee Enterprise Risk Management Framework
Risk Appetite Statement	The Bank maintains a low appetite for Strategic Risk and aims to deliver a satisfactory return on capital to its shareholders, generating profitable returns and building gross lending balances, whilst retaining stable asset quality and maintaining a satisfactory cost of risk. The Bank will achieve this within the stated Risk Appetite and regulatory guidelines and deliver high standards of customer service, demonstrated by above average new business margins and positive customer experience. The Bank aims to be an employer of choice, ensuring there is the right mix of skills and experience to grow the business. The Bank works hard to protect its brand, minimising reputational risk and play an active and responsible part in its local communities.	
Key Mitigants	Strategy debated at the Board's Strategy Day, including Second line challenge. Ongoing discussion at Risk and Compliance Committee and Board. Regular employee, broker, and customer surveys.	Ongoing review of financial performance against budget. Media monitoring/engagement. ESG Framework and activities.
Comments	The Bank has a clear strategy, which is monitored effectively.	

Environmental, Social and Governance Risk	
Description	The risk that, if an environmental, social or governance event occurs, it could cause an actual or a potential material negative impact on the Bank.
Governance	Board Executive Committee ESG Committee
Risk Appetite Statement	**Environmental:** The Bank has a low appetite for Environmental Risk overall. The Bank aims to deliver the strategic plan set by the Board whilst internally minimising the Bank's environmental impact, and externally supporting its customers to ensure they remain compliant with the prevailing minimum energy efficiency standards set by the Government. The Bank will proactively manage the Loan Book to minimise the physical and transitional risks to the Bank from climate change. The Bank is actively trying to avoid the creation of 'stranded assets', i.e., those assets that become difficult to rent or sell due to either their energy performance rating or flood risk, which in turn may impact the value of its security. **Social**: The Bank has a low appetite for Social Risk overall and aims to create a positive impact on the local community and to be an employer of choice for its colleagues. The Bank will demonstrate positive inclusive and diverse behaviours to create and maintain a workplace that attracts, retains and rewards talented and committed people, who feel a belonging to the firm. The Bank also engages in the local community through a mix of sponsorship and volunteering. **Governance**: The Bank has a low appetite for Governance Risk overall and aims to deliver the strategic plan set by the Board whilst adhering to the guidelines established by the Task Force on Climate-related Financial Disclosures. The Bank will achieve this within its stated Risk Appetite and regulatory guidelines and deliver positive ESG behaviours whilst managing any potential conflicts of interest, such as the prevention of greenwashing.
Key Mitigants	The REF annual review process includes consideration to revalue property held as security every three years, and to ensure adequate insurance is in place for commercial and residential premises, subject to qualifying criteria. Assets purchased on hire purchase or finance lease are generally financed over a short term (3-5 years) & legislative changes can be promptly accommodated within Lending Protocols to address transition risk. The Bank monitors its exposure to properties that may cease to be compliant with minimum energy efficiency standards or are at a high risk of flood. The Bank has created a DE&I strategy and action plan to ensure the continued focus of the Board and management on delivering a positive inclusive culture. We have also an employee-let Charities Group, which is responsible for engagement with the local community. The Bank's status as a certified B Corp provides a governance framework for the Bank to manage ESG impact. We are further enhancing this with our own internal ESG framework focussed on creating a series of metrics, targets and actions in alignment with the various regulatory reporting initiatives, including TCFD.
Comments	The Bank was pleased to have achieved B-Corp accreditation in 2023.

Capital Adequacy	
Description	The risk that the Bank fails to hold sufficient capital to meet its regulatory obligations, support its growth plans or to absorb shocks.
Governance	Board Board Risk & Compliance Committee Executive Committee Asset & Liabilities Committee ICAAP Capital Management Policy
Risk Appetite Statement	The Bank maintains a low appetite for Capital Adequacy Risk. The 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, noting the position may change in times of significant macro-economic stress.
Key Mitigants	Maintaining a capital surplus buffer exceeding the Bank's minimum regulatory requirements. Ongoing forecasting of capital requirements reported to risk committees. Quarterly stress testing. Annual ICAAP, incorporating regular stress testing of the Bank's capital base in 'severe yet plausible' scenarios. Horizon scanning to ensure continued compliance with regulatory requirements.
Comments	The Bank monitors and maintains a robust capital base, including a management buffer above the Bank's regulatory requirements. An initial evaluation of the potential impact of Basel 3.1 on the Bank's risk weighted assets and capital requirements has been completed.

Liquidity & Funding	
Description	The risk of being unable to fund assets and meet obligations as they fall due, without incurring unacceptable losses.
Governance	Board Risk & Compliance Committee Asset & Liabilities Committee Weekly Trading meeting ILAAP Liquidity Contingency Plan Asset-Liability Management Policy Savings Protocols
Risk Appetite Statement	The Bank maintains a low-risk appetite for Liquidity & Funding Risk and will maintain sufficient liquid assets to meet its liabilities as they fall due in a stressed scenario and a buffer above minimum regulatory requirements at all times, including satisfactory liquidity coverage and loan to deposit ratios. The Bank will ensure that it is not overly reliant upon any single Deposit Intermediary to raise deposits, continuing to grow deposits raised directly from customers.
Key Mitigants	Measuring, managing, and monitoring the risk over appropriate time horizons, including intra-day. Regular re-forecasting of the liquidity positions. Monitoring strict criteria over the use of High-Quality Liquid Assets. Annual ILAAP, including stress testing of the liquidity base in 'severe yet plausible' scenarios. Horizon scanning to ensure continued compliance with regulatory requirements.
Comments	The Bank monitors and maintains 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	
Description	The risk that changes in market rates negatively impact the earnings or market value of the Bank's assets or liabilities.
Governance	Board Risk & Compliance Committee Asset & Liabilities Committee Interest Rate Risk in the Bank Book Policy
Risk Appetite Statement	The Bank has no appetite for foreign currency risk and a low appetite for interest rate risk and basis risk by keeping all assets, liabilities and off-balance sheet exposures in sterling and carefully managing mismatches between tenors of loans and deposits, hedging exposures where necessary within pre-determined limits.
Key Mitigants	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.
Comments	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.

Credit		
Description	The risk that counterparties fail to meet, in a timely manner, the commitments into which they have entered. Credit Risk represents a principal risk for Bank.	
Governance	Board Risk & Compliance Committee Credit Committee Environmental, Social & Governance (ESG) Committee	Credit Approvals Committee Model Risk Oversight Committee Credit Risk Management Framework Lending Protocols
Risk Appetite Statement	The Bank has a moderate appetite for Credit Risk overall, maintaining conservative parameters that reflect the prevailing external environment, including a maximum LTV and DSCR, focusing on relationship management, including annual reviews. The Bank will maintain 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 the Bank concentrates its lending on areas where there are experienced subject matter experts in both the first and second line of defence, with the necessary operational capacity, systems, and infrastructure to manage and monitor the loans through their life cycle in an effective manner. The Bank will operate within protocols, underwriting guidelines, exception limits and regulatory guidelines and manage the Early Warning Report and Watch List proactively to ensure that asset quality remains satisfactory. The Bank will not chase growth at the expense of credit and asset quality. Although it recognises that through the full range of the economic cycle, some credit losses are inevitable, the robust underwriting standards aim to minimise them, with close monitoring of risk appetite via the comprehensive suite of KRIs set out below.	
Key Mitigants	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. Independent Quality Assurance checks to ensure adherence to policies and procedures provided by external consultant firm.	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 on borrowers 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. During the year management agreed and progressed membership of the Lending Standards Board.
Comments	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. Lessons learned review undertaken on larger credit loss cases. The Bank assesses and discusses all individual customer loans in arrears at the monthly Impairment & Provisions Committee meeting chaired by the CFO. All cases that are in arrears at month-end or are on the watch list are reviewed.	

Legal, Compliance & Regulatory		
Description	The risk that non-compliance with laws or regulations could give rise to fines, litigation, sanctions, reputational damage, or financial loss	
Governance	Board Audit Committee Board Risk & Compliance Committee Risk Management Committee	Compliance & Legal Framework Data Protection Framework Compliance Monitoring Framework
Risk Appetite Statement	The Bank maintains a low appetite for Legal, Compliance and Regulatory Risk. Whilst the Bank recognises that operational errors can occur, it maintains zero tolerance for breaches of regulations, relevant legislation, late responses to regulatory requests or gifts/hospitality policy breaches. The Bank strives to ensure that it remains within the law and regulation at all times. 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.	
Key Mitigants	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, second line oversight.	Maintaining logs of internal compliance breaches, regulatory breaches & conflicts of interest. Maintaining a Whistleblowing procedure for staff to self-report. Horizon scanning to ensure continued adherence to regulatory requirements & developments. Regular reviews of training content & oversight of the training & development of staff to ensure up to date knowledge base.
Comments	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. Annual Whistleblowing report. Supporting the Whistleblowing Champion regarding annual reporting.	

Financial Crime

Description	The risk that inadequate controls relating to financial crime could give rise to fines, litigation, sanctions, reputational damage, or financial loss.
Governance	Board Risk & Compliance Committee Risk Management Committee First Line Risk team Financial Crime Framework (Policy & Standards)
Risk Appetite Statement	The Bank maintains a low appetite for Financial Crime risk and strives to ensure that it remains within the law and regulation at all times. Whilst the Bank recognises that operational errors can occur, it maintains zero tolerance for breaches of compliance with applicable anti-money laundering laws, regulations and guidance, deliberate facilitation of tax evasion, bribery and facilitation payments and internal fraud. All material breaches are investigated and reported to the Board Risk & Compliance Committee in a timely manner, Financial Crime regulation changes are implemented within the applicable regulatory timelines and staff operate within the Bank's documented policies and controls and, where applicable, industry guidelines.
Key Mitigants	Adherence to the Financial Crime Framework. Undertaking business wide risk assessments. Customer onboarding incorporating standard and enhanced due diligence activities. Risk based Source of funds & 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. Executive Committee owned KRIs.
Comments	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 are continually under review to ensure that they meet all requirements and are in line with leading industry practices. Annual submission of the MLRO Report to the Board. During the year, the Bank engaged with an external 'expert' firm and reviewed its Financial Crime Framework, policies and processes, to confirm they continue to meet the legal and regulatory requirements.

Operational

Description	The risk that events arising from inadequate or failed internal processes, people, and systems, including Fraud, or from external events cause regulatory censure, reputational damage, financial loss, service disruption and/or customer detriment. Operational resilience metrics are included within operational risk reporting.
Governance	Board Risk & Compliance Committee Risk Management Committee Operational Risk Policy & Standard
Risk Appetite Statement	The Bank maintains a low appetite for Operational Risk and aims to minimise incidents and losses arising from operational risk issues by maintaining a resilient infrastructure, including robust systems, employing, and training the right people, minimising the impact of external events, and having a robust framework in place to ensure operational risks are captured, monitored, and mitigated, with root cause understood and lessons learned. This includes clear first line ownership of operational risks and controls, with oversight, review, challenge, and assessment by the second line. The third line Internal Audit function provide independent assurance to the Board over operational risk management. Focus is maintained on key risks and the associated control environment, including outsourcing and third-party suppliers, 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. The Bank ensures that its systems and operational capabilities are stable and resilient, with preventative measures in place to enable the Bank to meet its agreed impact tolerances, and effective business continuity and disaster recovery plans maintained to limit the impact of disruption events. A suite of KRIs enable escalation of issues to senior management and the Board, periodic reviews are undertaken via Risk and Control Self Assessments and Operational Risk Events are captured, recorded, reviewed, and reported on, with root cause identified, trends reviewed, and actions taken to avoid recurrence.
Key Mitigants	Risk and Control Self Assessments and Risk Registers. Scenario Analysis. Monitoring of operational risk events and 'deep dive' analysis, where appropriate. Review and challenge on 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. Important business services identified, and resilience/tolerances set (see separate Operational Resilience section).
Comments	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. This includes continuing to work closely with our external technology providers to ensure ongoing operational resilience.

Conduct		
Description	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.	
Governance	Board Risk & Compliance Committee Risk Management Committee	Customer & Product Committee Conduct Risk Framework
Risk Appetite Statement	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 and Consumer Duty requirements). Furthermore, 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') ensure all staff take responsibility for proactively managing Conduct Risk, maintaining customer interests as the highest priority.	
Key Mitigants	Monitoring of the Conduct Risk KPIs. 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 variables pay schemes to customer satisfaction measures. Embedding the Consumer Duty Regulatory requirements and enhanced reporting.
Comments	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, incorporating Consumer Duty requirements.	

Financial Models		
Description	The risk that the Bank incurs financial loss because of decisions that are principally based on the output of (internal) models, due to errors in the development, implementation, or use of such models.	
Governance	Board Audit Committee Board Risk & Compliance Committee Executive Committee Impairment & Provisions Committee	Credit Committee Risk Management Committee Model Risk Governance Committee Model Risk Governance Framework & Policy
Risk Appetite Statement	The Bank maintains a low appetite for Model Risk and aims to maintain compliance with regulatory requirements and standards and minimise incidents and losses arising from model risk issues by maintaining and operating within an appropriate governance framework, supported by a governance policy. There is a clear definition of a model, and an inventory of all models is maintained within the Bank. The Bank adopts 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 enhancement. The Bank requires that independent oversight is provided by the Second Line of defence and the monthly Model Risk Governance Committee.	

Financial Models (continued)		
Key Mitigants	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's) framework enhancements – requiring minimum standards for databases. The Bank has recently enhanced its expected credit losses and impairment modelling capabilities.
Comments	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		
Description	The risk that events arising from inadequately identified or managed Important Business Services cause regulatory censure, reputational damage, financial loss, service disruption and/or customer detriment. Operational resilience metrics are included within operational risk reporting.	
Governance	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.	
Risk Appetite Statement	Operational resilience and supplier risk management arrangements were 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 during 2024 and are subject to Board and Executive level oversight.	
Key Mitigants	The Bank completes annual testing of its Important Business Services and continues to complete the required review cycle all of which is Board approved. 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 & simulated scenario) and business continuity. Our third party's resiliency forms part of the Bank's internal testing.
Comments	The Bank's resiliency remains strong and further enhancements, including continued review of supplier relationship management and Line 1 and 2 oversight of critical suppliers, are planned for 2024. All actions from test activity are 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 2023 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 current geopolitical events in the world, including several international conflicts and the elections in the UK and US later in 2024, continue to cause ongoing uncertainties. Additionally, these conflicts could lead to increase commodity and supply costs, as well as supply-chain disruption, which could cause additional economic headwinds for the UK economy, noting that UK interest rates remain high compared to recent times.	The Bank monitors a range of current and forward-looking measures covering all 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	The geopolitical events and other economic challenges, such as cost of living/inflationary pressures, continued higher interest rates and reduced levels of investment continue. There remains some risk of ongoing 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 as well as increased credit risk, as borrowers see increased debt servicing costs.	Macro-economic risk is considered as part of the Strategic Planning process and monitored via reporting to Board and executive level committees. The Bank continues to support its customers and develop its lending policy to ensure it remains appropriate to changing circumstances. The Bank has recently joined the Lending Standards Board.
Delivery of the 2024+ Growth Plan	The risk that pursuing the business growth targets outlined in the current Strategic Plan will bring additional operational pressures and create increased risk, either Credit Risk or Operational/Fulfilment Risk.	The Bank made significant investment in process capability during 2023 and continues to monitor external events to ensure its credit policy remains appropriate. Regular reporting of Key Risk Indicators is provided to both management and the Board, to ensure it remains within Risk Appetite using its Risk Management Framework. Significant resource is dedicated to operational management and oversight. Resource planning helps the Bank ensure it recruits sufficient resources/skills to manage the risk and quarterly reforecasting is undertaken.

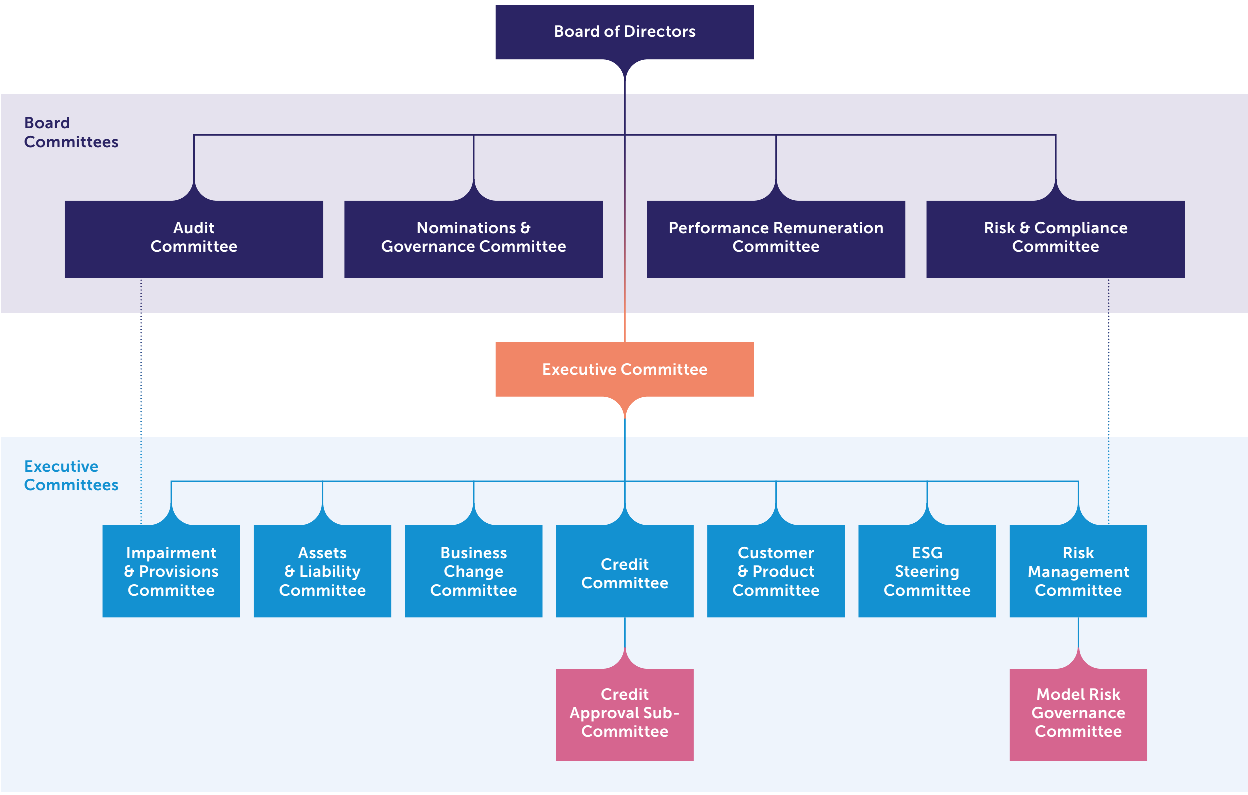
Emerging Risk	Definition	The Bank's Response
Climate Change	Climate Change is a growing risk and ongoing consideration needs to be given to the longer-term impacts, particularly in relation to the property loan portfolio. If left unchecked, it could lead to a medium/long term risk to the credit quality 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 weaker EPC ratings), as the UK Economy works towards Net Zero by 2050. Consideration has also been given to the Asset Finance and Classic Vehicles and Sports Cars (CV&S) portfolios albeit this is currently considered less material.	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 and management plan to hold several scenario planning workshops during 2024.
Cyber Threat	The nature of cyber-attacks across the industry continues to change with the use of more sophisticated unseen malware and other methods, as well as increased volumes. The Bank's 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. The Bank's websites are outside its perimeter, greatly reducing the inherent exposure. Furthermore, the Bank's 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 responsive as possible. Technology arrangements have been reviewed against the NCSC guidance, and no material deficiencies or areas for improvement were identified. A Cyber Strategy and linked programme of focused work, including obtaining a NIST Level 3 status, has continued throughout 2023 which included strengthening Board, Executive and colleagues understanding and ownership of Cyber risk and the actions they need to take. Board and Executive cyber and information security training has been provided in 2023.
Legal, Compliance & Regulatory.	The UK has an extensive regulatory environment which applies to all UK firms. Proposed regulation relating to a Strong and Simple Regime along with Basel 3.1, is expected to have an impact on the Bank, including its capital holding requirements.	The Bank has a dedicated Compliance, Prudential Risk and Legal Function along with a dedicated horizon scanning process which monitors regulations to help inform management of any changes. The Bank also engages with the relevant trade bodies and other industry professionals to help ensure that it meets its legal and regulatory requirements. Where appropriate, management will also contribute to various regulatory consultations, as part of a wider industry response to proposed regulatory changes.

The Strategic Report on pages 14 to 39 was approved, by order of the Board.

Richard Bryan
Company Secretary
28 March 2024

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 have regard to 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 2023 complemented by the following Executive Director (ED) board members – the Chief Executive Officer, the Chief Financial Officer, Chief Risk Officer, and Chief Development Officer (retired on 31 January 2023).

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 Executive Directors 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 experienced changes in its Non-Executive Directors throughout 2023. Christiane Wuillamie OBE, representing the Cambridgeshire Local Government Pension Fund, resigned on 31 December 2022. Additionally, Nick Treble resigned on 31 March 2023, concluding his three-year tenure as the Chair of the Risk & Compliance Committee. Subsequently the Bank appointed Michele Ibbs on 1 April 2023 and Elizabeth Lockwood on 16 May 2023 as the successors to Christiane Wuillamie OBE and Nick Treble, respectively.

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), which Sarah Barker commenced in July 2023. The CCO role is not an Executive Board role.

The opposite below sets out the Bank's Committee structure (as at 31 December 2023).

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 Executive Directors 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.

The Bank seeks to comply with the UK Corporate Governance Code to the extent that it is applicable and considered appropriate for its business

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 nine), 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. This is considered appropriate on the basis that the Bank is privately owned. No remuneration for the NEDs includes share options or variable elements;
- 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 2023, we launched our new Colleague Forum with attendees from across the Bank representing their business functions and updates from our colleague groups – Charities, Green and Social. The Colleague Forum, attended by the CEO and CPO, is held on a quarterly basis. The 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.

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 of 1 January 2024:

Function	Description	Role	Person
1 & 3	Chief Executive Function and Executive Director	CEO	Donald Kerr
2 & 3	Chief Finance Function and Executive Director	CFO	Andrea Hodgson
4 & 3	Chief Risk Function and Executive Director	CRO	Mike Hudson
5	Head of Internal Audit	Outsourced	to Deloitte LLP
6	Head of Key Business Area	CLO	David Monks
6	Head of Key Business Area	CCO	Sarah Barker
9	Chair of Board	Chair	Patrick Newberry
10	Chair of Risk & Compliance Committee	Independent NED	Elizabeth Lockwood
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	CPO	Lynsey Harrell
18	Other overall responsibility function	CTO	David Holton
24	Chief Operations Function	COO	Tina Hayton-Banks

Note: 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 Committees meetings during 2023 (attendance is shown only where a director is a member of the committee and includes any meeting where a director is appointed or retired).

> Risk management is governed within the corporate governance structure with ultimate ownership at Board level

Director	Board	Risk & Compliance Committee	Audit Committee	Performance & Remuneration Committee	Nominations & Governance Committee
No. of meetings in 2023	**8**	**7**	**5**	**5**	**3**
Caroline Fawcett	7	N/M	4	5	3
Tim Harvey-Samuel	7	7	5	5	3
Andrea Hodgson	8	N/M	N/M	N/M	N/M
Michael Hudson	7	N/M	N/M	N/M	N/M
Michele Ibbs*	5	5	3	3	2
Donald Kerr	8	N/M	N/M	N/M	N/M
Simon Lindley**	1	N/M	N/M	N/M	N/M
Elizabeth Lockwood***	5	5	3	3	N/M
Patrick Newberry	8	7	N/M	5	3
Mike Peck	8	7	5	N/M	3
Nick Treble****	2	2	1	1	N/M

* appointed on 1 April 2023
** retired on 31 January 2023
*** appointed on 16 May 2023
**** resigned on 31 March 2023
N/M not a member of this Committee

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 and the Chief Risk 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 Senior Independent Director conducts the annual appraisal of the Chair soliciting input from all the Directors.

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 2023. This appointment has been supported during 2023 with the appointment of an Interim General Counsel (as a result of parental leave) and an Assistant Company Secretary. The Company Secretary is responsible to the Board for ensuring compliance with corporate governance requirements. The Board has access to the Company Secretary, or the interim General Counsel and the Assistant Company Secretary individually and collectively during 2023. 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 auditors for the year ended 31 December 2023, are 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 43, with ultimate ownership at Board level via the Board 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:

- Asset & Liability Committee
- Business Change Committee
- Credit Committee
- Credit Approvals Committee
- Customer and Product Committee
- ESG Steering Committee
- Impairment & Provisions Committee
- Risk Management Committee
- Model Governance Committee

Asset and Liability Committee

The Asset and Liability Committee is chaired by the CFO 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.

Business Change Committee

The Business Change Committee is chaired by the CTO (Chief Transformation Officer) and is responsible for managing effective delivery of the Bank's change agenda, assessing all new business investment cases and change request and ensuring benefits realisation.

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.

Customer & Product Committee

The Customer & Product Committee is chaired by the Director of Marketing & Savings and is responsible for overseeing customer outcomes and the suite of products offered, including the design, performance, conduct risk and customer suitability of our products.

ESG Steering Committee

The ESG Steering Committee is chaired by the General Counsel and is responsible for leading the Bank's response to the risks, challenges and opportunities presented by environmental, social and governance factors.

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 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 a sub-committee reporting to the Risk Management Committee. It is chaired by the CRO and is responsible for the management and oversight of financial models used within the Bank.

Board Activity

The Board leads the setting of the Bank's strategy and oversees 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 overseen the continued investment in our technology stack, delivering and embedding a transformation of our real estate finance proposition, which enhanced our efficiency and customer experience. We have also learned valuable lessons from this project and applied them to our ongoing and planned initiatives for 2024 and beyond.

Our capital base remained robust and resilient, with the Board agreeing to a successful Tier 2 capital injection. The Board conducted comprehensive reviews of the Bank's ICAAP and ILAAP, analysis of the impact of Basel 3.1 and the Small Domestic Deposit Taker regime and worked to ensure the full Board understood and were able to oversee our risk management framework.

Following the appointment of PwC as our new external auditors in 2022, we completed the first-year audit in April 2023. The audit report highlighted some areas for improvement in our IT systems and controls, which we were addressing through an ongoing review and remediation process. The Board also commissioned an external review on our financial crime/AML practices and incorporated the outcomes into our transformation agenda.

In addition, the Board developed and refined our ESG strategy, which reflected our commitment to sustainability and social responsibility. We are proud to announce that we achieved the B Corp Accreditation in April 2023, which demonstrated our alignment with the highest standards of environmental and social impact. This required Board and shareholder commitment to creating a positive impact for all stakeholders, embedded in the Bank's constitution. To support this, the Board has overseen the development and approval of a new mission statement in September 2023.

Furthermore, the Board has continued to oversee and develop our monitoring of organisational culture and implemented plans to continue to foster a diverse and inclusive workplace. We also kept abreast of the regulatory changes that affected our business and our stakeholders and ensured our compliance and readiness for them. One of the key regulatory changes was the introduction of the Consumer Duty by the FCA, which set higher and clearer standards of consumer protection across financial services, and required firms to put their customers' needs first. The Board welcomed this new duty and are committed to meeting its expectations.

Committed to sustainability and social responsibility

Finally, the Board approved pursuing further transformation projects to optimise our models and product propositions. These projects aim to improve our risk management, operational efficiency, revenue growth, and customer satisfaction. We also conducted an ongoing review of our Board skills matrix, to ensure that we had the right mix of expertise and experience to guide and govern our organisation.

The Board continually reviews and approves activity to remain confident that our future plans are aligned with our vision, mission, and values, and that they will enable us to achieve our strategic objectives and create value for our customers, shareholders, employees, and society.

Nominations and Governance Committee Report

Membership and operation of the Committee

Since September 2022, the Nominations & Governance Committee has been chaired by Patrick Newberry. In addition to Patrick (Chair of Board), the Committee members in 2023 included Tim Harvey-Samuel (Shareholder Representative), Michele Ibbs (Shareholder Representative), Mike Peck (Chair of Audit Committee), and Caroline Fawcett (SID and Chair of Performance and Remuneration Committee). Elizabeth Lockwood as Chair of Risk & Compliance Committee attends occasionally, in line with the responsibilities of her 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 chair; monitoring the governance arrangements of the Bank including recommending changes to ensure consistency with best practice and corporate governance standards. This Committee is also 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.

Appointment of directors and succession planning

The principal activity of the Committee has been the continued succession and evolution of the Board. It leads the process for Board appointments and renewals, in line with the Board succession plan. The Board now comprises strong, diverse talent with new appointments in 2023, which include; Michele Ibbs, Shareholder Representative who joined the Board on 1 April 2023 and Elizabeth Lockwood, Chair of Risk and Compliance Committee, who was formally appointed on 16 May 2023.

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. It overseas 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. As we reported last year, the Chief Development Officer, Simon Lindley, announced his intention to retire in January 2023. The Committee supported the plan to replace him with a Chief Commercial Officer, which is not a Board position. In June 2023, Sarah Barker, was appointed as Chief Commercial Officer. In addition, Sara Thorpe, Chief People Officer (CPO) retired in July 2023 and Lynsey Harrell was appointed CPO.

Diversity, Equity 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 Board promotes the Bank's signatory to the Women in Finance Charter; we are proud to have achieved our target of 30% of Board positions being held by women and 44% representation on our Executive team in 2023. 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 management development programmes.

Audit Committee Report

Membership and operation of the Committee

The Audit Committee was chaired by Mike Peck throughout 2023. Mike is a Fellow of the Institute of Chartered Accountants in England and Wales, and a retired KPMG partner with extensive experience working with financial institutions. The members of the Audit Committee during the year included Caroline Fawcett (Chair of Performance & Remuneration Committee), Tim Harvey-Samuel (Shareholder Representative), Michele Ibbs (Shareholder Representative), and Elizabeth Lockwood who took over as Chair of the Risk and Compliance Committee following Nick Treble's resignation on 31 March 2023. Further details on the committee members' experience are set out in the Non-Executive Director biographies. 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 auditors, PwC, attend each meeting of the Committee which typically includes a private session with the NEDs without the presence of the Executives. The Company Secretary, or an appropriate delegate, acts as the secretary to the Committee.

Audit Committee responsibilities and activity in 2023

The Audit Committee met five times during 2023. 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 adequacy of the governance, risk, and control framework from the Bank's Second Line and from Deloitte in their role as outsourced 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 2023, 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 2023.
- 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 page 55.
- 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 54.
- The Committee supported the rationale for the development of the Bank's second-generation Real Estate Finance IFRS9 expected credit loss model supplemented by updates throughout the year detailing presentation on the methodology, model variable and testing outputs. The Committee challenged Management on the judgements and assumptions and were satisfied with the rationale presented. The Committee also received a Second Line model review supported by an independent validation report commissioned by an external third party. The briefings enabled the Committee to increase their knowledge of IFRS 9 ECL requirements as well as review and challenge the model as it was being developed prior to final approval and implementation.
- 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 leased, intangible and tangible assets. After challenge, the Committee supported management's proposals. During 2023, the Committee reviewed regular reports from management assessing the adequacy of the allowance for credit impaired losses, including key enhancements to the Bank's second-generation Real Estate Finance expected credit loss model. 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 model enhancements and implementation, including benchmarking 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 reviewing historic performance against future forecasts.
- The Audit Committee also considered the effectiveness of work undertaken to improve the internal control framework, in particular improving system privileged access and IT controls.

The Audit Committee appraises the performance of the internal audit function outsourced to Deloitte LLP, and their continued independence. The Committee has assessed the internal audit planned activity and resources and is satisfied that these are appropriate to fulfil their responsibilities. The Committee reviews the Bank's external audit strategy and approval of the audit fees.

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 auditors. PwC verified the Bank's 2023 interim earnings and provided an opinion on the Bank's country-by-country reporting. These processes were audit related non-audit services and were approved by the Audit Committee albeit the threat to audit independence is clearly insignificant.

Performance and Remuneration Committee Report

Membership and operation of the Committee

The Performance & Remuneration Committee is chaired by Caroline Fawcett (Senior Independent Non-Executive Director) and its members in 2023 included Patrick Newberry (Chair of Board), Tim Harvey-Samuel (Shareholder Representative), Michele Ibbs (Shareholder Representative) and Elizabeth Lockwood (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.

Committee responsibilities and activity in 2023

The Performance & Remuneration Committee met five times during 2023. 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:

- 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; and
- considers the implications of remuneration policy and practices on the management of risk, capital, and liquidity.

The Performance & Remuneration Committee engages 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.

A summary of the Bank's remuneration policy and remuneration policy for Directors is included on pages 58–60.

Reward outcomes in 2023

The Performance & Remuneration Committee has reviewed the business performance in 2023 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 £2.8m variable pay award for 2023 (2022: £2.5m).

Highest paid Director – 2023 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 2023 is included in Note 11 to the Financial Statements.

Risk and Compliance Committee Report

Membership and operation of the Committee

The Risk & Compliance Committee is chaired by Elizabeth Lockwood who took over from Nick Treble in May 2023 following a comprehensive handover. Its members include the Chair, Patrick Newberry, Michele Ibbs (Shareholder Representative), Tim Harvey-Samuel (Shareholder Representative), and the Chair of the Audit Committee, Mike Peck. Committee meetings are attended by members of the Executive including the Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer and with other members of the Executive attending as required. The Company Secretary, or an appropriate delegate, acts as the secretary to the committee.

The committee oversees and monitors the risk management within the firm, across all the risk categories (including compliance related risk), as well as reviewing and recommending the Bank's Risk Appetite to the full Board. This includes receiving reports from management, including the Key Risk Indicators, along with relevant Internal Audit reports from Deloitte, providers of the Bank's outsourced Internal Audit Function.

Risk & Compliance Committee responsibilities and activity in 2023

During 2023 the committee continued to receive this regular management information, including 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, Recovery and Resolution Plans, along with reviewing the credit protocols, lending policies and approving the Bank's Liquidity Funding Plan. Additionally, part of the work for the year has also been in improving the Bank's approach to cyber and technology risk, as well as providing oversight and challenge in areas like interest rate risk, model management and climate change.

More specifically, the committee monitored the bank's liquidity and funding risk, considering industry developments in the early part 2023, as well provided additional oversight and challenge with regard to credit risk, given the more uncertain economic conditions.

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 Officer's report, the Committee assessed and challenged the potential impacts of the uncertain economic environment, various conflicts around the world as well as other economic headwinds, part of its ongoing consideration of Top and Emerging Risks.

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 annual MLRO Reports and Whistleblowing Report. In 2024 the Whistleblowing Report will be presented at the Audit Committee.

The Bank's important business services are also 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. Additionally, the Committee provides oversight and challenge in other key areas like technology/cyber risk, interest rate risk and climate change.

The Committee met five times in 2023 including two dedicated workshops which focused on the ICAAP/ILAAP and the Bank's 3 Year Strategic Plan.

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

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

Directors' Report

Introduction

The Directors of Cambridge & Counties Bank Limited present their report and audited Financial Statements for the year ended 31 December 2023, 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 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 page 42; and
- The diversity and inclusion section of the Nominations & Governance Committee report on page 49.

Results and dividends

The Statement of Comprehensive Income and Statement of Financial Position for the Bank can be found on pages 78–79. The Directors do not propose to pay a dividend in respect of ordinary shares for the year ended 31 December 2023 (2022: 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:

Director	Board
Patrick Newberry	Chair & Independent Non-Executive Director
Caroline Fawcett	Senior Independent Non-Executive Director
Mike Peck	Independent Non-Executive Director
Nick Treble[1]	Independent Non-Executive Director
Elizabeth Lockwood[2]	Independent Non-Executive Director
Tim Harvey-Samuel	Non-Executive Director
Michele Ibbs[3]	Non-Executive Director
Donald Kerr	Chief Executive Officer
Andrea Hodgson	Chief Financial Officer
Mike Hudson	Chief Risk Officer
Simon Lindley[4]	Chief Development Officer

1 Resigned on 31 March 2023
2 Appointed 16 May 2023
3 Appointed 1 April 2023
4 Retired on 31 January 2023

The biographies of the Bank's Directors are set out on page 61.

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 Director 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

We confirm that during the financial year ended 31 December 2023, there were no waivers of emoluments by any of the Directors of the company.

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 42–65.

Share capital

Details of the Bank's shareholders and share capital at 31 December 2023 are provided in Notes 26 and 34 to the Financial Statements.

Future developments

The future developments of the Bank are 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 (2022: 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 27–39.

Post balance sheet events

There have been no significant quantifiable events between 31 December 2023 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 offices 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 44, the Bank has committed to voluntarily adopt the principles of the Code, to the extent that they are applicable or considered appropriate for the Bank, 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 2026. Key capital and leverage ratios have been forecast, and regulatory and internal stress testing of the Bank's profit, capital and funding forecasts has 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 2026.

In making this assessment, the Directors have considered a wide range of information. Central to this assessment is the detailed 2024 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 2024 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 is 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 auditors

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 auditors are 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 auditors are aware of that information.

Auditors

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

By order of the Board.

Richard Bryan
Company Secretary
28 March 2024

Remuneration Policy

Purpose & Objective

The Board 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 Remuneration Policy clearly documents the policies, practices and procedures linked to salary, compensation and reward of employees and is reviewed the Committee. 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;

2 Offer competitive and market aligned remuneration packages in which fixed salaries are the significant component;

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; and

4 Drive behaviour consistent with the Bank's values 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, capital and liquidity, reputational and other risks identified by the Bank.

Remuneration Components

Remuneration at the Bank 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 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, except for private medical insurance. 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.

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; and
- 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. 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.

Malus and Clawback Provisions

The Board has the discretion to reduce and/or cancel variable remuneration in appropriate circumstances. Appropriate circumstance could include but are not limited to:

- a material misstatement of the financial results;
- error in the assessment of any performance metric or condition;
- the fact that any information used to determine the quantum of a variable remuneration amount based on error, or inaccurate or misleading information;
- action or conduct of an individual which amounts to serious misconduct or gross negligence; and/or
- events or behaviours which led to the censure of the Bank or reputational damage the Bank.

Executive Director Remuneration

The table below summarises the Executive Directors' remuneration policy for 2023:

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
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
Bonus	Incentivises annual delivery of financial and strategic goals Maximum bonus only payable for achieving business and personal targets	Paid in cash Not pensionable Recovery provisions apply in line with the Bank's Remuneration Policy	50% of salary	A combination of 50% company and 50% individual performance measures with a deferred element for the amounts exceeding 20% of salary paid over 3 years

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.

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

Leadership Team Biographies

Chair and Executive Directors

Patrick Newberry

Chair

Patrick joined Cambridge & Counties Bank as Non-Executive Director in June 2021, taking responsibility as Chair of Audit from September. He was appointed Chairman of the Bank in October 2022.

Patrick's executive career spans over 30 years with PwC, 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 10 years, Patrick has spent his time as a Non-Executive Director and freelance consultant for a number of financial and non-financial services organisations. 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 Chair 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 where she has held executive roles leading funding and investment, banking licence application, acquisition, and integrations through to strategy development across Lloyds Banking Group, Bank of Scotland, and National Australia group. Andrea is an INSEAD Alumni and holds a certificate in corporate governance. Previously, she has also served as a Non-Executive Director and Deputy Chair for a large NHS Foundation Trust. Andrea currently serves as Senior Independent Director and Audit Chair for Silver Rock Financial Services Ltd.

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 having served as CRO at another firm for the previous 7 years. He has over 40 years' experience in Financial Services working across all the risk categories and 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 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 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 for 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.

Tim 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

Non-Executive Directors

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.

From 2017-2023, Mike held the position of 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.

Elizabeth Lockwood

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

Elizabeth Lockwood joined as a Non-Executive Director in May 2023 and is Chair of the Risk & Compliance Committee. She has over 25 years' experience as a risk management specialist, and previously held a variety of senior and executive roles at NatWest – including as Deputy Chief Risk Officer for NatWest Holdings. Elizabeth also holds non-executive roles at Melton Building Society and its subsidiary Nexa Finance Limited. She sits as an external expert member of the Audit and Risk Committee at Samaritans and is a qualified coach and therapeutic counsellor.

Michele Ibbs

Non-Executive Director

Michele is the shareholder representative for Cambridgeshire County Pension Fund. An experienced Non-Executive Director, Michele is currently Chair of the Board at Connexus Homes Limited. She joined the Cambridge & Counties Bank Board in April 2023 and previously was Senior Independent Director and Chair of Board Committees at the Marsden Building Society, a Non-Executive Director of The Ombudsman Service Limited and Blackpool Teaching Hospitals NHS Foundation Trust. Her executive career spans both private and public sectors; including senior and executive roles within higher education, food and drink, luxury consumer goods, manufacturing, and retailing.

INDEPENDENT AUDITORS' REPORT

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 2023 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 2023; 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 Company
- 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: £2,000,000 (2022: £1,400,000) based on 5% of profit before tax from continuing operations.
- Performance materiality: £1,500,000 (2022: £700,000).

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

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.

The key audit matters below are consistent with last year.

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 holds £22,777k of expected credit loss ('ECL') provisions against loans and advances to customers in accordance with IFRS 9 (2022: £16,928k) against total outstanding balances of £1,106,056k (2022: £1,054,641k). The calculation of expected credit losses requires the use of forward looking information, reflecting management's view of potential future economic scenarios. This can give rise to increased estimation uncertainty. The standard also requires management to make judgements regarding when a loan has experienced a 'significant increase in credit risk' and to make assumptions regarding expected customer default rates and repayment behaviour. 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, due to the potential impacts on customer behaviour in the rising inflationary and interest rate environment in the UK. 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 £20,350k and £2,427k respectively (2022: £14,730k and £2,199k). 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 88% of total lending (2022: 89%) and the individual assets in this portfolio are generally larger. In response to limitations in the real estate finance model identified in the previous year, during 2023 management have implemented a new impairment model, allowing for a more sophisticated calculation of the provision. This has given rise to management judgements and assumptions in determining ECL. In particular we focused on: • 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; • 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; • 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 the hazard rate and undrawn equity since these have the largest impact on the ECL calculation; and • Valuation of the provisions for defaulted 'Stage 3' exposures where a significant degree of management judgement is applied. The Company's disclosures are given in Note 16. Management's associated accounting policies are detailed in Note 29. Management's judgements in the application of accounting policy and critical estimates are disclosed in Note 5 and the considerations of the effect of the future economic environment are given in Note 29. The Audit Committees' consideration of the matter is set out in the Audit Committee Report.	With the support of our credit risk modelling specialists and economic experts, we performed the following procedures. We understood and critically assessed the appropriateness of the methodology applied in the impairment models and it's compliance with accounting standards. We tested model performance by: • Independently assessing model changes related to prior year model limitations of forecasting probabilities of default and exposure at default calculations; • Independently replicating the application of the key assumptions in the determination of ECL; • Consideration of the appropriateness of assumptions used in the derivation of probability of default and loss given default by testing the historical default and loss behaviour. • Examination of management's model monitoring processes; • Reperformance of the application of selected staging thresholds, and consideration of managements criteria; • Agreement of the input of critical data elements into source systems and considering the transformation of critical data elements from source system to model; • Review of a sample of the credit file reviews performed by management to consider whether there were indicators of increased risk; • Attending key governance committee meetings and providing challenge on the theoretical application of management decisions. 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 real estate 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 hazard rate and undrawn equity forecasts, which the real estate finance ECL is most sensitive to. 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 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 £3,245k at the balance sheet date (2022: reduced by £4,117k). 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 early 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 Notes 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 the considerations of the effect of the future economic environment are given in Note 29. 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 and are complete and accurate. We critically assessed the assumptions relating to forecast future early 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 2023.

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	£2,000,000 (2022: £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 75% (2022: 50%) of overall materiality, amounting to £1,500,000 (2022: £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 in the middle 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 £100,000 (2022: £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 2023 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 6 May 2022 to audit the financial statements for the year ended 31 December 2023 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2022 to 31 December 2023.

Chris Shepherd (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
28 March 2024

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023

£'000	Note	2023	2022
Interest income calculated using the effective interest rate	6	116,023	75,977
Interest expense	6	(40,172)	(16,753)
Net interest income		75,851	59,224
Other income	7	553	28
Total operating income		**76,404**	**59,252**
Administrative expenses	9	(27,287)	(25,034)
Depreciation and amortisation	18,19	(944)	(906)
Operating profit before impairment losses		**48,173**	**33,312**
Impairment losses on loans and advances to customers	16	(7,263)	(4,773)
Profit before tax		**40,910**	**28,539**
Taxation charge	12	(9,620)	(5,337)
Profit after tax		**31,290**	**23,202**
Other comprehensive income/(expense)			
Items that are or may be reclassified subsequently to the income statement			
Fair value through other comprehensive income			
Fair value movements taken to reserves	26	1,111	(1,233)
Taxation	26	(278)	499
Total other comprehensive income/(expense), net of tax		**833**	**(734)**
Total comprehensive income attributable to owners of the Bank		**32,123**	**22,468**

All profit for the year arises from continuing operations.
The Notes on pages 84–121 are an integral part of these Financial Statements.

Statement of Financial Position

For the year ended 31 December 2023

£'000	Note	2023	2022
Assets			
Cash and balances at central banks	13	302,473	286,680
Loans and advances to banks	14	10,420	13,931
Debt securities	17	47,409	30,412
Loans and advances to customers	15	1,083,278	1,037,710
Other assets and prepayments	20	2,526	2,573
Property plant and equipment	18	2,026	2,366
Intangible assets	19	1,869	1,774
Deferred tax asset	12	721	1,099
Total assets		**1,450,722**	**1,376,545**
Liabilities			
Customers' accounts	22	1,155,224	1,103,256
Central Bank facilities	23	65,000	78,000
Subordinated Debt liability	24	4,751	–
Derivative financial liabilities	21	652	1,010
Other liabilities and accruals	25	9,628	9,107
Current tax liability	25	689	326
Total liabilities		**1,235,944**	**1,191,699**
Equity			
Share capital	26	44,955	44,955
Convertible loan notes	26	22,900	22,900
Fair value through other comprehensive income reserve	26	(376)	(1,209)
Retained earnings		147,299	118,200
Total equity		**214,778**	**184,846**
Total liabilities and equity		**1,450,722**	**1,376,545**

The Financial Statements on pages 78–81 were approved by the Board of Directors on 28 March 2024 and signed on its behalf by:

Donald Kerr
Chief Executive Officer

Andrea Hodgson
Chief Financial Officer

Statement of Changes in Equity

For the year ended 31 December 2023

£'000	Share capital	Contingent convertible loan notes	Fair value through other comprehensive income reserve	Retained earnings	Total equity
Balance at 1 January 2023	**44,955**	**22,900**	**(1,209)**	**118,200**	**184,846**
Profit for the year	–	–	–	31,290	31,290
Other comprehensive income	–	–	833	–	833
Total comprehensive income for the period	–	–	833	31,290	32,123
Transactions with owners, recorded directly in equity					
Convertible loan note interest	–	–	–	(2,191)	(2,191)
Total contributions by and distributions to owners	–	–	–	(2,191)	(2,191)
Balance at 31 December 2023	**44,955**	**22,900**	**(376)**	**147,299**	**214,778**

£'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**

The Notes on pages 84–121 are an integral part of these Financial Statements.

Statement of Cash Flows

For the year ended 31 December 2023

£'000	Note	2023	2022 Restated*
Cash flows from operating activities			
Profit after tax		31,290	23,202
Adjustments for:			
Subordinated debt liability interest accrual		147	–
Depreciation and amortisation		944	906
Increase in allowance for Impairment losses		5,849	2,162
Taxation charge		9,620	5,337
Other non-cash items		(112)	336
		47,738	31,943
Net increase in other assets/liabilities			
Net (increase) in loans and advances to customers	15	(51,418)	(62,038)
Net increase in customers' accounts	22	51,968	77,736
Net (decrease) in central bank facilities	23	(13,000)	–
Net (increase)/decrease in derivatives	21	(358)	756
Net increase in other liabilities and provisions	25	520	1,827
Net decrease/(increase) in other assets and prepayments	20	46	(482)
Income tax paid		(9,154)	(4,428)
		(21,396)	13,371
Net cash from operating activities		**20,458**	**42,816**
Cash flows from investing activities			
Proceeds from debt securities maturity	17	20,000	10,000
Acquisition of debt securities	17	(35,774)	(4,845)
Acquisition of property, plant & equipment and intangible assets	18, 19	(700)	(870)
Net cash from investing activities		**(16,474)**	**4,285**
Cash flows from financing activities			
Issue of subordinated debt liability	24	4,604	–
Convertible loan note interest paid	26	(2,191)	(1,439)
Net cash (unused in) from investing activities/ Net cash from (used in) from financing activities		**2,560**	**(1,439)**
Net increase in cash and cash equivalents	13	12,282	48,160
Cash and cash equivalents at 1 January	13	300,611	252,451
Cash and cash equivalents at 31 December		**312,893**	**300,611**

* See Note 2 for further information.
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 84–121 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.

- **Statement of Cash flows restatement**

The Bank has restated the 2022 Statement of Cash flows to correct the disclosure of non-cash items related to the Allowance for impairment losses and Other non-cash items.

For the Allowance for impairment losses, this is now disclosed as a separate line 'Increase in allowance for Impairment losses' and has led to a decrease of £2,162k in the previously stated working capital balance; specifically the 'Net (increase) in loans and advances to customers' within operating activities.

Similarly for the Other non-cash items, this is now disclosed as a separate line 'Other non-cash items' and has led to a decrease of £336k in the previously stated working capital balance; specifically the 'Net (increase)/decrease in value of debt securities'.

As such, this reclassification results in no change to net cash flows.

3 Changes in accounting policies

There have been no changes to the Bank's accounting policies during 2023.

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 2024 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 Director's recognise that the current UK macroeconomic outlook will continue to evolve with the timing of reductions in bank base rate the greatest uncertainty. The Bank has considered these events 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; and
- 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 bank base rate to reduce during 2024 although the rate of reduction is uncertain. 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 has already incorporated a continued period of 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 7 times higher than the regulatory minimum at the end of 2023; and
- During 2023 the Bank agreed a £20m Tier 2 Capital facility with British Business Investments, further strengthening the Bank's capital resources.

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 29; and
- 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 have been reviewed and updated during 2023.

The two key estimates are the Probability of Default (PD) and the Loss Given Default (LGD).

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 and the loss given default. The PD 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 2023 Expected Credit Loss includes a Post Model Adjustment (PMA) of £611k (December 2022: £685k). 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. A Valuation Risk ECL adjustment has therefore been modelled and included as part of the total stage 1 expected credit loss. This adjustment has been calculated by uplifting the LGD metric for all new loans drawn in the first three quarters of 2022 to reflect the reported fall in commercial property prices since Q4 2022.

The expected credit losses 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 Impairment & 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 29 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; and
- Income from finance leases and instalment credit agreements.

£'000	2023	2022
Interest income		
Loans and advances to banks	12,293	3,522
Loans and advances to customers	102,909	72,408
Investment securities	1,157	133
Net income (expense) on other financial instruments	(336)	(86)
Total interest income	**116,023**	**75,977**
Interest expense		
Deposits from customers	(36,484)	(15,607)
Other (including TFSME fees)	(3,688)	(1,146)
Total interest expense	**(40,172)**	**(16,753)**
Net interest income	**75,851**	**59,224**

Interest income for the year ended 31 December 2023 excludes £550k (2022: £187k) 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 period of time over which the Bank amortises its REF arrangement and broker fees was to reduce by 24 months the EIR liability would reduce by £0.2m (2022:£0.4m);
- If the proportion of redemptions paying early repayment fees increased by 20% the Bank's EIR liability would reduce by £0.1m (2022: £0.2m).

7 Other income

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

£'000	2023	2022
Lending related fee income	553	28
Total other income	**553**	**28**

8 Auditors' remuneration

The profit on ordinary activities is arrived at after charging:

£'000	2023	2022
The remuneration of the Bank's external auditors:		
Audit services		
Audit of these financial statements*	595	435
Audit related assurance services		
Amounts receivable by the company's auditor and its associates in respect of:		
All other services	40	25
Total remuneration payable to the Bank's external auditors (ex. VAT)	**635**	**460**

* The 2023 Audit costs reported include £75k related to the 2022 audit.

All services undertaken by the Bank's external auditors 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. The Bank has complied with the non-audit services policy in 2023 and 2022. Other Services undertaken by the current auditors relate to profit verification and Country by Country information.

9 Administrative expenses

£'000	2023	2022
Staff costs (see Note 10)	18,940	17,360
IT related costs	2,377	2,141
Premises costs	438	495
Other costs including marketing, legal and professional services	4,328	3,959
VAT paid on the above purchases	1,204	1,079
Total	**27,287**	**25,034**

10 Staff numbers and costs

The average number of persons employed by the Bank (including Directors) during the year was 225 (2022: 206). The aggregate payroll costs of these persons, including Directors, were as follows (Directors' remuneration is separately disclosed in Note 11):

£'000	2023	2022
Wages and salaries	15,165	13,984
Social security costs	1,929	1,863
Other pension costs	1,846	1,513
Total	**18,940**	**17,360**

11 Directors' remuneration

£'000	2023	2022
Directors' remuneration	2,473	2,286
Social security costs	316	284
Amounts paid to third parties in respect of Directors' services	–	13
Total	**2,789**	**2,583**

The emoluments of the highest paid Director were £693k (2022: £591k), which includes £9k of payments in respect of contributions to money purchase schemes. No Directors received any shares as part of their remuneration. There were no Directors' loans in 2023 (2022: 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 23.5% (2022: 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 2023 have been measured at 25% (2022: 25%).

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is 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	2023	2022
Current tax expense		
In respect of the current year	9,313	5,313
In respect of prior years	206	(152)
	9,519	**5,161**
Deferred tax expense		
Origination and reversal of temporary differences	82	(75)
Adjustments in respect of prior periods	19	170
Effect of tax rate change on opening balance	–	81
	101	**176**
Total income tax expense	**9,620**	**5,337**

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

£'000	2023	2022
Profit on ordinary activities before tax	40,910	28,539
Tax on profit on ordinary activities at standard CT rate 23.52% (2022: 19%)	9,622	5,423
Effects of:		
Fixed asset differences	8	(2)
Expenses not deductible for tax purposes	10	8
Bank surcharge	266	169
Adjustments to tax charge in respect of previous periods	206	(152)
Adjustments to tax charge in respect of previous periods – deferred tax	19	167
Re-measurement of deferred tax for changes in tax rates	5	(2)
Convertible loan note interest payments	(516)	(274)
Total tax charge	**9,620**	**5,337**

- **Deferred tax**

Deferred tax assets are attributable as follows:

The Bank had a deferred tax asset of £721k at 31 December 2023 (2022: £1,099k) 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	2023	2022	Income	Equity
Deferred tax asset				
IFRS 9 transitional relief	486	454	32	–
Plant, Property & Equipment (PPE) and intangible assets	109	121	(12)	–
Other	–	120	(120)	–
Total Assets	595	695	(100)	–
Deferred tax on fair value through other comprehensive income				
FVOCI instruments	126	404	–	(278)
Net deferred tax asset	**721**	**1,099**	**(100)**	**(278)**

13 Cash and cash balances at Central banks

Cash and cash balances at Central banks 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 balances at Central banks are carried at amortised cost in the statement of financial position.

£'000	2023	2022
Unrestricted balances with central banks*	302,473	286,680
Cash and balances with other banks	10,420	13,931
Total	**312,893**	**300,611**

* Included within the unrestricted balances with central banks is £768k of accrued interest for 2023 (2022: £447k).

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	2023	2022
Net loans and advances to banks	**10,420**	**13,931**

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. 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 £3.2m (2022: £4.1m).

£'000	2023	2022
Gross loans and advances	1,106,055	1,054,638
Less: allowance for impairment losses (see note 16)	(22,777)	(16,928)
Net loan receivables	**1,083,278**	**1,037,710**

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	2023	2022
Gross investment in finance lease receivables*:		
Less than one year	42,197	33,866
1 – 2 years	41,589	29,808
2 – 3 years	36,376	25,829
3 – 4 years	19,816	22,396
4 – 5 years	8,149	9,517
More than five years	4,110	6,115
Total	**152,237**	**127,531**
Unearned future finance income on finance charges	(19,859)	(16,488)
Net investment in finance leases	132,378	111,043
The net investment in finance leases may be analysed as follows:		
Less than one year	34,053	27,752
Between one and five years	94,512	77,604
More than five years	3,813	5,687
	132,378	**111,043**

* 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 29. 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	1,964	8,013	4,753	14,730
Asset Finance (including Classic Vehicles & Sports)	1,118	270	810	2,198
At 31 December 2022	**3,082**	**8,283**	**5,563**	**16,928**
Real Estate Finance	1,656	8,512	10,182	20,350
Asset Finance (including Classic Vehicles & Sports)	1,632	395	400	2,427
At 31 December 2023	**3,288**	**8,907**	**10,582**	**22,777**

Impairment provision movement 2023 £'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 2023	3,288	8,907	10,582	22,777
Opening Balance at 1 January 2023*	3,008	8,283	5,563	16,854
Increase (decrease) in provision	**280**	**624**	**5,019**	**5,923**
Increase (decrease) in provision				
New loans originated	1,347	–	–	1,347
Derecognised loans	(459)	(1,198)	(262)	(1,919)
Allowance utilised in respect of write-offs	–	–	(2,174)	(2,174)
Transfers between Stages and increase (decrease) in credit risk				
· Transfers from Stage 1	(500)	434	66	–
· Transfers from Stage 2	1,199	(2,783)	1,584	–
· Transfers from Stage 3	155	650	(805)	–
· Increase in credit risk	(1,462)	3,521	6,610	8,669
	280	**624**	**5,019**	**5,923**
P&L charge				
Increase (decrease) in provision on drawn loans	280	624	5,019	5,923
Increase (decrease) in provision on undrawn commitments	(10)	–	–	(10)
Write-Offs	–	–	1,900	1,900
P&L impairment charge	**270**	**624**	**6,919**	**7,813**
Income Adjustment**	–	–	(550)	(550)
Total P&L impairment charge	**270**	**624**	**6,369**	**7,263**

* The opening stage 1 impairment provision on 1 January 2023 excludes the Bank's loan commitment allowance (2022 Dec: £74k). This allowance is reported within 'Other liabilities' in 2023.

** 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 £550k.

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.

Gross loan balances by Stage 2023 £'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	891,581	178,597	35,877	1,106,055
Opening Balance at 1 January 2022	865,661	161,554	27,423	1,054,638
Increase (decrease) in loan balances	**25,920**	**17,043**	**8,454**	**51,417**
New loans originated	308,488	5,747	–	314,235
Derecognised loans	(162,076)	(45,656)	(3,407)	(211,139)
Loans written-off	–	–	(10,153)	(10,153)
Transfers between Stages				
· Transfers from Stage 1	(121,985)	111,057	10,928	–
· Transfers from Stage 2	40,428	(53,978)	13,550	–
· Transfers from Stage 3	567	2,970	(3,537)	–
· (Capital repayments)/Arrears accumulation	(39,502)	(3,097)	1,073	(41,526)
	25,920	**17,043**	**8,454**	**51,417**

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 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	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**
Real Estate Finance	763,420	173,359	35,244	1,656	8,512	10,182	761,764	164,847	25,062	951,673
Asset Finance*	128,161	5,238	633	1,632	395	400	126,529	4,843	233	131,605
At 31 December 2023	**891,581**	**178,597**	**35,877**	**3,288**	**8,907**	**10,582**	**888,293**	**169,690**	**25,295**	**1,083,278**

* Including Classic Vehicles & Sports.

	2023				2022			
£'000	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan loss coverage ratio %	0.4%	5.0%	29.5%	2.1%	0.4%	5.1%	20.3%	1.6%

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 2023 an International Bank Reconstruction & Development bond (IBRD) of £20m matured. The Bank increased the proportion of its HQLA assets held in debt securities with the purchase of a European Investment Bank £15m bond in February 2023 as well as an Asian Development Bank bond with a £20m nominal value in July.

£'000	**2023**	2022
European Investment Bank bond (EIB)	26,884	10,713
Asian Development Bank bond	20,525	–
International Bank Reconstruction & Development bond (IBRD)	–	19,699
Total	**47,409**	**30,412**

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:

- Property leases 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.

2023 £'000	Property lease	Computer hardware	Fixtures and fittings	**Total**
Cost				
Balance at 1 January 2023	2,152	799	1,060	4,011
Additions	–	121	–	121
Disposals	–	(464)	–	(464)
Balance at 31 December 2023	**2,152**	**456**	**1,060**	**3,668**
Depreciation				
Balance at 1 January 2023	482	585	578	1,645
Charge for the year	166	113	151	430
Eliminated on disposals	–	(434)	–	(434)
Balance at 31 December 2023	**648**	**264**	**729**	**1,641**
At 1 January 2023	1,670	214	482	2,366
At 31 December 2023	**1,504**	**192**	**331**	**2,026**

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**

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 £515k which were in the course of construction at the 31 December 2023 (2022: £199k).

2023 £'000	**Computer software**
Cost	
Balance at 1 January 2023	4,366
Additions	609
Disposals	(206)
Balance at 31 December 2023	**4,769**
Amortisation	
Balance at 1 January 2023	2,592
Amortisation for the year	514
Eliminated on disposals	(206)
Balance at 31 December 2023	**2,900**
Net book value	
At 1 January 2023	1,774
At 31 December 2023	**1,869**

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**

20 Other assets and prepayments

£'000	2023	2022
Other debtors	184	84
Cash Ratio Deposit	1,311	1,415
Prepayments*	1,031	1,074
Total	**2,526**	**2,573**

* 2022 prepayments were net of £46k of payments due. See Note 25 for more detail.

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 Derivative financial liabilities

Derivative financial liabilities 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 2023, the Bank had £9m nominal value of derivatives (2022: £9m), all related to the hedging of fixed rate deposit balances.

	Nominal value		Fair value	
£'000	2023	2022	2023	2022
Instrument type				
Interest rate	9,000	9,000	(652)	(1,010)
Designated in fair value hedges				
Total interest rate derivatives	**9,000**	**9,000**	**(652)**	**(1,010)**

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 (2022: £nil charge).

Fair value hedges of interest rate risk £'000 Instrument type:	2023 Assets	2023 Liabilities	2022 Assets	2022 Liabilities
Interest rate	–	652	–	1,010
Total	**–**	**652**	**–**	**1,010**

The fair value of the Bank's derivatives in place at the year-end was a liability of £650k (2022: £1,010k), with a further £2k of accrued interest payable.

- **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.

Type of credit exposure	% of exposure that is subject to collateral requirements		Principal type of collateral	Collateral (received)/given
	2023	2022		
Derivatives held for risk management	100%	100%	Cash	£830k

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 2.5 years (2022: 3.5 years).

At 31 December 2023 the Bank had pledged £830k (2022: £1.1m) of cash 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
2023						
Derivatives held for risk management						
Assets	–	–	–	–	–	–
Liabilities	–	652	–	–	–	652
2022						
Derivatives held for risk management						
Assets	–	–	–	–	–	–
Liabilities	–	1,010	–	–	–	1,010

22 Customers' accounts

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 Fair Value Though Profit & Loss (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 2023 £9m (2022: £9m) 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	**2023**	2022
Instant access	33,990	65,441
Term and notice accounts		
Payable within 1 year	914,629	882,998
Payable after one year	207,255	155,828
Total	**1,155,874**	**1,104,267**
Fair value adjustment for hedged risk	(650)	(1,011)
Total deposits from customers	**1,155,224**	**1,103,256**

£'000	**2023**	2022
Variable rate deposit balances	581,987	643,438
Fixed rate deposit balances	573,887	460,829
Total	**1,155,874**	**1,104,267**
Fair value adjustment for hedged risk	(650)	(1,011)
Total deposits from customers	**1,155,224**	**1,103,256**

23 Central Bank Facilities

The Bank has drawings of £65m under the Bank of England Term Funding Scheme for SMEs ('TFSME'). These funds were originally drawn in September 2021, have a maturity of four years and bear interest at bank base rate. The Bank repaid £13m of the drawings in 2023. The remaining maturity of the Bank's drawings is 21 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 29.

£'000	**2023**	2022
TFSME	65,000	78,000
Total	**65,000**	**78,000**

24 Subordinated debt liability

Subordinated debt liabilities are classified as financial liabilities measured at amortised cost. Subordinated liabilities comprise notes issued by the Bank, as summarised in the following table. Amounts below include accrued interest and capitalised costs.

£k		Issue date	Call date	Maturity date	2023	2022
11.5% fixed rate reset callable subordinated notes	British Business Bank Investments	Aug 2023	Aug 2028	Aug 2033	4,751	–

The principal terms of the subordinated debt liabilities are as follows:

- Interest: interest on the notes is fixed at an initial rate until the reset date. On the reset date, the interest rate will be reset and fixed based on a set margin above a defined market rate.
- Redemption: the Bank may elect to redeem all, but not part, of the notes by exercising its call option as specified in the terms of the agreement.
- The notes constitute direct, unsecured, and subordinated obligations of the Bank and rank at least *pari passu*, without any preference, among themselves as Tier 2 capital. The notes rank behind the claims of depositors and other unsecured and unsubordinated creditors but rank in priority to holders of Tier 1 capital and of equity in the Company.

25 Other liabilities and accruals

£'000	**2023**	2022
Accruals	6,727	6,041
Lease liability	1,919	1,995
Corporation tax	689	326
Other creditors*	982	1,071
Total	**10,317**	**9,433**

* 2022 other creditors excludes £46k of outstanding payments which were included within other debtors (see Note 20). See Note 31 for more details on the lease liability.

26 Capital and reserves

- **Share capital**

	£'000		No. of shares	
	2023	2022	**2023**	2022
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**
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 (2022: nil). There were no new issues of any convertible loan notes (2022: 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 2023 (2022: nil).

Cambridgeshire Local Government Pension Fund 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.

£'000	**2023**	2022
FVOCI reserve as at 1 January	(1,209)	(475)
FVOCI financial assets – net change during the year	1,111	(1,233)
Related tax	(278)	499
FVOCI Reserve as at 31 December	**(376)**	**(1,209)**

- **Convertible loan note interest payments**

The following convertible loan note interest payments were recognised as distributions to owners during the year ended 31 December. The increased rate reflects the higher bank base rate during 2023:

£'000	**2023**	2022
Convertible loan note interest 9.57 pence per loan note (2022: 6.285 pence per loan note)	2,191	1,439
Total	**2,191**	**1,439**

27 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 £1,846k (2022: £1,513k). There was an outstanding contribution due of £nil (2022: £1k) at the end of the year.

28 Financial instruments and fair values

The Bank has set out in Notes 22, 28 and 29, how it classifies financial assets and liabilities under IFRS 9. The following tables summarise the classification and carrying amounts of the Bank's financial assets and liabilities as well as the valuation basis:

2023 £'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	302,473	–	–	–	302,473
Loans and advances to banks	10,420	–	–	–	10,420
Debt securities	–	47.409	–	–	47,409
Loans and advances to customers	1,083,278	–	–	–	1,083,278
Total	**1,396,171**	**47,409**	–	–	**1,443,580**
Customers' accounts	–	–	(650)	1,155,874	1,155,224
Derivatives	–	–	652	–	652
Central Bank facilities	65,000	–	–	–	65,000
Subordinated debt liability	4,751	–	–	–	4,751
Total	**69,751**	–	**2**	**1,155,874**	**1,225,627**

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
Central Bank facilities	78,000				78,000
Total	**78,000**	–	**(1)**	**1,104,267**	**1,182,266**

2023 £'000		Carrying value	Fair value – valuation basis Level 1	Level 2	Level 3
Fair value of financial instruments carried at fair value	**Financial Assets** Debt securities	47,409	47,409	–	–
	Financial liabilities Derivatives	652	–	652	–
Fair value of financial instruments not carried at fair value	**Financial Assets** Loans and advances to customers	1,083,278	–	–	1,101,270
	Financial liabilities Subordinated Debt liability	4,751	–	–	4,751
	Customers' accounts	1,155,874	–	–	1,149,429

2022 £'000		Carrying value	Fair value – valuation basis Level 1	Level 2	Level 3
Fair value of financial instruments carried at fair value	**Financial Assets** Debt securities	30,412	30,412	–	–
	Financial liabilities Derivatives	1,010	–	1,010	–
Fair value of financial instruments not carried at fair value	**Financial Assets** Loans and advances to customers*	1,037,710	–	–	1,066,801
	Financial liabilities Customers' accounts	1,104,267	–	–	1,096,271

* Restated on the behavioural basis set out in the note below.

- **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. Fair 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 and liabilities carried at amortised cost include the following:

– 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 the average behavioural life of the Bank's customers (actual experience may differ from this assumption). The estimated future cash flows are discounted at current market rates for all loan types. The Bank has previously disclosed its fair value using the contractual life of its loans but believes the behavioural life is more appropriate. Both 2023 and 2022 values have been calculated on a consistent basis.

– 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. 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 ADB bonds) are based on quoted bid prices in active markets.

– 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. Derivative financial assets and liabilities are classified at fair value through the income statement. Derivative assets and liabilities are determined using widely recognised valuation models for determining the fair values of interest rate swaps.

– Subordinated Debt liability

This item is fully explained in Note 24. The notes are not actively traded but were only drawn in 2023 and therefore the Bank considers the fair value of this liability to equal to the carrying amount.

There have been no transfers between levels in 2023 or 2022.

- **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 remain 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% different from the discounted present value of the remaining cash flows of the original financial liability.

29 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.

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Credit exposure

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

£'000	2023	2022
Cash and balances at central banks	302,473	286,680
Loans and advances to banks	10,420	13,931
Debt securities	47,409	30,412
Loans and advances to customers*	1,106,055	1,054,638
	1,466,357	1,385,661
Commitments to lend**	67,531	102,839
Gross credit risk exposure	**1,533,888**	**1,488,500**
Less allowance for impairment losses	(22,777)	(16,928)
Net credit risk exposure	**1,511,111**	**1,471,572**

* Net of Effective Interest Rate liability of £3.2m (2022: £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 2023, and 2022, without taking account of any underlying security. At 31 December 2023 the value of securities held as collateral against drawn loans and advances to customers is £1,996m (2022: £1,916m) of which £1,862m (2022: £1,802m) is in the form of property), £134m (2022: £113m) in the form of assets owned by the Bank and financed by customers using hire purchase and finance leases, and £0.9m (2022: £1.4m) 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 2023, the Bank's asset finance loan portfolio totalled £134m (2022: £113m).

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 %	2023	2022
Real estate lending		
Residential	27%	29%
Commercial	59%	58%
Other	1%	2%
Asset finance	8%	7%
Classic Vehicles and Sports	5%	4%
Total	**100%**	**100%**

The Bank's lending Real Estate lending portfolio is geographically diversified across the UK:

Region	2023	2022
East Anglia	2%	2%
East Midlands	18%	19%
Greater London	4%	4%
North East	6%	6%
North West	16%	16%
Scotland	6%	6%
South East	8%	7%
South West	7%	6%
Wales	6%	6%
West Midlands	7%	7%
Yorkshire/Humberside	20%	21%
Total	**100%**	**100%**

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

Loan Size	2023	2022
0 – £250k	45%	47%
£251k – £500k	25%	24%
£501k – £1,000k	16%	16%
£1,001k – £3,000k	11%	10%
£3,001k+	3%	3%
Total	**100%**	**100%**

LTV banding

The Bank's Real Estate lending balances falls into the following LTV bandings:

LTV banding	2023	2022
0 – 50%	34%	30%
51 – 60%	30%	31%
61 – 70%	32%	36%
71 – 80%	2%	1%
81%+	2%	2%
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:

	2023		2022	
	£m	%	£m	%
Secured on property	972	88	942	89
Secured on other assets	134	12	113	11
Total	**1,106**	**100**	**1,055**	**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 2023 totalled £0.9m (2022: £1.4m).

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 eleven 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	2023	2022
Neither past due nor impaired	1,047,166	1,006,952
Past due but not impaired:		
Up to 3 payments missed	23,012	20,263
Default – inc. credit impaired and IFRS stage 3 loans	35,877	27,423
Total	1,106,055	1,054,638
Less allowances for impairment losses	(22,777)	(16,928)
Total loans and advances to customers	**1,083,278**	1,037,710

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.

- **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 2023, the Bank does not hold any financial assets that have been purchased or originated as credit-impaired loans (2022: None).

The Bank's 2023 Expected Credit Loss includes a Post Model Adjustment (PMA) of £611k (December 22: £685k). 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 for loans drawn in the first three quarters of 2022. A Valuation Risk ECL adjustment has therefore been modelled and included as part of the total stage 1 expected credit loss. This adjustment has been calculated by uplifting the Loss Given Default metric for all loans drawn in the first three quarters of 2022 to reflect the reported fall in commercial property prices in Q4 2022. The increase in the loan impairment charge combined with the growth in total loan balances results in an annual cost of risk of 67bps (2022: 47bps).

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 £2.3m of loans in 2023 (2022: £2.9m). 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 have 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 2023	Stage 1 (£m)	Stage 2 (£m)	Stage 3 (£m)	**Total (£m)**
1 – 2	587	5	–	592
3	164	59	–	223
4	12	110	–	122
5	–	–	35	35
Real Estate Gross loans*	763	174	35	972
Asset Finance Gross loan*	128	5	1	134

* 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 CV&S portfolio 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 a IFRS 9 stage depending on the status of the account and the PD. Accounts which have triggered the Bank's SICR (Significant Change In Credit Risk) criteria or are over 30 days in arrears are 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
Stage 1	All performing loans which do not feature on the watchlist Loans which have no arrears on them.	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 places 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. Management considers the customer unlikely to pay. 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 not considered to be 'significant' (see relevant section below).	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.

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Under IFRS 9 customers 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.

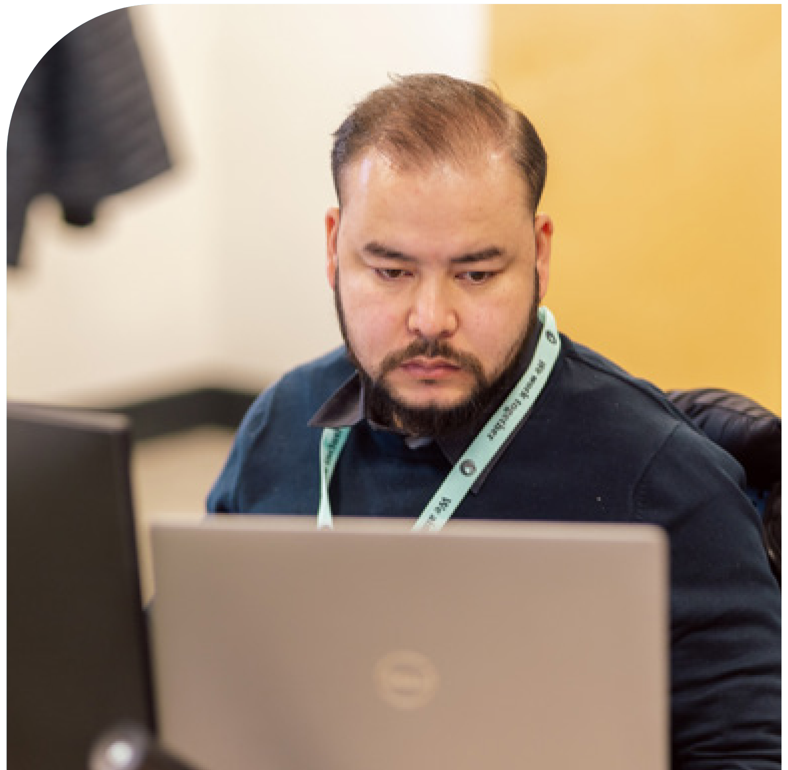
Forbearance can be temporary or permanent depending on the circumstances, progress on rehabilitation, and the detail of the concession agreed.

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		No. of customers (in concession period)	Value of loans (in concession period)
31 December 2023	In concession	Completed Concession*		£'000
Asset Finance	1	7	1	30
Real Estate	22	5	17	14,319
Total	**23**	**12**	**18**	**14,349**

* Excludes 5 customers who completed their forbearance concession and within 2 years have subsequently been classified as a stage 3 loan.

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

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

At the end of 2023 the Bank had 22 Real Estate Finance accounts and 1 Asset Finance agreement which were in their concession period. In addition, there were a further 6 Real Estate accounts which had completed their concession period within the previous 2 year period but within this period had entered default and 5 accounts which had received forbearance within the past 2 years but are now performing. In Asset Finance there were 7 accounts which had 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 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 reviewed and challenged by the Bank's ALCO and Impairment & 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
Base Case	Recession is avoided given the short-term boost to incomes from tax cuts and minimum wages announced in the Autumn Statement. GDP rises by just 0.4% in 2024 as higher interest rates take up an increasing share of income. Interest rates peaked in September and start to fall as it becomes clear that inflation is abating and that the economy is stumbling. The annual inflation rate is expected to be back to target by end-2024. As a result of the extra monetary tightening, with purchasing power removed from the economy and weaker business investment, the unemployment rate rises to 4.7% in H2 2024. Given the impact of the ratcheting up of interest rates expectations on affordability, house prices are still (for the moment) expected to drop 10% from their peak by early 2025.	The Moody's base case scenario forecasts muted growth with interest rates remaining high although the forecast suggests interest rate cuts will start by mid-2024. Labour markets are not expected to collapse with the unemployment rate expected to rise slightly.
Downside	Inflation remains stubbornly high. Higher oil prices feed through to higher transport costs, and the Bank of England raises rates. The malaise in housing hits construction activity, which contracts sharply. Insolvencies in the sector – which are already running at high levels – surge. Business investment contracts sharply given the higher cost of finance. Credit conditions tighten and firms struggle to rollover their debt. Many businesses – particularly SMEs – are forced into liquidation, pushing the economy into a recession where GDP falls around 2.5% peak to trough. GDP contracts 1.1% in 2024. Unemployment peaks at 6% in early 2025. House prices fall nearly 15% from the peak.	The downside case forecasts downturns and fears around global growth arising from the continued geopolitical tensions. The forecast also assumes a moderate but lengthy recession.
Severe Downside	Domestic worries are still centred on inflation, particularly the possibility wages could accelerate again as the impact of the higher minimum wage ripples out. This could be exacerbated by a combination of potential external shocks; A combination of shocks sees high inflation persisting, averaging 6.0% in 2024. The Bank of England raises interest rates and the rise in inflation and rates unsettles markets and leads to a crash in asset prices. House prices fall 25%, reflecting a return to fundamentals and forced selling. This reinforces the fall in spending through reduced household wealth and its indirect impact on confidence. The unemployment rate rises to 8%.	The severe downside scenario builds on the downside scenario and assumes the global economy fails to pick up. The forecast also projects a resurgence of COVID-19, although. this does not lead to lockdowns or large drops in economic activity.
Upside	Full expensing of spending on capital expenditure boosts investment and productivity surges. With labour scarcer than in the past, firms focus on productivity, and embrace AI, to boost profitability. This keeps inflation low. More family-friendly labour market policies see the labour force grow faster than in the baseline. Competition and discounting bring down food prices. Inflation recedes very quickly and, with the rate around zero by end-2024, and the Bank of England cuts interest rates. Unemployment falls back to 3.6%, wage growth remains strong and supportive of high growth in the coming years as the economy moves onto a higher productivity path.	The Moody's upside scenario assumes that the Russia-Ukraine war ends faster than anticipated which boosts aggregate demand and supply. This in turn is expected to relieve recession concerns through increased consumer spend and business confidence.

Scenario weighting:

Scenario	Weighting Applied 2023	Weighting Applied 2022
Base Case	50%	47.5%
Downside	40%	32.5%
Severe Downside	5%	15%
Upside	5%	5%

Macroeconomic variable forecasts:

The Bank uses the following macro-economic forecasts in its Real Estate Finance scenario modelling.

- **Unemployment***

Year end forecast (%)	2024	2025	2026	2027	2028
Base Case	4.7	4.3	4.1	4.1	4.1
Downside	5.5	5.8	5.0	4.6	4.5
Upside	3.5	3.5	3.6	3.8	3.8
Severe Downside	6.2	8.0	7.0	6.0	5.4

* The Bank's ECL model uses a 'hazard rate' metric. The hazard rate is driven by the unemployment rate forecast presented and this is considered a more meaningful metric for the reader. The hazard rate is defined as the proportion of the population moving from employment to unemployment.

- **Mortgage interest gearing – variable rate**

Year end forecast (%)	2024	2025	2026	2027	2028
Base Case	6.5	5.5	5.1	4.5	4.5
Downside	7.1	6.2	5.5	4.9	4.6
Upside	5.8	5.2	4.7	4.3	4.4
Severe Downside	7.6	7.1	6.7	5.8	5.0

- **Undrawn housing equity**

Year end forecast (%)	2024	2025	2026	2027	2028
Base Case	75.5	75.5	75.8	76.0	75.8
Downside	74.8	73.5	73.2	73.1	72.6
Upside	78.1	78.9	79.3	79.3	79.1
Severe Downside	72.9	70.0	70.6	71.0	70.5

- **Bank base rate**

Year end forecast (%)	2024	2025	2026	2027	2028
Base Case	5.25	4.50	4.25	3.75	3.50
Downside	5.90	5.01	4.53	4.04	3.50
Upside	4.60	4.25	4.00	3.75	3.50
Severe Downside	6.50	6.10	5.78	4.97	3.85

- **Commercial property price changes**

Year end forecast (%)	2024	2025	2026	2027	2028
Base Case	-3.2	4.3	6.9	8.9	9.0
Downside	-8.6	0.8	5.8	9.0	9.4
Upside	11.9	11.7	9.2	6.5	5.1
Severe Downside	-18.5	-5.2	9.1	9.7	6.7

- **Residential property prices changes**

Year end forecast (%)	2024	2025	2026	2027	2028
Base Case	-8.2	3.2	4.9	4.5	3.0
Downside	-11.2	-2.2	3.9	4.4	3.2
Upside	4.5	5.8	4.2	3.2	2.6
Severe Downside	-17.6	-6.9	7.2	6.3	3.3

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 £m	100% weighting ECL £
Base Case		£19.0m
Downside		£21.6m
Severe Downside	£20.3m	£28.8m
Upside		£16.3m

- **Asset Finance**

Scenario	Current weighted Scenario ECL £m	100% weighting ECL £
Base Case		£2.1m
Downside		£2.7m
Severe Downside	£2.4m	£3.0m
Upside		£1.7m

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

	Provision impact (£)
Residential and Commercial property prices reduce by 5% more than in the base case across the next 3 years	£243k
An increase from 48.5% to 53.5% in the Bank's forced sale discount	£1.3m
An increase in from 46% to 51% in the assumed Cure rate	(£882k)
A 6 month increase in the assumed time to sell defaulted properties	£273k
A 10% increase in the Bank's Asset Finance LGD	£194k

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 £34.5m in Stage 3. A 10% increase in the LGD for these loans would result in a £1.0m 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 (£25m) and the Asian Development Bank (£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 2023 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 opposite 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	2023	Credit rating	2022	Credit rating
Cash and balances at central banks	302,473	P1/Aa3	286,680	P1/Aa3
Deposits at other banks	10,420	P1/A1	13,931	P1/A1
European Investment Bank Bond	26,884	P1/Aaa	10,713	P1/Aaa
International Bank Reconstruction and Development Bonds	–	–	19,699	P1/Aaa
Asian Development Bank	20,525	P1/Aaa	–	–
Derivatives held for risk management purposes	(652)	P1/Aaa	(1,010)	P1/A1

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 Executive 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 drew £78m of funding in the form of cash under the Bank of England's TFSME Scheme

(Term Funding Scheme with additional incentives for SME) in September 2021. It has to date repaid £13m with the remainder repayable by 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 2023 was 718% (2022: 361%) and the LDR was 94% (2022: 94%).

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 2023 £'000	Due within one year	Due after more than one year	No contractual maturity	Total
Assets				
Cash and balances at central banks	302,473	–	–	302,473
Loans and advances to banks	9,590	830	–	10,420
Debt Securities	–	47,409	–	47,409
Loans and advances to customers	76,550	1,006,728	–	1,083.278
Other assets	–	–	7,142	7,142
Total Assets	**388,613**	**1,054,967**	**7,142**	**1,450,722**
Liabilities				
Customers' accounts	948,619	206,605	–	1,155,224
Central Bank facilities (TFSME)	–	65,000	–	65,000
Subordinated debt liability	–	4,751	–	4,751
Lease liabilities	248	1,671	–	1,919
Derivative financial liabilities	2	650	–	652
Other Liabilities	689	–	7,709	8,398
Total liabilities	**945,558**	**278,677**	**7,709**	**1,235,944**

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 and accruals	326	–	7,112	7,438
Total liabilities	**948,764**	**235,823**	**7,112**	**1,191,699**

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 2023	Due within one year	Due after more than one year	No contractual maturity	Total
Customer accounts	963,610	222,964	–	1,186,574
Central Bank facilities (TFSME)	913	67,492	–	68,405
Subordinated debt liability	–	4,751	–	4,751
Lease liabilities	248	1,671	–	1,919
Derivatives financial liabilities	2	650	–	652
Other liabilities and accruals	689	–	7,709	8,398
Total liabilities	**965,462**	**297,528**	**7,709**	**1,270,699**

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 and accruals	326	–	7,112	7,438
Total liabilities	**955,168**	**253,726**	**7,112**	**1,216,006**

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

£'000	2023	2022
Balances with Central banks	302,473	286,680
Loans and advances to banks	10,420	13,931
Debt securities	47,409	30,412
Total	**360,302**	**331,023**

– **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 repaid £13m of these drawings in 2023. The Bank has a total of £217m (2022: £265m) 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 2023 was:

31 December 2023 £'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	302,473	–	–	–	–	–	302,473
Loans and advances to:							
Banks	10,420	–	–	–	–	–	10,420
Customers	916,940	13,051	23,353	152,989	2,969	(26,024)	1,083,278
Debt Securities	–	–	–	47,409	–	–	47,409
Other assets and prepayments	–	–	–	–	–	7,142	7,142
Total Assets	**1,229,833**	**13,051**	**23,353**	**200,398**	**2,969**	**(18,882)**	**1,450,722**
Off balance sheet derivatives	–	–	–	9,000	–	–	9,000
Liabilities							
Customers' accounts	(703,569)	(95,082)	(202,250)	(202,984)	–	(16,339)	(1,220,224)
Other liabilities and accruals and subordinated debt	–	–	–	(4,751)	–	(10,969)	(15,720)
Total Equity	(22,900)	–	–	–	–	(191,878)	(214,778)
Total liabilities and equity	**(726,469)**	**(95,082)**	**(202,250)**	**(207,735)**	–	**(219,186)**	**(1,450,722)**
Off Balance sheet derivatives	(9,000)	–	–	–	–	–	(9,000)
Interest Rate Sensitivity Gap	**494,364**	**(82,031)**	**(178,897)**	**1,663**	**2,969**	**(238,068)**	–
Cumulative gap	**494,364**	**412,333**	**233,436**	**235,099**	**238,068**	–	–

The interest rate sensitivity exposure of the Bank at 31 December 2022:

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 assets and prepayments	–	–	–	–	–	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 and equity	**(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**	–	–

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: -£0.3m (2022: -£1.8m)

-200 bps: £0.1m (2022: £1.8m)

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.

30 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 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 September 2023.

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. Management 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 13.8% of Risk Weighted Assets (RWA) at 31 December 2023. The Bank's regulatory capital at 31 December 2023 totalled £218.7m (2022: £186.0m), (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 2023 whilst the Counter Cyclical Buffer increased from 1% RWA at 31 December 2022 to 2% in December 2023.

As at 31 December 2023, the Bank's regulatory capital consists of Tier 1 capital which includes ordinary share capital, convertible loan notes, retained earnings, reserves, and deductions for intangible assets as well as £5m of Tier 2 capital. The Bank's intangible asset deduction as at 31 December 2023 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 this relief ended at 31 December 2022.

  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	31 December 2023	31 December 2022
Ordinary share capital	44,955	44,955
Perpetual subordinated contingent convertible loan notes	22,900	22,900
Retained earnings	147,299	118,200
FVOCI reserve	(376)	(1,209)
Deductions: Intangible assets	(1,869)	(1,774)
Other deductions*	(1,984)	(1,718)
Total Tier 1 capital	210,925	181,354
Subordinated debt liability**	5,000	–
Tier 2 Capital	5,000	–
Total regulatory capital before IFRS 9 transitional relief	**215,925**	**181,354**
IFRS 9 transitional relief	2,792	4,618
Total regulatory capital after IFRS 9 transitional relief* **	**218,717**	**185,972**
Equity as per statement of financial position	214,778	184,846
Regulatory adjustments	(3,853)	(3,492)
Subordinated debt liability**	5,000	–
Tier 2 Capital	5,000	–
Total regulatory capital before IFRS 9 transitional relief	**215,925**	**181,354**
IFRS 9 transitional relief	2,792	4,618
Total regulatory capital after IFRS 9 transitional relief* **	**218,717**	**185,972**

* 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 £150m 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 £1.937m of losses arising from the loans within the guarantee. The £1,937k is referred to as the Bank's first loss element.

** For the purposes of regulatory capital calculations, capitalised interest and other accounting adjustments of £249k are excluded (31 December 2022: £nil).

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

31 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.

2023 Right of use asset (£'000)	Property	Computer Hardware – Printers	Total
Balance at 1 January 2023	1,662	38	1,700
Additions	–	77	77
Disposals	–	(30)	(30)
Depreciation charged to P&L	(166)	(18)	(184)
Balance at 31 December 2023	**1,496**	**67**	**1,563**

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

2023 Lease liability (£'000)	Property	Computer Hardware – Printers	Total
Balance at 1 January 2023	1,956	39	1,995
Additions	–	77	77
Disposals	–	(29)	(29)
Interest charged to P&L	119	4	123
Lease payments	(228)	(19)	(247)
Balance at 31 December 2023	**1,847**	**72**	**1,919**

2022 Lease liability (£'000)	Property	Computer Hardware – Printers	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**

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 (2022: £39k). The Bank is expected to make payments totalling £48k in respect of the Sheffield lease in 2024. 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	2023	2022
Less than one year	248	256
Between one and five years	1,213	921
More than five years	1,151	1,616
Total	**2,612**	**2,793**

32 Commitments

At 31 December 2023, the Bank had undrawn credit line commitments of £67.5m (2022: £103m) and capital commitments of £nil (2022: £nil).

At 31 December 2023, the Bank had contingent liabilities of £nil (2022: £nil).

33 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	2023	2022
Cambridgeshire County Council		
Sums paid in respect of Directors' services	–	13
Interest payments on perpetual subordinated contingent convertible loan notes	2,191	1,439
Trinity Hall, Cambridge		
Hospitality services	4	4

The Bank used the services of Aula Hospitality Ltd for hospitality and conference facilities in 2023 and 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	2023	2022
Directors' remuneration	2,473	2,286
Social security costs	316	284
Amounts paid to third parties in respect of Directors' services	-	13
Total	**2,789**	**2,583**

* The emoluments of the highest paid Director were £693k (2022: £591k), includes £9k of payments in respect of contributions to money purchase schemes. No Directors received any shares as part of their remuneration. There were no Directors' loans in 2023 (2022: nil).

- **Transactions with key management personnel:**

Mike Hudson, an Executive Director, is a trustee of a not-for profit organisation that had £86k (2022: £83k) 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 2023 (2022: nil).

There were no loans outstanding to any Directors at 31 December 2023 (2022: nil).

34. 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).

There is no ultimate holding company.

35 Subsequent events

There have been no significant quantifiable events between 31 December 2023 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

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 2023 or 2022.

Cambridge & Counties Bank Limited

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 & Counites Bank Limited's country-by-country information for the year ended 31 December 2023 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 2023 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/industry, 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
Chartered Accountants and Statutory Auditors
Birmingham
28 March 2024

Cambridge & Counties Bank

Built on understanding

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