Annual Report

Charity Bank
Annual Report

2022

Charity bank

The Charity Bank Limited ('Charity Bank') is a UK incorporated company limited by shares, regulated by the Prudential Regulation Authority ('PRA') and authorised by the Financial Conduct Authority ('FCA') as a deposit-taking institution under the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012).

Our mission is to support and strengthen impact driven organisations that improve people's lives whilst empowering savers and investors to put their money to work for positive social change.

CHAIR

Alan Hodson

CHIEF EXECUTIVE

Edward Siegel

Registered company number: 4330018

Private limited company

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Statement from the Chair and Chief Executive

We are delighted that in 2022, Charity Bank disbursed a record £53.9m in new loans. By lending to UK charities and social enterprises, many of which might otherwise have struggled to secure funding, we are able to support and grow their social impact. New loans disbursed in the year were the highest level achieved by the bank in our 20-year history, a remarkable accomplishment in the current economic environment when many organisations are putting their investment plans on hold.

We also achieved a record financial result in 2022, a significant profit which, when added to the new shareholder capital that we have raised externally over the past two years, puts the bank in a very strong position to continue to enlarge the depth and breadth of our impact.

The contrast between the bank's recent financial performance and the challenges that rising prices and higher interest rates present to our borrowers and the people that they serve is apparent to us all. At such a time, it is important to remember that as a social enterprise itself Charity Bank aims to reinvest the majority of its profits into its social mission, and our intention for 2022 is to reinvest 100% of this profit. As a result, this becomes part of our capital base, which we will leverage by a significant multiple to continue to grow our lending activity and the social impact it can generate.

As we detail below, our significantly stronger balance sheet has allowed us to materially update our strategic plans. Although we must always protect the financial strength of the bank, the primary focus for our investment resources will increasingly be where we believe we can have the most social impact, even when this is not where the financial return is greatest. It allows us to be more innovative and to extend our reach to organisations that are most in need of our support at a time when the external environment is challenging our customers more than ever.

Updated Five-Year Strategy

Our updated Strategy for 2023-2027 was developed in coordination with the Charity Bank Board and in consultation with our shareholders and was approved at the bank's December 2022 Board meeting. In developing this Strategy, we were also guided by the findings and recommendations of the Adebowale Commission on Social Investment.

Our past strategy statements and annual business plans were rightly focused on balance sheet growth, both for delivering social impact through our lending and to achieve and maintain a profitable and sustainable level of financial scale. In our updated strategy for 2023-2027, when we talk about growth, we're mainly talking about growing our impact. Of course, we still need to maintain a sustainable scale of operations, and we continue to believe that our lending is the main contributor to our social impact, so continuing to grow the loan portfolio is consistent with our impact growth objectives. However, we feel that our improved financial position now allows us to be more selective about where we invest our time and resources, and therefore we will be driven in large part by our Impact Strategy and will measure our success against a specific set of Impact KPI's as we continue to grow.

STRATEGY STATEMENT

> *"Charity Bank will be the lender of choice for UK impact-driven organisations, uniquely positioned to lend to most organisations with a recognised social model and purpose, and specifically seeking out those organisations that are addressing the greatest needs of our society and our planet.*
> *In pursuit of this vision, we will deliberately aim to reach organisations and communities that have historically been underserved and underfunded, and we will prioritise those organisations that are serving the most vulnerable."*

KEY INITIATIVES SUPPORTING THE STRATEGY

- *Lender of choice - customer satisfaction; digital transformation*

Continuous service improvement remains key to giving our customers the best experience possible and enabling the bank to maintain a leadership position in the UK social financing space. For this reason, we must continue to invest time and resource into improving our processes, including adequate levels of specialist personnel and selective investments in technology.

Statement from the Chair and Chief Executive (continued)

Updated Five-Year Strategy (continued)

- *Culture - Charity Bank is a great place to work*

We aim to build a trusting and inclusive working environment that values employee feedback and helps guide our decision making and actions at every level. We want to attract and retain talented individuals who share our values, and we continue to work to build diverse and inclusive teams and an environment where our people can bring their whole selves to work. By continuing to promote policies and ways of working that develop talent and enhance personal growth, promote listening and collaborating, and enable team members to balance work and personal life, we will create a positive employee experience and make Charity Bank a great place to work.

- *Additionality - continuing to fill gaps in the provision of finance with appropriate funding solutions for social sector organisations*

Charity Bank was created to fill the gaps where mainstream lenders have failed to meet the financing needs of social sector organisations. Going forward, we will be more deliberate about identifying and meeting the needs of underfunded organisations where we believe a viable financial solution exists. In some cases, the 'blended finance' grant and loan products enabled by specialist funding such as that provided by Access- The Foundation for Social Investment, that will be the solution of choice. We know that the greatest gaps in provision of appropriate funding exist amongst smaller organisations, many of which lack securable assets. As such, we plan to significantly expand our portfolio of smaller loans over the plan period.

- *Depth of impact – prioritising organisations that are serving the most vulnerable, underserved and marginalised*

This strand of our strategy focuses on the depth of the impact that our borrowers can have with our support. We will specifically target and prioritise those organisations addressing the most challenging needs in our society.

- *Locality – targeting economically deprived and excluded regions and communities*

We will seek to increase the penetration of our lending into the economically deprived localities that most need the services of our borrowers. As well, we will make greater efforts to ensure that we are reaching regions of the UK that have historically been underserved by social investment.

- *Diversity – extending our outreach to systemically underfunded groups*

The bank's wider effort to implement best practices in equity, diversity and inclusion ('EDI') across all our operations also extends to our core lending business. As such, we will have specific targets for addressing the unmet financing needs of charities and social enterprises led by and/or serving historically excluded groups. The Lending Equal Access Programme ('LEAP') lending programme to be launched in 2023 has specific diversity outreach targets which will inform marketing activities and lending behaviours and processes that the wider lending effort can adopt and implement.

- *Complex housing needs – housing as a basic need that is fundamental to enabling other positive outcomes*

We will be more thoughtful and deliberate about this significant area of our lending activity and will specifically target projects addressing more complex housing needs such as rough sleeping, specialist accommodation for people with additional support needs, and housing for the elderly and people with physical and mental disabilities.

- *Environmental impact – building a 'green lending' portfolio*

We are currently exploring opportunities to develop products and partnerships for financing energy efficiency investments for charities and social enterprises that want to lower their energy bills while also reducing their carbon footprints. We believe that climate change is possibly the most significant social challenge facing the world today. Moreover, the recent rise in energy prices has made this an economic issue for our customers as well as an environmental one and has given us an even greater impetus to expand the bank's 'green lending' activities.

Statement from the Chair and Chief Executive (continued)

Four-day working week

As an ethical bank we are constantly looking at ways to deliver increased societal impact through our values-driven approach – that influenced our decision to trial a four-day working week as part of a six-month global programme exploring how reduced working hours can improve productivity. Our decision to take part in the four-day work week pilot was based on a whole host of positive benefits that arise from shortening the working week to improve the welfare of our co-workers in the first instance, and our customers by extension. The initial findings show wellbeing and productivity benefits for our co-workers, during a period of record growth and whilst maintaining high customer satisfaction. For this reason, we have extended the trial until the end of 2023 when we will decide on the future of our working week.

Financial Performance

	2022 £'000	2021 £'000
Net interest income	9,396	5,526
Other income	776	878
Total income	10,172	6,404
Operating expenses	(6,434)	(5,564)
Operating profit before loan loss provisions	3,738	840
(Increase) decrease in loan loss provisions	(1,022)	104
Net profit	2,716	944

The bank generated a very strong financial result in 2022 due to a number of factors, not least of which was the increasing Bank of England Base Rate. Our success from a financial perspective is also the result of years of working to grow the bank to a sustainable scale of operations during an extended period of very low interest rates. As rates now rise, we are seeing the benefits of the growth we have achieved as well as the cost discipline we have demonstrated over the years.

For the year ended 31 December 2022, the bank registered a net profit of £2.7m compared to £0.9m in the same period one year ago. As mentioned, this result was significantly influenced by the rising interest rate environment; however, it was also enabled by a number of other factors, including:

- A record level of new loan disbursements which resulted in year-on-year growth of 15% in net loans outstanding.
- Good liquidity management as our deposit base kept pace with loan portfolio growth whilst paying competitive but not excessive interest rates.
- Our costs were managed carefully against budget, in a challenging inflationary environment. However all categories of operating expense were higher than in 2022, and we expect this trend to continue into 2023.
- Excellent quality in the loan portfolio, although we added over £1m in provisions for loan losses throughout the year, mainly in recognition of the challenging economic environment as opposed to any specific borrower repayment trends.

Statement from the Chair and Chief Executive (continued)

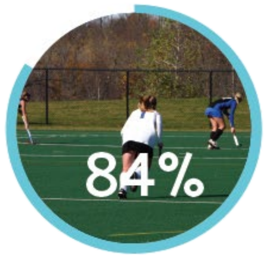
Lending- Our Charity and Social Enterprise Customers

Total drawdowns of new loans in 2022 were £53.9m compared to £51.3m in 2021. As a result, the net outstanding loan book stood at £274m at year-end, up 15% from £239m at the end of 2021. Approvals of new loans totalled £61.6m in 2022, up 26% from £48.8m one year ago, but still lower than the level we had targeted at the start of the year which was due at least in part to the impact of rising rates on loan demand. With our growing focus on the smaller end of the lending market, the average size of approved loans continued to fall to £587k in 2022 from £609k in 2021 and meant that the actual number of loans approved by the team increased by over 31% year-to-year.

of our customers are first time borrowers

of projects would not have gone ahead without the loan

said our loan increased likelihood for growth



said our loan led to growth in services offered

Source: Charity Bank 2021 Borrower Survey

Deposits

Growth in our lending helps contribute to the social impact that our borrowers generate. This growth would not be achievable without our depositors – individuals, charities, credit unions and businesses that choose to save with Charity Bank to help drive social change. A deposit with Charity Bank is a positive and intentional choice that gives our savers the assurance that their funds will only be invested in mission-led organisations that are working to address disadvantage and improve lives.

Our deposit book grew by 15% in 2022 to £314m from £273m at the end of 2021 reflecting strong growth in retail savings and a growing trend towards savings for impact. This growth was achieved despite not competing for savings purely by competitive pricing.

Capital

We are very excited to welcome two new shareholders to Charity Bank. In December 2022, we drew down the first tranche of a £1m investment from the Access- The Foundation for Social Investment, and in the first week of January 2023 we completed a £1.1m investment from The Archbishops' Council of the Church of England. These investments bring the total amount raised in our 2020-2023 equity capital raising campaign to nearly £7.5m.

The investment from Access will support the launch in 2023 of our LEAP programme of smaller loans with more flexible terms than our traditional lending products, including less demanding security requirements. The LEAP programme also has specific targets for reaching ethnically diverse organisations and other groups that have experienced exclusion from social investment. The investment package from Access comes with additional support in the form of first-loss funding to cover the higher risk associated with unsecured lending, as well as a subsidy for programme operating costs and an allocation for making direct grants to loan applicants. Although we have been expanding our book of smaller loans for a few years now, the LEAP programme represents a significant move to extend our reach to underserved organisations and supports some of the key themes of our updated strategy.

Statement from the Chair and Chief Executive (continued)

Capital (continued)

The investment from The Archbishops' Council comes from the Church of England's Social Impact Investment Programme which was established in 2021 with funding from the Church Commissioners for England. We are very excited about the potential of this partnership, in particular as we seek to grow our activities in the 'green lending' space, which is a specific area of interest for the Church, and as we continue to expand our lending to faith groups.

These new investments alongside the retention of our recent profits leave the bank in a good position to deliver on its medium-term growth plans.

Social Impact

Our loans continue to support charities and social enterprises in a variety of different ways. The results of our 2021 Borrower Survey demonstrate how our loans have helped our borrowers improve the quality and reach of their services and strengthened their financial resilience, leaving them in a better position to deliver their missions.

financed activities grant funders would not

improved financial planning

contributed towards the achievement of their mission

improved quality of services or facilities

Source: Charity Bank 2021 Borrower Survey

Over the past year our loans have supported a wide variety of social purpose organisations with the largest amounts lent to the housing and education sectors. Our loans have reached all parts of the UK and **61%** of our lending was directed towards organisations operating in the most disadvantaged areas of the country.

Below are just two examples of organisations that Charity Bank supported in 2022.

Target Housing provides homes for people who would otherwise be on the street. Their clients often have multiple needs, including drug addiction, alcohol dependency, mental health issues and learning disabilities. The charity's newest project, THRIVE, provides life-long housing and support for the most difficult to place homeless people, whose lives have been significantly impacted by adverse experiences, trauma and instability, and who may have been turned away by other services. Target's most recent Charity Bank loan is helping it to buy several one bed properties for their THRIVE clients.

Statement from the Chair and Chief Executive (continued)

Social Impact (continued)

Aspatria Dreamscheme started as a youth charity and is now expanding its services to the wider community. It wanted to do even more but had run out of space. When an old chapel came up for sale near the charity's youth centre it offered Aspatria Dreamscheme the room it needed. Together with a sizeable gift from another charity and Aspatria Dreamscheme's own reserves, an £84,500 loan from Charity Bank meant that they could purchase the property. Aspatria Dreamscheme has big plans for the new building. All of the new services, from cookery classes to craft activities and low-cost hot meals, will help to bring people together and tackle loneliness.

Thanks

We greatly appreciate the support of everyone who has contributed to the growth of Charity Bank in 2022. We aim to bring together our savers and investors to support our charity and social enterprise borrowers. It is the combination of these resources, achieved thanks to the hard work of our staff and directors, that allows us to make a difference in society. Thank you!

Alan Hodson	Edward Siegel
Chair	Chief Executive
21st April 2023	

Strategic Report

Financial highlights

The Report and Financial Statements for the year ended 31st December 2022 have been prepared in accordance with UK adopted International accounting standards and the requirements of the Companies Act 2006.

Summary financial indicators at 31 December 2022 and 2021 are set out below.

	2022 £'000	2021 £'000	% Increase/ (Decrease)	
Balance sheet				
Balance sheet total assets	358,050	312,072	14.7%	
Loans and advances to customers before impairments	275,417	239,702	14.9%	What we are about - support and finance for charities
Deposits	313,835	272,571	15.1%	Funded by private individuals, companies and charities
Cash and balances at banks	63,198	45,934	37.6%	Cash and short-term balances with other banks
High quality liquid assets	18,792	24,895	(24.5%)	As defined under prudential regulations
Subordinated loan notes	8,141	7,137	14.1%	From charitable foundations and individuals
Total shareholders' funds	30,014	26,748	12.2%	Representing share capital and retained earnings
Total comprehensive income for the year				
Net interest income	9,396	5,514	70.4%	What we earn from lending and interest earned after the cost of our funds
Other income	776	890	(12.8%)	Fees and commission income, commission from RLLF, grant income from LEAP programme
Administrative expenses	(6,010)	(5,141)	16.9%	Total costs for operating and managing the bank
Total comprehensive income for the year	2,716	944	187.7%	
Loan origination and progression				
Approvals	61,645	48,759	26.4%	Loans approved during the year for progression to be drawn down
Committed loans	52,506	59,051	(11.1%)	Approved loans on which offers have been made to borrowers and are available to be drawn

Strategic Report (continued)

Financial highlights (continued)

How the numbers relate	2022	2021
Loans to customers as a proportion of balance sheet before impairment	76.9%	76.8%
Deposits as a proportion of balance sheet	87.7%	87.3%
Loan to deposit ratio	87.8%	87.9%
Income yield	3.68%	2.38%
Average cost of funds	0.93%	0.57%
Return on shareholder funds	9.0%	3.5%

Charity Bank made a profit for the year of £2.7 million compared to £0.9million in 2021.

The increase in Charity Bank's cost of funds corresponds to the increasing Bank of England base rate environment from December 2021 onwards.

As at 31 December 2022 cost of funds had increased from 51bps to 150bps although margin to base rate has swung from +26bps to -200bps in part due to raising new Community Investment Tax Relief ('CITR') deposits, whereby the depositor can claim a specified tax relief on the deposit balance for up to five years), launching new shorter tenor products and effective management of pricing elsewhere across its suite of savings accounts.

Balance sheet

Charity Bank's gross assets increased by 14.7% (2021: 14.4%) during 2022.

On the assets side, loans (after impairment) to charities, community groups and social enterprises increased by 14.7% (2021: 15.3%), with 76.9% (2021: 76.8%) of the balance sheet being used to make charitable loans. We now have a growing pipeline of loans at various stages of our approval and commitment processes and are receiving a high level of enquiries. On top of the minimum liquidity reserves that we are required to maintain by the Prudential Regulation Authority (the 'PRA'), we hold a robust level of liquid assets to service our expected volume of loan commitments and drawn loan assets in 2023.

With respect to liabilities, our deposits increased during the year, growing by 15.1% in 2022 (2021: 13.0%).

Our deposit book remains well diversified across four classes of UK based savers (businesses, charities, credit unions and individuals). We have seen a net lengthening in the maturity profile of our deposit book from 197 days to 217 days. The average residual maturity of our term deposits increased slightly from thirteen months to fourteen months, whilst the average notice period increased fractionally from 38 to 39 days. A more detailed analysis of our deposits is provided in note 19 in the Notes to the Financial Statements.

Profit and loss

Our net interest income increased by 70.4% (2021: 30.4%) primarily as a result of the growth in the loan book and the base rate increases during the year. Refer to note 14 for a breakdown of the loan portfolio, 7% of the loan balance relates to fixed rate loans.

Fee income decreased by 7.2% from £780k to £724k (2021: 65.3% increase).

On the expenditure side, our operating expenses, depreciation and amortisation, increased by 15.6% from £5.6 million to £6.4 million (2021: 11.2%), the main driver is an increase in headcount.

There was a £1.1m impairment charge for loans and non-lending assets (2021: £104k release). The increase in impairment charge relates to the growth in the loan book and well as changes to our forward-looking provision assumptions to reflect inflation pressures, rising interest rates, a tight labour market, supply chain disruptions and falling consumer spending/ confidence. The actual bad debt expense continues to remain low, with no write offs having been expensed in 2022. Refer to note 25 relating to the impairment charge for the year.

Strategic Report (continued)

Carbon reporting

Charity Bank aims not for financial return alone, but rather a sustainable combination of social, economic, and environmental returns for the benefit of all the bank's stakeholders and our society at large. As our mission is to support people and the planet, we are committed to reducing our environmental footprint in all areas of our work. Charity Bank has an environmental impact in two main areas:

- our lending activities – through the projects and activities we fund; and
- our own activities – travel, materials, procured goods and services, and the operation of our office.

Charity Bank is currently working towards *Investors in the Environment* silver accreditation. *Investors in the Environment* is an environmental accreditation scheme designed to help businesses reduce their environmental impact. We will continue to improve our environmental management system by working to the *Investors in the Environment* criteria, considering any changes in legislation, our organisation, and other factors. The bank will convey the Environmental policy to all employees ensuring that they are provided with training to increase awareness of environmental matters.

In 2022, we formed a team of Green Champions from among our co-workers with the goal to help make our Charity Bank environment a greener, healthier, happier place to work. Our Green Champions promote sustainability, take on green projects and initiatives, encourage effective resource use and lead by example to help colleagues do the same.

Our lending activities represent our largest environmental impact.

Lending to combat climate change

Some of the organisations we support are directly seeking to combat climate change. This includes 59 loans to organisations with a primary focus on the environment, including conservation to recycling, and sustainable transport to renewable energy. Other charities and social enterprises that we fund are seeking to reduce their carbon footprint and greenhouse gas emissions. This often includes the building of new sustainable buildings and making existing buildings energy efficient.

Building our green loan portfolio

Charity Bank is committed to facilitating and incentivising green lending and growing our green loan portfolio. In 2022, we launched two green loan offers rewarding charities and social enterprises for using loan finance to buy or build an energy-efficient building or to improve the energy efficiency of their existing property. We are also in discussions with potential partners on lending products and programmes to finance investments in energy efficiency for our charity and social enterprise clients.

Greenhouse gas (GHG) emissions financed by loans

Charity Bank is a member of The Partnership for Carbon Accounting Financials ('PCAF') and has committed to measure and disclose the GHG emissions associated with our portfolio of loans, and ultimately to ensure that the climate impact of our loans is in line with the Paris Agreement. The Paris Climate Agreement adopted in 2015 recognised the financial sector as having an enabler role in the achievement of the most ambitious climate-related goals. The text set specific targets to be collectively achieved to limit global warming to well below 2°C, and preferably to 1.5°C, offsetting the equivalent carbon emissions produced by the same amount elsewhere.

We view measuring the financed emissions of our loan portfolio as the foundation enabling us to set targets, inform actions, and disclose progress. Charity Bank is committed to aligning to the Paris Agreement and will set out more detailed plans in 2023.

Our environmental commitment can be demonstrated in our established actions below:

- Compliance with applicable standards, laws, requirements, regulations, and public/customer expectations;
- Monitoring our key resource usage and implementing conservation techniques to achieve our environmental targets;
- Using electronic means of communication where possible and encouraging recipients to avoid printing;

Strategic Report (continued)

Carbon reporting (continued)

- o Committee and board meetings are predominantly paperless using a secure online portal

• Prioritising use of environmentally friendly products;

- o Our paper is produced using raw materials from responsibly managed forests with the Mark of Responsible Forestry, Elementary Chlorine Free with Eagle Certification
- o Selecting low energy equipment wherever possible
- o Using a 100% REGO -backed renewable electricity supplier

• Implementing a waste reduction/recycling plan;

- o With used furniture, IT and other electrical equipment donated for re-use where appropriate/ practical
- o Recycling paper, cardboard, glass, cans, plastic bottles
- o Compost for used teabags and coffee

• Minimising unsustainable transport through the development of a travel plan;

- o This includes hosting meetings by video conference to avoid unnecessary journeys

• Working with suppliers to ensure they acknowledge and improve the environmental impact of their products, services and transportation; and

• Publishing and distribution of an annual organisational sustainability report.

This is the first year Charity Bank has made these disclosures.

Emission factor calculation on loan security

Charity Bank has joined the Climate Change Commitment which includes PCAF. The disclosure is presented under the Global Alliance for Banking on Values ('GABV') Climate Change Commitment and follows the PCAF standard.

The majority of our loan portfolio is secured by property, the PCAF emissions database has been used to calculate the carbon footprint of our portfolio using the commercial real estate asset class. The property size used as security has been captured in square metres for the loan portfolio, 13% of the portfolio has not been used in the calculation and no estimate was made as the information was not available.

	31st Dec 2022 tCO2e/m2
Loans- secured by property	
Scope 1	9,990
Scope 2	14,985
Scope 3	-

Strategic Report (continued)

Carbon reporting (continued)

Where the loans are unsecured, or not secured by property, an additional calculation was performed using the PCAF emissions database for project finance asset class, the relevant sector of the borrower and the latest annual accounts available to perform the emissions calculation.

	31st Dec 2022 tCO2e/M€
Loans- unsecured/ secured by other means	
Scope 1	3,957
Scope 2	134
Scope 3	2,929

Scope 1- direct emissions from owned or controlled sources
Scope 2- indirect emissions from the generation of consumed energy
Scope 3- all other emissions from the company's value chain

Energy usage

The electricity readings have been taken from our supplier invoices, which is Ecotricity. These readings relate to the head office based in Tonbridge, the bank has no other locations.

The carbon figures have been calculated using the Department for Business, Energy and Industrial Strategy ('BEIS') 2020 carbon conversion factors for all fuels- this relates to travel by our regional managers to visit borrowers and to attend work events, and for staff that travel to the office, who are home-based.

	31st Dec 2022 kWh
Electricity- usage at the office in Tonbridge	89,567
	kg CO2e
Vehicle fuel- staff travel	6,438

Loan origination and progression

Our loan origination activities for the year have increased from 2021, with approvals in the year of £61.6 million, an increase of 26.4% on the previous year (2021: £48.8 million). Our undrawn loan commitments of £52.5 million at 31st December 2022 decreased by 11.1% from 2021 (2021: £59.1 million). Such commitments consist of those transactions where we have made an offer to the borrower, where we are waiting for the loan documentation to be finalised, or where the available loan amount has not been fully drawn down.

Stakeholder engagement- a section 172 statement

Charity Bank is owned by, and committed to supporting, the social sector and its directors take responsibility for promoting its success for the benefit of its key stakeholders, which the bank considers to be its shareholders, borrowers, depositors, and staff.

The bank facilitates positive social change across a range of social and environmental issues through the financial support we provide to our charity and social enterprise borrowers. We also aim to change the way that people think about their money and how it is used; savers and investors are increasingly attracted by the idea of their money being used to support positive social change.

Strategic Report (continued)

Stakeholder engagement- a section 172 statement (continued)

While we have a straightforward loans and savings business model, we think our brand, culture, sector knowledge and reputation set us apart from other lenders. Decisions are taken by directors for the long term with the view to building a sustainable business. Our record shows that charities and social enterprises can be responsible borrowers and that our due diligence, support and credit processes are effective. Our goal is to continue to build on these strong foundations and to become the lender of choice for impact-led organisations in the UK. We aim to make the quality of our products, service and support among the best in the banking sector.

Our staff work with our shareholders, savers and borrowers serving communities across the UK. The directors and the leadership team seek to provide a working environment in keeping with our ethical approach. Any actions by the board will always consider the interests of our staff, that they continue to be treated fairly and compassionately and that we maintain robust policies and processes in place to ensure diversity and equality. Staff are regularly provided with updates from senior management on the performance of the business and its social sector engagement through e-mail newsletters and CEO town hall meetings. Briefings also refer to the key financial and economic issues affecting the bank. Charity Bank recognises the importance of its staff, and ensures the bank's culture and the morale of its employees are considered in decision-making committees and through the active engagement of the HR function. The bank encourages feedback through surveys and regular open communication sessions with senior managers and directors.

The directors are mindful of our impact on the environment and take positive steps to mitigate the risk of climate change through the operation of our business. The bank seeks to manage its relationships with suppliers, customers and others with HR, environmental (climate risk) and supplier policies in place which are subject to regular review and oversight by board committees.

With a demonstrated commitment to the social sector and an experienced team of specialists, the directors seek to ensure that the company maintains a reputation for high standards of business conduct and that regulatory risks and conduct risks are always managed effectively.

Management of Charity Bank

Unusually for a bank, but in keeping with its former charitable status, Charity Bank's non-executive members of the Board are unpaid. The majority contribute actively to the oversight of the bank through membership of Board committees, supporting and challenging management. Under normal circumstances, they also have direct meetings with customers, attend open days and take part in the arrangements we make for our stakeholders to visit borrowers every other year.

Day-to-day management of Charity Bank is delegated by the Board to the Chief Executive ('CEO'), who is supported by the executive management team.

The Chief Executive is an Executive Director. The other members of the executive management team (together forming the EXCO) also attend meetings of the Board and its committees as required.

Risk management at Charity Bank

Charity Bank seeks to remain solvent, well capitalised, trusted and operationally stable at all times.

Charity Bank operates a three lines of defence approach to risk management.

Strategic Report (continued)

Risk management at Charity Bank (continued)

First line of defence: Business Management	
The first line of defence is responsible for implementation of Charity Bank's strategy and for management of risk throughout the organisation. The first line consists of executive committees and line management.	**The first line:** ▪ Has primary responsibility for owning and managing the bank's risks; ▪ Defines, operates, and reports on its controls; ▪ Produces management information and reports on risks; and ▪ Is responsible for compliance with regulation and legislation.

Second line of defence: Risk & Compliance	
The second line of defence has responsibility for providing independent oversight and challenge of the first line, and may provide guidance on risks as required. The Risk & Compliance function is led by the Chief Risk Officer ('CRO'), who reports to the CEO and has a reporting line to the Risk Committee chair. The CRO, in conjunction with the Head of Compliance & MLRO, reports on risks and performance against appetite to the Risk Committee. As a matter of good governance, the Risk & Compliance function is not customer-facing and it has no business targets.	**The second line:** ▪ Designs, interprets, and develops the risk appetite framework for the bank, consistent with its strategy; ▪ Monitors the business as usual adherence to this framework; ▪ Advises the board on risk appetite; ▪ Supports delivery of regulatory change and monitors regulatory developments; ▪ Provides challenge, oversight, and assurance over the management of risks; and ▪ Develops and supports the bank's policies.

Third line of defence: Internal Audit	
The third line has responsibility for providing objective assurance across the bank of its governance, processes, controls, and risk management. Having regard to Charity Bank's size and scope, the bank's internal audit function is performed on an outsourced basis. The audit firm have a direct reporting line to the Audit Committee, independent of the first and second lines of defence. Their day-to-day liaison with the bank is through the CRO.	**The third line:** ▪ Conducts independent testing and verification of the bank's business models, controls, processes, and policies; and ▪ Provides assurance the bank's risk management process is functioning as designed.

Strategic Report (continued)

Risk management at Charity Bank (continued)

In addition, the board and the relevant committees assist in risk management at the bank by:

- Assisting and guiding in the development of the bank's strategy;
- Providing constructive challenge to management;
- Scrutinising management's performance in meeting the goals of Charity Bank and monitoring performance;
- Assessing the integrity of financial information;
- Satisfying themselves that the risk management and financial controls of the bank are robust and appropriate to the bank's size and complexity; and
- Determining the appropriate remuneration levels for the Executive Directors and other senior management, signing-off certain senior hires, and working on succession planning.

Committee structure

Charity Bank is governed by a Board that is empowered to take such steps as are necessary to achieve the bank's objectives. These include the making of appropriate arrangements for the sound management of Charity Bank's business. The overall responsibility for day-to-day management is delegated to the Chief Executive who is authorised to maintain an appropriate management structure.

The Board delegates some of its powers to the following committees:

- **Audit Committee:** responsible for oversight and challenge of the accounting policies and disclosures; supervising the issue and integrity of the audited financial statements of Charity Bank and the performance of the external auditors; reviewing and challenging the overall effectiveness of Charity Bank's systems, processes and controls; overseeing whistleblowing arrangements; monitoring the performance and reports of the internal audit function; and approving the annual internal audit plan.
- **Governance Committee:** responsible for overseeing good Board and Board committee governance; reviewing succession-planning, nominations and the skills mix of non-executive Board members and senior executives; and approving remuneration of the executive management and the reward policy for other members of staff.
- **Risk Committee:** responsible for the oversight of risk management systems, policies and procedures; monitoring the operation of the risk management framework; reviewing key risks (including emerging risks); overseeing and challenging liquidity and capital adequacy (including regulatory documents such as the Internal Capital Adequacy Assessment Process ('ICAAP'); the Internal Liquidity Adequacy Assessment Process ('ILAAP'), and the Recovery Plan; recommending the setting of risk appetite statements to the Board; approving credit, liquidity, market (interest rate) risk and operational risk policies; monitoring financial crime and regulatory risks; and setting policy on asset and liability management, interest rate risk and exposures to financial counterparties; and for monitoring the work of the Assets and Liabilities Committee ('ALCO'), Super Internal Credit Committee ('SICC') and Internal Credit Committee ('ICC').

Each of these board committees is chaired by an appropriately-skilled non-executive director. Appropriate members of management attend the committees' meetings, and the committees also spend a portion of their meetings in NED-only session.

In addition to these sub-committees of the Board, Charity Bank has four executive-level committees:

- **EXCO:** responsible for assisting the Chief Executive in the performance of their duties within the bounds of their authority, including consideration of business strategy and management, investment and financing, risk management and controls, and any other activities required to deliver effective management oversight of Charity Bank.
- **ICC:** responsible for considering credit applications and variations in accordance with its delegated limits; managing the loan book including the higher risk accounts (designated as Out of Order, Full Watch List and Internal Watch List or forborne accounts); and approving the taking of impairments and write-offs.

Strategic Report (continued)

Committee structure (continued)

- **SICC:** responsible for considering credit applications and variations and approve novel or contentious loans in accordance with its delegated limits.
- **ALCO:** responsible for assisting the Finance Director manage financial risks; recommending policies on the investment of capital and liquid resources to the Risk Committee; reviewing exposures to interest rate risk and financial counterparty risk; and monitoring that management of liquidity and capital meets business, risk appetite and regulatory requirements.

Principal risks and uncertainties

The Board recognises that Charity Bank's concentration of lending activities in one sector, its standing as a mission-led enterprise and the standards expected of such an entity, and its small size give rise to inherent risk and the need to maintain close vigilance over its activities.

In assessing the risk appetite of Charity Bank, the Board considers that Charity Bank is exposed to three types of risk:

- Strategic risk: the risks arising from either the external environment serving to prevent the bank realising its strategy, or internally from a poor choice or execution of strategy.
- Financial risk: the credit, liquidity and interest rate the bank takes in its activities or transactions to drive the bank's financial performance (see pages 17 to 19).
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and including the incidence of legal risk.

The Board takes the view that Charity Bank's principal risks and uncertainties lie in its exposures to:

- uncertainties in the political and economic environment for the social sector and changes in the government's approach to social policy;
- the ongoing upwards movements in cost of living, cost of energy, and interest rates with the resulting impact on affordability;
- credit risk and the concentration risks of that exposure in one sector, with resulting lack of portfolio diversification;
- liquidity risk, particularly the need to fund increases in the loan book with more capital and deposits from savers and the mismatch between the tenor of loans and the maturity of its deposits;
- interest rate mismatches on its assets and liabilities;
- capital risk; to meet its minimum regulatory capital requirements and to support its future growth plans;
- risk to the bank and its borrowers arising from long-term climate change; and
- operational risk, particularly in the form of IT & cyber risks, operational resilience, and the people risks arising from its small size – these aspects were tested by the COVID-19 pandemic over the past three years.

The Board also considers that strategic risks arise from the longer effects of the COVID-19 pandemic, which have permanently changed ways of working at Charity Bank and at many of our customers, as well as adversely affecting certain sectors of the economy to which some of the bank's assets are exposed.

Risk management at Charity Bank is enabled by:

- Operating a single, simple business model with strong risk governance;
- Having a risk management framework covering principal risks;
- Our clearly defined three lines of defence model;
- Risk management and monitoring to ensure the risk appetite is respected; and
- Having sufficient human and financial resources, including capital and liquidity, such that we are able to survive stress periods whether they be market-wide or specific to the bank.

The risks to which Charity Bank is exposed are mitigated in various ways as set out below.

Strategic Report (continued)

Pandemic risk (financial and operational)

The COVID-19 pandemic in 2020-2 has caused considerable change and disruption for Charity Bank and its customers. As the world returns to normal, we continue to consider that the risks arising out of the pandemic are captured under other risks, namely:

- Credit risk – the possibility that lending customers' activities are adversely affected by the pandemic, to the extent that they are unable to make loan repayments in full and on time;
- Capital risk – the possibility that the bank will be unable to raise the capital it requires to meet regulatory capital requirements and support future growth;
- Operational risk – the risk to operational resilience and the continuation of the bank's activities during the pandemic, including risks arising from remote working and risks of staff illness;
- Market/Interest rate risk – the reactions to the pandemic have included monetary policy measures and the unwinding of these measures brings risks on the upside;
- Political and economic environment risk – the risk to the bank and its borrowers arising from political changes, such as the roll-off of government support schemes.

As such, we do not classify pandemic risk as a principal risk in and of itself, but a route through which the above risks may manifest.

Political and economic environment risk- including Brexit (strategic and operational)

The adverse impact from continuing political and economic uncertainty on the bank and social sectors remains a risk. Demand for new loans from social sector organisations has so far held up despite a lack of clarity in government policy on funding projected shortfalls in health, housing and social care budgets.

Charity Bank's operational model is not considered to be affected directly by Brexit, but it may in the future experience impacts to its business performance resulting from ongoing changes to the wider UK political and economic environment arising from Brexit, and these may affect the behaviour and performance of its savers and borrowers. Such economic stresses are modelled and assessed in the capital and liquidity adequacy assessments described below.

Charity Bank also notes the geopolitical risks which have continued to develop in 2022, such as in Eastern Europe. The bank views that the effects on it of these risks are captured under credit risk.

Credit risk and concentration risk (financial)

Charity Bank has in place a system to control its exposure to credit risk, including the taking on of new loans in line with its Credit Risk Policy and the reporting on and monitoring of its exposure to the risk of financial loss from the incidence of credit risk. The setting of credit risk policy is delegated to the Risk Committee in accordance with the risk appetite set by the Board. New loans are approved by the Super Internal Credit Committee, Internal Credit Committee, or members of the Credit Department in accordance with their delegated authority limits. The Risk Committee, the Internal Credit Committee, and the Director of Credit monitor the quality of the loan portfolio and any concentrations of risk and trends; review the quality of existing loans whose value is impaired or loans where a payment has not been received on its due date from the borrower; and consider related reports and management information.

All loan applications are assessed with reference to Charity Bank's Credit Risk Appetite and Credit Risk Policy, including the use of an internal credit grading model. Wherever possible, Charity Bank takes security in the form of a legal charge over fixed property assets of the borrower. In most cases, the secured assets are freehold or long-term leasehold property. Credit risk is also managed through continuous engagement with borrowers. Charity Bank maintains an expected credit loss ('ECL') loan loss allowance for portfolio wide credit risks as well as specific impairments against loans where there is doubt that the bank will recover the full amount outstanding. The impairment methodology and key assumptions are reviewed annually by the Audit Committee. There have been no material changes in the Credit Risk Appetite or Credit Risk Policy during the year.

Strategic Report (continued)

Credit risk and concentration risk (financial) (continued)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the likelihood of defaults and losses occurring. Charity Bank measures credit risk using Probability of Default ('PD'), Exposure at Default ('EAD') and Loss Given Default ('LGD').

Charity Bank uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The credit grades are calibrated such that the risk of default increases as the credit risk (credit grade) reduces. The credit grade is reviewed annually and compared to the previous credit grade in assessing whether a significant increase in credit risk has occurred.

UK Treasury stock and other approved investments are held within Charity Bank's high quality liquid assets ('HQLAs'). ALCO approves appropriate limits for these instruments under a framework approved by the Risk Committee. Charity Bank follows a low risk policy in relation to its treasury activities and places funds only with counterparties with sound external credit ratings.

The Risk Committee regularly reviews Charity Bank's exposure to credit risks and its system of internal control.

Charity Bank is exposed to concentration risk from its remit to lend to social sector organisations ('SSOs').

Charity Bank's exposure to this risk is mitigated in several ways, including:

- utilising sector expertise and relevant experience through its staff, its Board members and its advisers;
- ensuring that all lessons drawn from any loss experience have been incorporated in its credit policy; and
- diversification of exposure within the sector.

In pursuit of this goal, Charity Bank:

- sets limits on its exposure to its top twenty borrowers as a proportion of its loan book and regulatory capital, limits on its aggregate exposure to individual sectors, and a single borrower limit set in relation to its regulatory capital;
- makes its credit decisions primarily based on the ability of its borrowers to repay; and
- generally requires security over real estate assets as a secondary source of repayment.

As a result of its expertise in and understanding of SSOs, its cautious stance on the maximum ratio of the amount of its loan to the value of the related security, and the low volume of unsecured lending that it has undertaken, the credit quality of Charity Bank's loan exposures has remained stable and performed well.

The Board expects this outcome to continue in future in light of Charity Bank's system of internal control for managing credit risk.

Liquidity risk (financial)

Liquidity risk is the risk that Charity Bank does not have adequate financial resources, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

Charity Bank is exposed to the risk of not being able to raise sufficient deposits to fund its growing loan book or to meet an unexpectedly high level of deposit withdrawals by customers. This is mitigated by:

- seeking to maintain a prudent balance of deposits with differing maturities by offering a diversified portfolio of term and notice deposit products across both direct and indirect platforms. Notice period accounts range from same day notice (easy access) to a legacy 365 day notice period account, whilst fixed term products range from six months to 5yr CITR accounts;
- whilst Charity Bank have a diverse mix of depositors, particular efforts are made to attract personal depositors, charities and clubs, Credit Union and business depositors who are more likely to keep their deposits with the bank when they reach maturity (evidenced by an average retention rate of 84% in 2022);

Strategic Report (continued)

Liquidity risk (financial) (continued)

- a large proportion of our deposit portfolio is covered by the Financial Services Compensation Scheme ('FSCS') guarantee (around 57%), with the remaining balances (excluding those relating to Credit Unions) being well diversified and spread over a large number of depositors and products (easy access, notice accounts and fixed products up to 5yrs duration); and
- additionally, Charity Bank are members of the Bank of England Sterling Monetary Framework and therefore have access to both the BoE Operational Standing Facility ('OSF') and the Discount Window Facility ('DWF'). The OSF lending facility is provided via collateralised overnight lending and offers protection against overnight market wide frictional liquidity stresses, whereas the DWF covers institution specific stresses on rollable terms of up to 30 days.

The ILAAP is a firm's own internal assessment which evaluates liquidity risk, funding mismatch and the management of these risks within Charity Bank, this is updated annually.

The Risk Committee sets and reviews Charity Bank's appetite for liquidity risk in the liquidity policy, and advises the Board accordingly. The expression of appetite and capacity is translated into limits, thresholds and other indicators, for example, monitoring a worst-case asset/liability maturity profile. These take into account liquidity levels (including short-term cash flow forecasting), and threats to stakeholder value and reputation. Appetite is also a determinant in corporate planning and identifying future liquidity requirements.

Management oversight of liquidity risk is undertaken at ALCO which is responsible for assisting the Finance Director to manage financial risks; recommending policies on the investment of capital and liquid resources to the Risk Committee; reviewing exposures to interest rate risk and financial counterparty risk; and monitoring that management of liquidity and capital meets business and regulatory requirements.

Risk management and mitigation arrangements are in place through reporting Charity Bank's exposure to liquidity risks by means of key performance indicators, which appear in management information packs for the Board and through regular monitoring by the Risk Committee of Charity Bank's risk profile.

Interest rate risk (financial)

Interest rate risk refers to the current or prospective risk to a bank's capital and earnings arising from adverse movements in interest rates, which affect exposures in its banking book.

The Risk Committee sets and reviews Charity Bank's appetite for interest rate risk and articulates this through a policy on Interest Rate Risk in the Banking Book ('IRRBB'). The Finance Director is responsible for this policy, and the Risk Committee approves it on behalf of the Board.

The expression of appetite for each type of interest rate risk is translated into appropriate limits and thresholds by the ALCO for review and approval by the Risk Committee.

Regular management oversight of interest rate risk is undertaken through the ALCO.

EXCO has responsibility for:

- ensuring that Charity Bank offers the appropriate type and mix of loans and deposits products to its customers; and,
- setting interest rates on Charity Bank's loans, deposits and loan notes.

When making decisions in respect of these responsibilities, EXCO considers the impact on Charity Bank's exposure to interest rate risk.

Risk management and mitigation arrangements are in place through reporting Charity Bank's exposure to interest rate risk by means of key performance indicators in management information packs for the Board and through regular monitoring by the Risk Committee of Charity Bank's risk profile.

Charity Bank reduces its exposure to interest rate risk by managing the maturity buckets of its assets and liabilities. In addition, in managing interest rate risks Charity Bank considers the economic impact on its capital of a range of non-parallel shift in interest rates and the capacity of its capital to support a range of extreme interest rate and balance sheet structural stresses. Charity Bank does not currently use hedging instruments such as interest rate derivatives.

Strategic Report (continued)

Capital risk (strategic)

Capital requirements

Charity Bank is required to hold sufficient capital to meet its minimum regulatory capital requirements at all times; and it expects to hold such further amounts to support its growth plans, enable it to withstand adverse stress scenarios and continue to meet its Total Capital Requirement ('TCR') from the PRA, and provide comfort on its resilience to depositors, borrowers, shareholders and other key stakeholders.

Charity Bank has, throughout 2022, held capital in excess of its requirements. The components of the requirements are set out below.

Capital regulatory framework

Charity Bank operates under the CRD IV CRR regulatory framework as required by its regulators: the FCA and the PRA.

The prudential regulatory framework applicable to Charity Bank is designed to assess the adequacy of a firm's capital resources by considering all material risks to its business, including those not covered or otherwise not adequately addressed by credit risk, market risk and operational risk, and the impact of stress tests conducted across a variety of different scenarios. Additionally, the regulatory requirements for assessing additional risks provide encouragement to firms to develop, operate and continuously improve their risk management techniques for monitoring, measuring and managing their specific material risks.

Charity Bank's Capital Resources requirement is split into two categories: the Pillar 1 Capital Resources Requirement ('Pillar 1') being the sum of the credit risk capital requirement, the market risk capital requirement and the operational risk capital requirement; and the Pillar 2 Capital Resources Requirement ('Pillar 2A and Pillar 2B') which includes assessments for liquidity risk, concentration risk, earnings risk, interest rate risk, business risk, buffer requirements and an internal view of the effect of selected stress events.

There are two stages to determining the final level of Pillar 2: the first being the analysis and conclusions in Charity Bank's own ICAAP assessment, and the second being the PRA's expression of its view which takes account of its oversight of Charity Bank and the results of its supervisory review meetings with Charity Bank.

The ICAAP is a firm's own internal assessment of the overall adequacy of its capital strength in the context of the material risks it has identified and of the outcome of the assessment of stress scenarios it has identified and quantified having regard to regulatory guidance. The ICAAP process also includes the identification and evaluation of the impact of appropriate stress conditions, which are sets of sensitivities and scenarios designed to show the ability of Charity Bank to continue to meet its capital requirements under adverse (firm-specific and/or market-wide) conditions.

A review meeting is part of a regular supervisory review and evaluation process conducted by the PRA in order both to review and evaluate a firm's ICAAP processes and documentation, and to assess the quality of the firm's risk management systems and internal controls. Based on this, the PRA makes its own determination of the capital adequacy of the firm and sets a minimum capital requirement for the firm through the issue of its 'total capital requirement'.

Pillar 1

The Pillar 1 capital requirement is the sum of the credit risk capital requirement and the operational risk capital requirement. Under Pillar 1 Charity Bank calculates its credit risk requirement using the 'standardised approach' and its operational risk requirement in accordance with 'the basic indicator approach'. Charity Bank are not exposed to Pillar 1 market risk. Under CRD IV, Charity Bank must hold total capital equal to 8% of its total risk-weighted assets to cover its Pillar 1 capital requirements. Capital requirements for operational risk are based on a percentage of average gross profits in the preceding years.

Strategic Report (continued)

Capital risk (strategic) (continued)

Pillar 2A

The Pillar 2A capital requirement is set by the PRA as part of its supervisory review and evaluation process ('SREP') and covers additional risks not deemed to be included appropriately within the Pillar 1 capital requirement.

Charity Bank's internal assessment of its Pillar 2A capital requirement includes assessments for liquidity risk, concentration risk, interest rate risk in the non-trading book and business risk.

Pillar 2B

The Pillar 2B capital requirement reflects the amount of additional capital required under the Combined Buffer Requirement (being the aggregate of the Capital Conservation Buffer and the Countercyclical Capital Buffer) in addition to a further individual buffer set by the PRA.

Pillar 2B also includes an internal assessment of capital stresses, which articulates Charity Bank's own view of the potential impact on its capital of varying stress events.

Charity Bank's risk-weighted assets, leverage exposure and capital ratios at the year-end were as follows:

	31st Dec 2022 £'000	31st Dec 2021 £'000
Risk-weighted assets	173,774	153,193
Leverage exposure	363,722	316,965
CRD IV capital ratios	**%**	**%**
CET1 ratio	15.05	16.01
Leverage ratio	8.39	7.74

The Common Equity Tier 1 ('CET1') ratio is the ratio of a bank's CET1 capital against its risk weighted assets. The leverage ratio is a non-risk-based ratio which aims to ensure that a bank's assets are in line with its capital levels. For Charity Bank the leverage ratio is defined as Tier 1 capital as a percentage of total assets including a percentage of on and off-balance sheet exposures), but before impairments and excluding central bank claims.

For Charity Bank, the leverage exposure is defined as being total assets plus 10% of its committed loan offers.

Further details of Charity Bank's capital resources are provided in note 28 in the Notes to the Financial Statements and also in annual Pillar 3 public disclosures which are unaudited and available on our website at: www.charitybank.org

Climate risk (operational and financial)

The Board recognises the significant impact that climate change could have on the economic and political landscape and seeks to ensure that financial risks arising from climate change are considered in its governance arrangements, risk management policies, scenario analysis and disclosure arrangements.

Charity Bank believes that climate change has become potentially the most significant social challenge facing the world today. Our board and senior management's commitment to the environment goes beyond regulated requirements. This dedication is demonstrated by the addition of 'healthy planet' to our vision statement in 2022 and prioritising the growth of our green lending portfolio in our 2023-2027 business plan.

Charity Bank recognises climate risk as encompassing:

- Physical risk – the risk of adverse impact to the bank from climate-related or weather-related events. These events might include droughts, extended periods of high temperature, floods, storms, or rises in sea level. Events of this sort could result in large financial losses to the bank's lending customers, adversely affecting their creditworthiness. They could also impair the value of assets pledged to the bank as security. This aspect is considered through lending decisions and collateral quality evaluation.

Strategic Report (continued)

Climate risk (operational and financial) (continued)

- Transition risk – risks arising from wider society's adjustment away from fossil fuels and towards an economy with lower carbon dioxide emissions and more sustainable energy sources. This could include wider policy changes as well as public sentiment or technological development. This type of risk may result in a reassessment of the value of some assets, including the potential for assets upon which the bank has security becoming stranded, devalued, or unsaleable. It may create or amplify credit exposures for lenders and could also adversely affect affordability for customers arising from increased investment requirements in energy efficiency. Given developments in 2022 regarding energy costs and energy security, we continue to have a close focus on transition risks affecting our clients and their ability to continue to meet repayments as well as their other financial commitments. This is expected to continue into 2023 and potentially escalate if government support for energy bills is withdrawn in Q2.

The Board has evaluated the potential impact of the above considerations, concluding that there is no material impact on the reported results and financial position for the year. As an ethical bank, Charity Bank is mindful of its own impact on the environment and takes positive steps to mitigate climate change through the operation of its head office (reuse and recycling arrangements, use of local suppliers, etc.) and its staff travel arrangements (encouraging use of public transport). Charity Bank seeks to minimise the carbon footprint of its premises by sourcing electricity from a green energy provider. The environmental policy encourages staff to consider such risks that are within its control in its day-to-day business activities and its supplier selection processes.

Charity Bank will, through its lending business, seek to be supportive of borrowers' climate change mitigation activities and aims to develop new partnerships and products to support this goal. In terms of Responsible Investment, Charity Bank is aware of the need to consider Environmental, Social and Governance issues and that, where practical given Charity Bank's size, these are considered alongside traditional financial measures in investment decision-making.

The PRA has given climate risk a high importance in its ongoing supervision objectives, and we expect continued attention to be given to it in the coming months and years.

Operational risk

Operational risk is the risk of loss or reputational damage arising from failed or inadequate processes, systems, and people, or from external suppliers and events.

Our risk management framework and operational risk review processes identify, measure, and monitor these risks. Risk champions in each department of the bank maintain risk registers and detail the controls in effect to remove or mitigate the risks, these are updated quarterly.

Charity Bank uses the basic indicator approach to assess our capital requirement for operational risk.

Training is available to staff to provide additional knowledge with identification and mitigation of risks.

Other risks

We also consider the following as risks to Charity Bank and its operations.

Conduct risk (operational)

Conduct risk arises where there is the potential for a poor customer outcome at any stage of the customer journey, such as through inappropriate execution of Charity Bank's activities and processes. Examples include breaches of conduct rules, poor staff behaviours, or poor culture, causing detriment to the bank, its staff, or its customers.

Charity Bank manages conduct risk by encouraging appropriate behaviours and compliance with FCA regulations, as well as focusing on ensuring everything we do has customers' interests in mind.

Additionally, unknown legacy conduct issues may emerge. Regulation relating to the fair treatment of customers continues to be a focus in the financial services industry. The interpretation of fair treatment can evolve as time passes, and the decisions of today may be judged by the standards of tomorrow.

Strategic Report (continued)

Other risks (continued)

Market risk (financial)

Market risk is the risk to the bank's value or profits from adverse movements in external markets, such as changes in investment values or currency rates.

At Charity Bank, we do not operate any proprietary trading activities. All of the bank's assets and liabilities are denominated in sterling; as such we have no exposure to foreign exchange risk.

People risks (strategic)

Whilst its exposure is mitigated by Charity Bank's business model, the identification of staff with its mission, its supportive internal culture, and a strengthened focus of management on communication and transparency in staff relations, this risk will continue to be a challenge for a bank of its size. Hence Charity Bank draws on approved contract staff as well as specialist advice from external parties to supplement its own resources from time to time; it can and does recruit new staff from the wider financial services industry and in doing so can benefit from the appeal of its mission.

Filling vacancies is increasingly challenging in the current environment and the increased timescales as well as costs mean that the risk arising from staff departures or unplanned absences is material.

Cyber risk & information security (operational)

Like all banks, Charity Bank relies on computer systems to operate its business, and stores customer and business data. We invest in our cyber and information security infrastructure to improve services, protect customer data, and minimise the risk of disruption. As we do not offer online account servicing at the current time, we are less at risk than other banks in this regard but we continue to enhance the control environment. Although most staff have transitioned back to working at least some time in the office, the majority have at least some element of remote working and this creates its own risk elements.

Emerging risks

Charity Bank regularly considers emerging risks to its business, and where management and the Board consider appropriate, will add them to the principal risks above. Based on management's current views and assessments, risks considered as emerging risks include:

Risk	Impact
The effect of higher interest rates on demand for our products and on customer affordability	Lower demand for lending products would have a likely knock-on adverse impact on profitability
Changes in customer behaviour	Reduction in demand for Charity Bank's products resulting in a need to improve rates, with an impact on net interest margin
Challenge to attract and retain talent in a competitive market	Increase in recruitment and payroll costs
Digitalisation	Potential for Charity Bank to be "left behind" if competitors have more attractive digital offerings
Lack of economic recovery from COVID-19/Brexit	Potential lower demand for Charity Bank's products, and credit losses
Cost of living crisis potentially leading to "stagflation" (stagnation of the economy combined with inflation)	Potential higher credit losses

Strategic Report (continued)

Emerging risks (continued)

The board also recognises that reputational risk, which could have a damaging impact on Charity Bank's operations and franchise, might arise as a secondary risk from any one of its primary risk taking activities.

Approved by the Board of Directors on 21st April 2023 and signed on its behalf.

Alan Hodson
Chair
The Charity Bank Limited
Fosse House
182 High Street
Tonbridge
Kent TN9 1BE

Directors' Report

Introduction

Charity Bank is authorised by the PRA as a deposit-taking institution under the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012), and is regulated by the FCA and the PRA. It was established in 2002 with a mission to lend to charities, community organisations and social enterprises, and in particular to those that find it difficult to secure funding from the traditional banking sector, with the support of investors and depositors who want to encourage more responsible and transparent use of their money.

Charity Bank uses financial leverage to create social leverage in the community. Since 2002, Charity Bank's innovative approach to lending and its mission to benefit society have enabled it to lend over £450 million worth of loans to hundreds of social sector organisations across the UK with Charity Bank operating solely in the UK. It has well-established processes and controls over both the advancing of loans and the taking of deposits developed by its executive management team under the strategic direction of its board of Directors (the 'Board').

Charity Bank has experienced a low rate of loss on its loans since its foundation.

Given the stresses being faced by the social sector, Charity Bank continues to exercise close vigilance over the quality of exposures within its existing portfolio.

The Board believes Charity Bank will see continued demand for its lending into social sector organisations as they continue to respond to the needs of their communities as a result of COVID and the cost of living crisis. The Board is confident that Charity Bank is well-placed to respond to this demand, given its track-record of innovation, its public reputation, and its growing strength as an institution.

The Report and Financial Statements for the year ended 31st December 2022 have been prepared in accordance with UK adopted International accounting standards and the requirements of the Companies Act 2006.

Share capital, reserves and dividends

As at the Balance Sheet date, Charity Bank had issued 31,486,762 ordinary shares; it also has the ability to issue additional ordinary shares and 'B' and 'C' preference shares, all of £0.50 each.

Although the Articles of Association permit payment of a dividend to shareholders at the discretion of the Board of Directors, no dividend has been declared (2021: £nil).

Substantial shareholdings

As at 31st December 2022 Charity Bank was aware of the following substantial holdings in its ordinary share capital:

Shareholder name	Ordinary number of shares	Percentage of issued ordinary share capital	Percentage of voting rights
The Big Society Capital Limited	16,973,812	53.91%	49.99%
CAF Nominees Ltd - beneficial owner Charities Aid Foundation	4,100,011	13.02%	14.13%

Directors' Report (continued)

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

Name of Director	Chair and Senior Independent Director positions held	No. of meetings attended during 2022
Alan Hodson	Chairman of the Board & Chairman of the Governance Committee	6/6
Paul Berry	Chairman of the Risk Committee (from 7th June 2022)	4/4
Jonathan Britton OBE	Chair of the Audit Committee	6/6
Michael Crabb	Non-Executive Director	6/6
David Godfrey CBE	Senior Independent Director & Chairman of the Risk Committee (to 7th June 2022)	2/2
Neil Heslop OBE*	CAF-Connected Non-Executive Director	4/6
Rebecca MacDonald*	BSC-Connected Non-Executive (from 7th June 2022)	3/4
Caspar Mackay	Executive Director (from 7th June 2022)	4/4
Caroline Price	Non-Executive Director	3/6
Charlotte Ravenscroft	Non-Executive Director	5/6
Dr Ambreen Shah	Non-Executive Director	6/6
Anna Shiel*	BSC-Connected Non-Executive Director (to 7th June 2022)	2/2
Edward Siegel	Executive Director	6/6
Toby Walter*	BSC-Connected Non-Executive Director	5/6

** refers to non-executive directors nominated by two shareholders*

Two shareholders are entitled to nominate Non-Executive Directors for appointment to the Board under the agreements Charity Bank entered into, in relation to the making of the investment by Big Society Capital Limited in its ordinary shares. These individuals are defined in our Articles of Association as 'Connected Directors'.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. The Report and Financial Statements for the year ended 31st December 2022 have been prepared in accordance with UK adopted International accounting standards and the requirements of the Companies Act 2006.

Directors' Report (continued)

Statement of directors' responsibilities in respect of the financial statements (continued)

Under company law, 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 the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether the Report and Financial Statements for the year ended 31st December 2022 have been prepared in accordance with UK adopted International accounting standards and the requirements of the Companies Act 2006;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Going concern

The Board of Directors have determined that these financial statements are prepared on a going concern basis and that Charity Bank will have the ability to operate for at least 12 months from the date these financial statements are approved.

In making this determination the Directors have assessed a number of projections, risks to and inherent strengths of the bank including:

- The bank's five-year strategy and financial plan, including sensitivity analysis, which were considered and approved by the Board in December 2022;
- The Directors have assessed the adequacy of capital and liquidity under base case and severe but plausible stress scenarios, including the outputs of reverse stress testing, and in conjunction with the bank's Supervisory Reviews and its track record of raising new CET1 capital, consider that the bank have in place adequate resources to support delivery of its strategic objectives whilst adhering to its regulatory requirements;
- The Directors have reviewed and approved the ILAAP, ICAAP and Recovery Plan documents and have ensured that the stress testing scenario's appropriately identify and reflect any new and emerging risks including: changes in customer behaviour, model risk, digitalisation and a possible slowdown in economic recovery;
- Additional full-time employees in the 2023 budget to meet the banks growth projections;
- Experience and learnings from the impact of the COVID-19 pandemic on the banks revenues, which included the move to a very low interest rate environment and the resultant temporary increase in impairments;

Directors' Report (continued)

Going concern (continued)

- Operational resilience with respect to the bank's ability to work remotely and ability to serve its customers;
- The ongoing resilience of the bank's customers which has continued into 2022;
- A well diversified range of deposit products, which comprises both term and notice products across direct and indirect platforms. Notice period accounts range from same day notice (easy access) up to a legacy 365 day notice period account, whilst fixed term products can range from six months to 5yr CITR accounts;
- Additionally, Charity Banks customers are diverse and include personal depositors, charities and clubs, Credit Union and business customers who have evidenced strong retention at the point of deposit maturity;
- A large proportion of the deposit portfolio is covered by the FSCS guarantee (around 57%), with the remaining balances (excluding those relating to Credit Unions) being well diversified and spread over a large number of depositors and products (easy access, notice accounts and fixed products up to 5yrs duration);
- Whilst it is not envisaged that Charity Bank would require additional deposits under a 90-day stress, if the need did occur, the bank has access to deposit origination platforms which facilitates quick and operationally efficient deposit raising; and
- The availability of liquidity support facilities provided by the Bank of England which includes Charity Banks access to the OSF and the DWF.

The Directors remain confident in Charity Bank's ability to execute its business plan and raise capital, if necessary, for the following reasons:

- During 2022 and throughout the COVID-19 Pandemic, the bank maintained a regulatory capital surplus well above its risk appetite. For 2023, business and capital forecasts show profitability and adequate capital maintained in both projected and stressed conditions. Additionally, as documented in the 2022 ICAAP, the bank has available management actions that will further preserve capital under stress;
- Since 2020, the bank has raised £5.7m of additional capital from new and existing shareholders which has subsequently been used to support the continued growth of our loan portfolio;
- Profits for 2022 were £2.7m and the 2023 approved budget shows continued profits over the 5-year planning horizon;
- Despite the market uncertainty experienced in 2022, the bank has been able to efficiently raise deposits and maintain all regulatory liquidity ratios above its board approved risk appetites. This has been helped by the ongoing favourable behaviour of our existing customers, who have continued to deposit funds with the bank. While it is not envisaged that in either forecast or stressed conditions this behaviour will materially change during the next 12 months, the bank has relationships with two deposit aggregator platforms via which it could raise further deposits if changes in customer behaviour or market events dictated;
- The bank has a unique customer base of charities and social enterprises. During the pandemic, these customers were largely shown to be resilient to the economic impacts of COVID-19 and the related restrictions and so whilst the bank initially took significant provisions for potential future loan losses, these were released in subsequent months;
- Charity Bank recognises that the cost of living stress is likely to continue well into 2023, and as such, have increased impairments to reflect the potential impact of the continued stress on some of our borrowers. As with the pandemic, wherever possible, Charity Bank will work closely with our customers to support them through these uncertain times; and
- Future growth is evidenced with, £9.3m of new loan drawdowns in the first two months of 2023 and a committed pipeline of £52.3m at the end of February, which will support continued growth throughout the remainder of 2023.

Directors' Report (continued)

Internal control

The Board of Directors manages the risks to which Charity Bank is exposed through a system of internal controls that has the following main elements:

- the setting of policies by the Board for the key activities of the bank and its management of risks, and the review and oversight by the Board of the practices of the executive management team in applying them;
- the delegation of authority by the Board to its Committees and to the Chief Executive;
- an internal organisational structure characterised by functional separation of activities and decision-making;
- executive decision-making through EXCO chaired by the Chief Executive, the Internal Credit Committee chaired by the Director of Credit, and ALCO chaired by the Finance Director;
- the appointment of staff who have the requisite skills, experience and integrity; who are supported by the provision of access to training where necessary, well-designed IT systems and process manuals, and a sound system of performance management; and who are overseen by competent senior staff;
- the issue of operations manuals which set out all key procedures and approval authorities, including a credit risk policy and lending manual which prescribes the procedures for making loans;
- the allocation of responsibility for compliance with applicable laws and regulations to designated individuals and in accordance with the requirements of the FCA and the PRA;
- disaster recovery and business interruption plans and arrangements, cyber security controls, and daily back-up of data from the bank's accounting and other systems;
- the regular and timely provision of management information to EXCO and to the Board in a form that is consistent with good practice in the finance industry; and
- the issue of staff policies and procedures.

Charity Bank uses a 'three lines of defence' model adapted to be proportional to the nature and scale of its business, as described on page 14.

The Board and its Committees, and the management team and its committees, provide oversight and challenge across all three lines of defence.

Risk management policy

Charity Bank considers risk under three broad categories:

- Strategic risk;
- Financial risk; and
- Operational risk.

The definitions of these risk categories are set out on page 16.

The Risk Management Policy provides a framework for ensuring that risks that could have a significant adverse impact on the ability of Charity Bank to meet its objectives are identified, measured, quantified where possible, monitored, managed and reported.

This policy sets out Charity Bank's risk management system which incorporates:

- a risk management strategy;
- risk policies;
- risk appetite framework;
- risk measurement and quantification;
- risk processes which enable it to identify, assess, manage, monitor and report the risks it is or to which it might be exposed;
- risk reporting to the Board and to its Committees; and
- specified roles and responsibilities held by staff.

This policy is intended to support appropriate management of risk exposures that is proportionate to the nature, scale and complexity of the risks faced by Charity Bank.

Directors' Report (continued)

Risk management policy (continued)

Charity Bank's risk management framework is key to the assessment by the Board of Charity Bank's capital adequacy requirements in its ICAAP and of its exposure to liquidity risk as evaluated in its ILAAP which are prepared in light of its business plans and the risks it faces.

Liquidity management

Charity Bank seeks to maintain a sufficient level of available liquidity that will enable it to repay maturing deposits as they fall due and to meet drawdowns on loan commitments as they arise.

The Board has specified Charity Bank's investment risk appetite and delegated the task of overseeing the policies implementing this appetite to the Risk Committee.

Charity Bank continues to comply with the regulatory requirement to hold a minimum level of investments in assets that qualify as HQLAs, which during the period were managed by Barclays Bank on behalf of Charity Bank. Amounts above this minimum level are deposited with approved banking counterparties.

Investment criteria set by Charity Bank guide the investment of its excess funds which continues to follow the conservative approach adopted in the past in terms of liquidity, eligible counterparties, maturities and products in which such surplus funds can be invested.

A table summarising responsibilities for different aspects of liquidity management is provided below.

SUMMARY OF RESPONSIBILITY FOR OVERSIGHT OF LIQUIDITY MANAGEMENT		
	Policy	**Day-to-day management**
ASSETS		
Liquidity investments	Risk appetite is set by Board and the policies are set by the Risk Committee	Finance Team
Cash at bank		Cash funds management is performed by the Finance Team
Loans receivable		Credit Team
LIABILITIES		
Deposits (under the CITR scheme)	Risk appetite is set by Board and the policies are set by the Risk Committee	Director of Savings and the Customer Services Team
Deposits (other)		
LIQUIDITY		
Liquidity management	Risk appetite is set by Board and the policies are set by the Risk Committee	Finance Team

Public disclosure

Details of Charity Bank's unaudited Pillar 3 public disclosure document can be obtained from its registered office or viewed on the website www.charitybank.org

Directors' indemnity

Charity Bank has qualifying third party indemnity provisions in its Articles of Association for the benefit of its Directors during the year and these remain in force at the date of this report.

Equal opportunity and diversity

Charity Bank is committed to ensuring that all employees, job applicants and workers are treated fairly in an environment which is free from any form of discrimination with regard to all nine of the protected characteristics as outlined by the Equality Act 2010: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (which include colour, nationality and ethnic origins), religion and or belief, sex and sexual orientation.

Directors' Report (continued)

Equal opportunity and diversity (continued)

The bank aims to ensure equality of opportunity to all and to provide employees with the opportunity to develop and realise their full potential. The bank values diversity and is committed to eliminating unlawful and unfair discrimination. Appointment will always be on merit, within relevant legislative and statutory obligations.

Political and charitable donations

Charity Bank made no political donations this year (2021 – £nil). £6,310 of charitable donations (2021: £16) were made during the year.

Employee and other stakeholders involvement

More information regarding employee and other stakeholder involvement with Charity Bank can be found in the strategic report (see pages 12- 13).

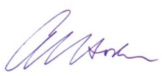
Disclosure of information to auditors

As far as each of the Directors is aware, at the date when this report was approved:

- there is no relevant audit information (as defined in the Companies Act 2006) of which the company's auditors are unaware; and
- each of the Directors has taken all the steps they ought to have taken as a Director to become aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.
- This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

PricewaterhouseCoopers LLP ('PWC') has expressed its willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 21st April 2023 and signed on its behalf.



Alan Hodson
Chair
Fosse House
182 High Street
Tonbridge
Kent TN9 1BE

Independent auditors' report to the members of The Charity Bank Limited

Report on the audit of the financial statements

Opinion

In our opinion, The Charity Bank Limited's financial statements:

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

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 31 December 2022; the statement of comprehensive income, the cash flow statement, the statement of changes in equity 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.

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 10, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment.
- We performed audit procedures over relevant business activities of the company, using the materiality levels set out above.

Key audit matters,

- Determination of expected credit loss allowance.

Materiality

- Overall materiality: £300,000 (2021: £267,000) based on 1% of Net Assets.
- Performance materiality: £225,000 (2021: £200,250).

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
Determination of expected credit loss allowance. Refer to Note 1 - Basis of preparation; Note 2 - Accounting policies; Note 14 - Loans and advances to customers; Note 25 - Impairment charge; and Note 28 - Financial risk management. Impairment provisions represent management's estimate of expected credit loss ('ECL') at the balance sheet date. The determination of ECL is judgmental and the degree of estimation is increased as a result of the economic uncertainties driven by a number of factors including a high inflationary environment, rising interest rates, and ongoing supply chain issues. Also, the company has limited loss experience. The methodology used by the company to determine ECL allowance therefore requires a number of assumptions and judgments to be made. We believe that those of most significance, in terms of both judgmental and material nature, are as follows: ● The judgments made by management in determining the probability of default ('PD') and loss given default ('LGD'); ● The 'staging' thresholds selected by management to determine a significant increase in credit risk ('SICR'), and hence whether a 12 month or lifetime loss provision is recorded; ● The application of forward-looking economic assumptions used in the model; and ● The measurement of ECL on Stage 3 individually assessed loans.	We understood management's approach to determining ECL allowance and performed the following audit procedures in order to assess the ECL methodology, and the appropriateness of management's judgments and estimates in the context of the current economic uncertainties and our wider industry experience. We evaluated the design and implementation of key controls related to the determination of the ECL allowance. We engaged the support of our credit modelling specialists in performing the substantive procedures set out below. **PD and LGD rates:** ● Assessment of the PD models, which included our review of the methodology used to set the lifetime and 12-month default rates used in the calculation, as well as the appropriateness of the implementation of these default rate assumptions in the calculation of the ECL. Additionally, sensitivity testing has been performed to assess the impact of changes in the key PD assumptions on the ECL allowance. ● Assessed the LGD assumptions, including a conceptual review of the method used to estimate expected recoveries on collateral pledged to facilities on the portfolio. ● Assessed the implementation of the selected and approved methodology through our independent replication of the ECL calculation.

	Significant increase in credit risk ● We evaluated the appropriateness of, and substantively tested on a sample basis the application of, the quantitative and qualitative criteria used to assess significant increases in credit risk incorporated within the methodology and allowance calculations. ● To test the application of management's 'staging' thresholds, we performed substantive procedures including selecting samples of loans and compared the results of our independent credit assessment based on the evidence obtained against management's staging. **Forward looking information and multiple economic scenarios** ● We assessed the reasonableness of the forward-looking economic assumptions and weightings assigned to the scenarios. The severity and magnitude of the scenarios were compared to external economic forecasts and the sensitivities of the scenarios on the ECL were considered. ● We assessed the application of these scenarios to the ECL allowance calculations. **Measurement of ECL on Stage 3 loans individually assessed** ● For a sample of Stage 3 loans, we evaluated the specific circumstances of the borrower, post balance sheet date developments and whether key judgments were appropriate. We reperformed management's impairment calculations and tested the accuracy of key data inputs used to supporting evidence. We evaluated whether the credit allowance disclosures made by management were compliant with the requirements of IFRS 9 and agreed the disclosures to source data. Based on our procedures and the evidence obtained, we found the assumptions and judgments used by management in determining the ECL allowance estimate to be reasonable, and the financial statements disclosures to be materially compliant with the requirements of IFRS 9.

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.

The company is a stand-alone entity providing banking services in the UK, and with no subsidiaries. The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment. We performed audit procedures over relevant business activities and using the materiality levels set out below.

The impact of climate risk on our audit

As a 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 financial statements and support the disclosures made within the financial statements.

In addition to enquiries with management, we also

- Evaluated the company's qualitative and quantitative risk assessment to consider the impact on our audit risk assessment
- Considered the consistency of the disclosures in relation to climate change within the Strategic report with the financial statements and knowledge obtained from our audit.

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Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

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	£300,000 (2021: £267,000).
How we determined it	1% of Net Assets
Rationale for benchmark applied	We believe that net assets is an appropriate benchmark as the principal focus for stakeholders is whether the company has sufficient resources to support its purpose and business activities.

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% (2021: 75%) of overall materiality, amounting to £225,000 (2021: £200,250) for the company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £30,000 (2021: £13,350) 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:

- Evaluation of management's going concern assessment;
- Evaluation of management's financial forecasts and management's stress testing of liquidity and regulatory capital, including the severity of the stress scenarios and assumptions that were used;
- Evaluation of management's assessment of its liquidity diversification profile and risk;
- Substantiation of cash and other liquid assets held by the company, as well as access to liquidity facilities at the Bank of England.

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 Director's Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

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

Strategic report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Financial Conduct Authority and Prudential Regulatory Authority 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 posting inappropriate journals, and management bias through judgments and assumptions in significant accounting estimates. Audit procedures performed by the engagement team included:

- Making enquiries of management and those charged with governance in relation to non compliance with laws and regulation and fraud;
- Reviewing key correspondence with the Financial Conduct Authority and Prudential Regulation Authority;
- Challenging assumptions and judgments made by management in their significant accounting estimates, in particular in relation to the risk of bias in the impairment of loans and advances (see related key audit matter above);
- Identifying and testing selected journal entries, in particular journal entries posted by senior management or with unusual account combinations; and
- Incorporating unpredictability into the nature, timing and/or extent of our testing.

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, we were appointed by the members on 14 May 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2019 to 31 December 2022.

Darren Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 April 2023

Statement of Comprehensive Income

for the year ended 31st December 2022	Notes	2022 £'000	2021 £'000
Continuing activities			
Interest income	4	12,218	7,116
Interest expense	4	(2,822)	(1,602)
Net interest income		**9,396**	**5,514**
Fee income	5	724	780
Profit on financial assets at fair value through profit & loss	6	-	12
Other operating income	7	52	98
Net total income		**10,172**	**6,404**
Administrative expenses	8	(6,010)	(5,141)
Depreciation and amortisation	10, 16-18	(424)	(423)
Impairment (charge)/ reversal	25	(1,022)	104
Profit before taxation	10	**2,716**	**944**
Tax expense	11	-	-
Profit after taxation and total comprehensive income for the year		**2,716**	**944**

The notes and information on pages 43 to 80 form part of these financial statements.

All income and expenses are derived from continuing operations.

Balance Sheet

	Notes	31st Dec 2022 £'000	31st Dec 2021 £'000
Assets			
Cash and balances at banks	12	63,198	45,934
Financial assets at amortised cost	13	18,776	24,888
Loans and advances to customers	14	273,700	238,695
Prepayments		361	256
Other assets	15	358	215
Property and equipment	16	63	110
Right-of-use asset	17	406	622
Intangible fixed assets	18	1,188	1,352
Total assets		**358,050**	**312,072**
Liabilities			
Customer accounts	19	313,835	272,571
Deferred income		316	374
Other liabilities	20	4,771	4,079
Accruals		638	662
Lease liability	17	335	501
Subordinated debt	21, 24	8,141	7,137
Total liabilities		**328,036**	**285,324**
Called up share capital	22	15,743	15,437
Retained earnings		7,398	4,682
Share premium		6,873	6,629
Total equity	23	**30,014**	**26,748**
Total liabilities and shareholders' funds		**358,050**	**312,072**

These financial statements were approved by the Board of Directors and authorised for issue on 21st April 2023. They were signed on their behalf by:

Alan Hodson – Director Jonathan Britton OBE – Director

Registered company number: 4330018

The notes and information on pages 43 to 80 form part of these financial statements.

Statement of Changes in Equity

	Note	Share capital £'000	Retained earnings £'000	Share premium £'000	Total equity £'000
Balance attributable to equity shareholders as at 1st January 2022		**15,437**	**4,682**	**6,629**	**26,748**
Profit for the year		-	2,716	-	2,716
Total comprehensive income for the year		-	2,716	-	2,716
Capital received	23	306	-	244	550
Balance attributable to equity shareholders as at 31st December 2022		**15,743**	**7,398**	**6,873**	**30,014**

	Note	Share capital £'000	Retained earnings £'000	Share premium £'000	Total equity £'000
Balance attributable to equity shareholders as at 1st January 2021		**12,509**	**3,738**	**4,657**	**20,904**
Profit for the year		-	944	-	944
Total comprehensive income for the year		-	944	-	944
Capital received	23	2,928	-	1,972	4,900
Balance attributable to equity shareholders as at 31st December 2021		**15,437**	**4,682**	**6,629**	**26,748**

The notes and information on pages 43 to 80 form part of these financial statements.

Cash Flow Statement

For the year ended 31st December 2022

	Note	2022 £'000	2021 £'000
Cash flow from operating activities			
Profit before tax		2,716	944
Adjustment to reconcile net profit to cash flow generated from operating activities			
Interest expense		2,822	1,602
Depreciation of property and equipment		61	59
Amortisation of intangible assets		164	166
Depreciation of right-of-use asset		199	198
Movement in impairment		1,057	(91)
		7,019	2,878
Net increase in assets relating to operating activities			
Loans and advances to customers		(35,715)	(31,665)
Financial assets		6,103	4,723
Other assets		(145)	526
Movement in prepayments		(105)	12
		(29,862)	(26,404)
Net increase in liabilities relating to operating activities			
Due to customers		41,264	31,312
Interest paid		(2,744)	(1,531)
Deferred income		(58)	(45)
Movement in accruals and accrued interest		(24)	118
Other liabilities		358	1,586
		38,796	31,440
Net cash inflow from operating activities		**15,953**	**7,914**
Cash flow from investing activities			
Acquisition of fixed assets		(14)	(66)
Proceeds from sale of fixed assets		-	1
Net cash outflow from investing activities		(14)	(65)
Cash flow from financing activities			
Principal elements of lease payment		(147)	(164)
Proceeds from issue of share capital		550	4,900
Proceeds from issue of subordinated loan stock		1,000	1,310
Interest on subordinated loan stock		(78)	(71)
Net cash inflow from financing activities		1,325	5,975
Net increase in cash and cash equivalents		**17,264**	**13,824**
Cash and cash equivalents at the beginning of the year	12	45,934	32,110
Cash and cash equivalents at the end of the year	**12**	**63,198**	**45,934**

The notes and information on pages 43 to 80 form part of these financial statements.

Notes to the Financial Statements

1 Basis of preparation

General information

Charity Bank is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the bank's operations and its principal activities are set out in the Directors' report.

Basis of preparation

The Report and Financial Statements for the year ended 31st December 2022 have been prepared in accordance with UK adopted International accounting standards and the requirements of the Companies Act 2006.

Going concern

The Board of Directors have determined that these financial statements are prepared on a going concern basis and that Charity Bank will have the ability to operate for at least 12 months from the date these financial statements are approved.

In making this determination the Directors have assessed a number of projections, risks to and inherent strengths of the bank including:

- The bank's five-year strategy and financial plan, including sensitivity analysis, which were considered and approved by the Board in December 2022;
- The Directors have assessed the adequacy of capital and liquidity under base case and severe but plausible stress scenarios, including the outputs of reverse stress testing, and in conjunction with the bank's Supervisory Reviews and its track record of raising new CET1 capital, consider that the bank have in place adequate resources to support delivery of its strategic objectives whilst adhering to its regulatory requirements;
- The Directors have reviewed and approved the ILAAP, ICAAP and Recovery Plan documents and have ensured that the stress testing scenario's appropriately identify and reflect any new and emerging risks including: changes in customer behaviour, model risk, digitalisation and a possible slowdown in economic recovery;
- Additional FTE in the 2023 budget to meet the banks growth projections;
- Experience and learnings from the impact of the COVID-19 pandemic on the banks revenues, which included the move to a very low interest rate environment and the resultant temporary increase in impairments;
- Operational resilience with respect to the bank's ability to work remotely and ability to serve its customers;
- The ongoing resilience of the bank's customers which has continued into 2022;
- A well diversified range of deposit products, which comprises both term and notice products across direct and indirect platforms. Notice period accounts range from same day notice (easy access) up to a legacy 365 day notice period account, whilst fixed term products can range from six months to 5yr CITR accounts;
- Additionally, Charity Banks customers are diverse and include personal depositors, charities and clubs, Credit Union and business customers who have evidenced strong retention at the point of deposit maturity;
- A large proportion of the deposit portfolio is covered by the FSCS guarantee (around 57%), with the remaining balances (excluding those relating to Credit Unions) being well diversified and spread over a large number of depositors and products (easy access, notice accounts and fixed products up to 5yrs duration);
- Whilst it is not envisaged that Charity Bank would require additional deposits under a 90-day stress, if the need did occur, the bank has access to deposit origination platforms which facilitates quick and operationally efficient deposit raising; and
- The availability of liquidity support facilities provided by the Bank of England which includes Charity Banks access to the OSF and the DWF.

1 Basis of preparation (continued)

Going concern (continued)

The Directors remain confident in Charity Bank's ability to execute its business plan and raise capital, if necessary, for the following reasons:

- During 2022 and throughout the COVID-19 Pandemic, the bank maintained a regulatory capital surplus well above its risk appetite. For 2023, business and capital forecasts show profitability and adequate capital maintained in both projected and stressed conditions. Additionally, as documented in the 2022 ICAAP, the bank has available management actions that will further preserve capital under stress;
- Since 2020, the bank has raised £5.7m of additional capital from new and existing shareholders which has subsequently been used to support the continued growth of our loan portfolio;
- Profits for 2022 were £2.7m and the 2023 approved budget shows continued profits over the 5-year planning horizon;
- Despite the market uncertainty experienced in 2022, the bank has been able to efficiently raise deposits and maintain all regulatory liquidity ratios above its board approved risk appetites. This has been helped by the ongoing favourable behaviour of our existing customers, who have continued to deposit funds with the bank. While it is not envisaged that in either forecast or stressed conditions this behaviour will materially change during the next 12 months, the bank has relationships with two deposit aggregator platforms via which it could raise further deposits if changes in customer behaviour or market events dictated;
- The bank has a unique customer base of charities and social enterprises. During the pandemic, these customers were largely shown to be resilient to the economic impacts of COVID-19 and the related restrictions and so whilst the bank initially took significant provisions for potential future loan losses, these were released in subsequent months;
- Charity Bank recognises that the cost of living stress is likely to continue well into 2023, and as such, have increased impairments to reflect the potential impact of the continued stress on some of our borrowers. As with the pandemic, wherever possible, Charity Bank will work closely with our customers to support them through these uncertain times; and
- Future growth is evidenced with, £9.3m of new loan drawdowns in the first two months of 2023 and a committed pipeline of £52.3m at the end of February, which will support continued growth throughout the remainder of 2023.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial assets which are valued at amortised cost.

Significant estimates and critical judgements

Critical judgements are deemed to relate to how accounting policy is applied whereas estimates relate to quantification of amounts included within the Annual Report. There are no critical judgements in this regards. The preparation of the company's financial statements requires management to make significant estimates and assumptions regarding the valuation of certain financial instruments (see fair value in note 2 and note 13) and impairment of assets (see loan impairment in note 2, sub-section 'Impairment of loans and advances to customers held at amortised cost,' and note 14 and 25). Sensitivities relating to interest and credit risk are disclosed under note 28. Other estimates also include the recognition of deferred tax assets which are recognised only to the extent sufficient future taxable profit is probable (see note 11). The company believes that the estimates utilised in preparing the financial statements are reasonable, relevant and reliable. Actual results could differ from these estimates.

Measurement of the expected credit loss allowance

The measurement of the ECL allowance for financial assets measured at amortised cost requires assumptions about the future economic conditions and credit behaviour. More information regarding the ECL and related sensitivities is disclosed in note 28.

1 Basis of preparation (continued)

Significant estimates and critical judgements (continued)

Measurement of the deferred tax asset

Deferred tax assets are only recognised to the extent that sufficient future profits are probable. Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised.

Application of revised International Financial Reporting Standards ('IFRSs')

In the current year, Charity Bank has applied the following standards and amendments that are effective for an accounting period that begins on or after 1st January 2022:

- Proceeds before intended use- amendments to IAS 16 *Property, Plant and Equipment*;
- Reference to the Conceptual Framework- minor amendments to IFRS 3 *Business Combinations*;
- Onerous Contracts- Cost of fulfilling- amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- Annual improvements to the IFRS standards.

The amendments listed above do not have any impact on the amounts recognised in prior periods and are not expected to significantly affect current or future periods.

Future accounting developments

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by Charity Bank. These standards are not expected to have a material impact on the bank in the current or future reporting periods:

- Distinguish between change in accounting estimate and policy- amendments to IAS 1 *Presentation of Financial Statements*, Practice statement 2 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- Recognition of deferred tax with equal amounts of taxable and deductible temporary differences- amendment to IAS 12 *Income Taxes*
- Explanation of accounting for sale and leaseback transactions- amendment to IFRS 16 *Leases*
- Classification of a non-current liabilities with covenants- amendment to IAS 1 *Presentation of Financial Statements*; and
- IFRS 17 *Insurance Contracts* replacing IFRS 4 *Insurance Contracts*

2 Accounting policies

This note sets out Charity Bank's accounting policies which relate to the financial statements as a whole. All policies have been consistently applied to all the years presented unless stated otherwise.

Income recognition

a) Interest income and expense

Interest income on financial assets and interest expense on financial liabilities are recognised in 'interest income' and 'interest expense' in the Statement of Comprehensive Income using the 'effective interest rate' ('EIR') method. Interest income is calculated by applying the EIR to the gross carrying amount on loans.

The EIR is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. The EIR incorporates fees receivable or paid that are an integral part of the yield of an effective interest rate, transaction costs and all other premiums and discounts.

All income derives from banking business carried out in the United Kingdom.

2 Accounting policies (continued)

Income recognition (continued)

b) Fee income

Fees are accounted for depending on the services to which the income relates to as follows:

- fees earned on the execution of a significant act are recognised in 'fee income' when the performance obligation (typically the act) is completed;
- fees earned in respect of services are recognised in 'fee income' as the services are provided; and
- fees which form an integral part of the 'effective interest rate' of a financial instrument are recognised as an adjustment to the effective interest rate and recorded in 'interest income'.

Financial assets

Financial assets are recognised in Charity Bank's balance sheet when the bank becomes a party to the contractual provisions of the instrument. All financial assets are initially recognised at fair value. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost.

All financial assets measured at amortised cost are assessed to see if there has been a significant increase in credit risk since initial recognition. Refer to note 2, subsection "Impairment of loans and advances to customers held at amortised cost" providing more detail on the significant increase in credit risk ('SICR') and the factors considered.

i) Classification and subsequent measurement

Financial assets are classified into the following categories:

- Amortised cost; and
- Fair value through profit or loss.

Management determines the classification of financial assets at the time of initial recognition. Re-classification is not made between asset classes.

The classification and subsequent measurement of financial assets depend on:

i. The business model for managing the asset; and
ii. The cash flow characteristics of the asset

- Amortised cost: Assets that are held for collection of contractual cash flows where the cash flows solely represent payments of principal and interest ('SPPI') and not designated at FVPL, are measured at amortised cost. The carrying amount of these assets are adjusted by any credit loss allowances recognised. Interest income from the financial assets is included in the Statement of Comprehensive Income using the EIR method.
- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the cash flows solely represent payments of principal and interest are measured at fair value through other comprehensive income ('FVOCI').
- Fair value through profit or loss: Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss is recognised in the statement of comprehensive income and presented within 'Profit/(loss) on derecognition of financial assets measured at FVPL' in the year in which it arises.

Business model: The business model reflects how the assets are managed to generate cash flows. That is, if the objective is solely to collect contractual cash flows from the assets or collect both contractual cash flows and cash flows arising from the sale of assets.

SPPI: Charity Bank assesses whether the financial asset cash flows represent solely payments of principal and interest using the SPPI test.

2 Accounting policies (continued)

Financial assets (continued)

ii) Impairment

Charity Bank assesses on a forward-looking basis the ECL associated with its financial assets carried at amortised cost and with the exposure arising from loan commitments. A loss allowance is recognised at each reporting date. The measurement of ECL reflects:

- The unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

iii) Modification

Charity Bank sometimes renegotiates or modifies the contractual cash flows of loans to borrowers. When this happens, Charity Bank assesses whether or not the new terms are substantially different from the original terms. This is done by considering, but not limited to, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to pay;
- Whether any substantial new terms are introduced that affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change to the interest rate; and
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the original financial asset is derecognised and the bank recognises a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be that date of initial recognition for the impairment calculation purposes, including if there has been a significant increase in credit risk. Charity Bank also considers if the new financial asset is deemed to be credit-impaired at initial recognition, considering the factors of the renegotiation.

If the terms are not substantially different, there is no derecognition and the carrying amount is recalculated.

iv) Derecognition other than modification

Financial assets are derecognised when the contractual rights to receive the cash flows from the assets have expired.

Loans and fees receivable

Loans and fees receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and fees receivable are initially recognised at fair value, including directly attributable transaction costs and are subsequently measured at amortised cost, using the EIR method, less any expected credit losses.

Impairment of loans and advances to customers held at amortised cost

Charity Bank's loan impairments are established to recognise expected impairment losses in its portfolio of loans carried at amortised cost. Refer to note 14 and note 28 detailing the loan loss allowance.

The actual amount of the future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognised in these financial statements.

2 Accounting policies (continued)

Impairment of loans and advances to customers held at amortised cost (continued)

In certain cases, Charity Bank may use forbearance measures to assist borrowers experiencing significant financial distress. The bank's policy is to work with borrowers and their boards to seek solutions to their financial problems, and to subscribe fully to the six 'treating customers fairly' outcomes in its approach to recovery management. Experience suggests that borrowers, even those in severe financial difficulties, can often secure grants and other funding to overcome such problems; the accessibility to such funding is unique to the social sector. Loan rescheduling may be considered on an exceptional basis if considered appropriate by the relevant delegated authority. Any forbearance measures agreed are assessed on a case-by-case basis. Forbearance accounts are monitored regularly by the Director of Credit and the Internal Credit Committee. During the pandemic, some borrowers found their income reduced and requested capital repayment holidays, which were granted, but by the end of last year most of these borrowers had recovered and were making their scheduled loan repayments.

A loan will be credit-impaired when there is evidence that events since the loan was granted have affected expected cash flows from the loan and the full value of the loan is not considered recoverable. A loan can also be credit-impaired when the borrower has gone into administration, even if the full value is considered recoverable and will be categorised in stage 3.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and its credit risk is continuously monitored.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired (unless the borrower is Out of Order which is credit impaired, they are then classified as 'Stage 3').
- If the financial instrument is credit-impaired or the borrower is Out of Order, the financial instrument is moved to 'Stage 3.'

The following diagram summarises the impairment requirements under IFRS 9:

Change in credit quality since initial recognition

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses (including specific provisions)

Significant increase in credit risk ('SICR')

Charity Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

- The borrower's account has been classified as higher risk (being Out of Order, Full Watch List or Internal Watch List); or
- The borrower's credit score has fallen by at least 15% since sanction date (or 31 December 2015, whichever is later).

Loans that are 10 business days past-due or more are classified as Out of Order and are included in 'Stage 3' regardless of whether credit-impaired.

2 Accounting policies (continued)

Impairment of loans and advances to customers held at amortised cost (continued)

Definition of default

A loan will be considered to be 'non-performing' or 'credit impaired' when it meets our definition of default – that is to say, the loan is 10 business days past-due, or the borrower is considered unlikely to pay without realisation of collateral. Unlikeliness to pay is assessed through the presence of triggers including a persistent breach of debt service cover, severe liquidity concerns, insolvency, loss of a significant contract or revenue streams, or significant management/governance issues.

A loan may also be considered to be non-performing when it is subject to material forbearance measures, consisting of concessions in relation to:

- A modification of the previous terms and conditions of the loan which the borrower is not considered able to comply with; or
- A total or partial refinancing of a troubled loan contract that would not have been granted had the borrower not been in financial difficulties.

It may not be possible to identify a single discrete event which defines an asset as 'non-performing' or 'credit impaired'. Instead, the combined effect of several events may cause financial assets to become credit impaired.

Forward-looking information incorporated in the ECL allowance

The ECL allowance (collective provisioning) incorporates four forward-looking economic scenarios:

- Base Case – mild recession due to the drag of rising interest rates, high inflation, high energy prices, supply constraints and tight labour market squeezing household spending/disposable income and SME profitability/margins.
- Upside – flat/modest GDP growth as inflation/energy prices fall back more quickly, reducing the pressure on interest rates and costs.
- Downside – recession due to greater squeeze on household spending/disposable income and SME profitability/margins with modest increase in unemployment/bankruptcies and falling property prices.
- Severe Downside – a tail-risk scenario where interest rates rise sharply in response to entrenched high inflation, which together with rising costs and taxes results in a significant squeeze on consumer/business spending and a severe recession with significant increase in unemployment/bankruptcies and material falls in property prices. Additionally, the continuing risk of a new Covid-19 variant which leads to new restrictions and lockdowns.

Current macro-economic and geo-political risks have been incorporated into the severe downside scenario and has adversely impacted the assumptions and probability weightings.

The key assumptions adjusted in the scenarios are:

- Residential non-social housing collateral values and recovery rates (movements affect the LGD value used);
- Social housing collateral values and recovery rates (movements affect the LGD value used);
- Commercial real estate collateral values and recovery rates (movements affect the LGD value used);
- Credit scores (movements impact on the credit grade which determines the PD used. Adverse movements in the credit score can impact on the staging of the loan – a fall of 15% or more in the credit score since sanction is a SICR and so a lifetime ECL is applied);
- Watch list overlay is an added stress applied to the Severe Downside scenario for borrowers with weak credit grades and a debt service coverage ratio ('DSCR') pre-stress defaulting to Internal Watch List, Full Watch List or Out of Order. This impacts the PD in the model (Full Watch List and Out of Order accounts default to credit grades E and F respectively). Additionally, the overlay can impact on the staging of the loan (Watch List accounts are a SICR and so a lifetime ECL is applied);
- Probability weightings – the aggregate ECL's for each scenario are probability weighted to give an overall ECL. The probability weighting reflects the likelihood of the scenario occurring in the next 12 months for each scenario (movements in the probability weightings for each scenario will impact on the overall ECL).

2 Accounting policies (continued)

Impairment of loans and advances to customers held at amortised cost (continued)

Key Assumptions for Scenarios	Base Case	Upside	Downside	Severe Downside
Residential Non-Social Housing	(7.50%)	(2.50%)	(10.00%)	(15.00%)
Social Housing (Residential)	(2.50%)	-	(5.00%)	(7.50%)
Commercial Property	(15.00%)	(5.00%)	(20.00%)	(30.00%)
Credit Score	(10.00%)	(5.00%)	(15.00%)	(25.00%)
Watch List Overlay	No	No	No	Yes
Probability Weighting	35.00%	10.00%	35.00%	20.00%

The assumptions for 2021 as a comparative were:

Key Assumptions for Scenarios	Base Case	Upside	Downside	Severe Downside
Residential Non-Social Housing	(2.00%)	-	(5.00%)	(15.00%)
Social Housing (Residential)	-	1.70%	(2.50%)	(5.00%)
Commercial Property (Value)	(10.00%)	2.50%	(15.00%)	(25.00%)
Credit Score	(5.00%)	-	(10.00%)	(25.00%)
Watch List Overlay	No	No	No	Yes
Probability Weighting	50.00%	10.00%	30.00%	10.00%

The sensitivity analysis below demonstrates the effect of a 100% probability weighting for each scenario. The sensitivity analysis shows the impact of the assumptions and watch list overlay on stage 3 under the Severe Downside scenario.

Probability Weighting Sensitivity	Collective Provision £	Stage 1 £	Stage 2 £	Stage 3 £	Increase on Baseline £
Baseline	1,743,908				
Base Case	792,695	61,379	687,287	44,029	(951,213)
Upside	466,975	49,841	386,919	30,215	(1,276,933)
Downside	1,577,943	54,270	1,472,737	50,936	(165,964)
Severe Down	4,337,435	27,829	3,691,368	618,238	2,593,527

In addition, sensitivity analysis is provided below and shows how the impairment number is affected by changes in the various components of the calculation on an individual and combined basis.

2 Accounting policies (continued)

Impairment of loans and advances to customers held at amortised cost (continued)

Assumption	Sensitivity	Collective Provision £	% of Loan Book	Increase on Baseline Collective Provision £	Increase on Baseline % of Loan Book
Baseline	n/a	1,743,908	0.63%		
Non-Social Housing	Reduce by 5%	1,768,949	0.64%	25,042	0.01%
	Reduce by 10%	1,801,685	0.65%	57,778	0.02%
Social Housing	Reduce by 5%	1,758,755	0.64%	14,847	0.01%
	Reduce by 10%	1,780,417	0.65%	36,509	0.01%
Commercial	Reduce by 5%	1,943,085	0.71%	199,177	0.07%
	Reduce by 10%	2,162,139	0.79%	418,232	0.15%
Credit Score	Reduce by 5%	2,467,521	0.90%	723,614	0.26%
	Reduce by 10%	3,168,664	1.15%	1,424,757	0.52%

The assumptions in the scenarios are based in reference to key macroeconomic indicators such as GDP, unemployment and Bank of England Base rate. Whilst historically there has not been a correlation between the macroeconomic environment and the performance of our loan book, these indicators provide context on the operating environment for our borrowers and how material changes in the macroeconomic outlook may impact on the assumptions and probability weightings in our scenarios.

Write off policy

The bank writes off financial assets in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

Financial liabilities

Financial liabilities are recognised in Charity Bank’s balance sheet when the bank becomes a party to the contractual provisions of the instrument. Charity Bank classifies its financial liabilities as ‘other liabilities’.

Management determines the classification of financial liabilities at initial recognition. Financial liabilities are initially recognised at fair value including directly attributable transaction costs and are subsequently measured at amortised cost, using the ‘effective interest rate’ method.

Provisions and contingent liabilities

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated. Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

2 Accounting policies (continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by Charity Bank are recognised at the date the proceeds are received, net of direct issue costs.

Repurchase of Charity Bank's own equity instruments is recognised and deducted directly in 'equity'. No gain or loss is recognised in 'profit or loss' on the purchase, sale, issue or cancellation of Charity Bank's own equity instruments.

Fair value

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price.

Subsequently, the fair values of financial instruments that are quoted in an active market are based on bid price (for assets) and offer price (for liabilities). Where there is no quoted market price in an active market, fair values are determined using valuation techniques including discounting future cash flows, option pricing models and other methods used by market participants.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on a straight-line basis to write off the cost of the fixed assets over their estimated useful life as follows:

Leasehold improvements	10 years (or lease period if shorter)
Equipment	3 years
Right-of-use asset	Term of the lease

At each balance sheet date, property and equipment are assessed for indications of impairment.

Intangible assets

Intangible assets are stated at cost, less amortisation and provisions for impairment. The assets are primarily the banking system which is amortised on a straight-line basis over their estimated useful life. The banking system was capitalised during October 2020 and has an estimated useful life of ten years, computer software has been calculated as three years, in a manner that reflects the pattern to which they contribute to future cash flows. At each balance sheet date, intangible assets are assessed for indications of impairment.

Leases

A lease is recognised as a right-of-use asset with a corresponding lease liability at the date at which the leased asset is available for use. The asset and liability arising from the lease are measured on a present value basis of future lease payments. Lease payments are discounted using an interest rate implicit in the lease.

Payments associated with short-term leases or leases of low-value assets are recognised on a straight-line basis as an expense in the Statement of Comprehensive Income.

Taxation

A tax expense represents the sum of the tax currently payable and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Charity Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

2 Accounting policies (continued)

Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of the assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Recognition of both deferred tax assets and deferred tax is reviewed on an annual basis at the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities and there is an intention to settle the balances on a net basis.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised.

Pension costs

Charity Bank makes contributions to TPT Retirement Solutions in respect of the defined contribution personal pension arrangements. One of the schemes offered historically by the TPT Retirement Solutions, the Growth Plan series 3, offered guarantees to its members as to capital and pensions and is, therefore, considered to be a defined benefit scheme based on a change in legislation in 2014. Only a few employees are still members of that scheme, which is now closed, but as a participating employer, Charity Bank may be liable to fund any shortfalls in the scheme if it decides to withdraw from the scheme. As advised by the TPT Retirement Solutions, Charity Bank's default liability on withdrawal from the scheme amounted to £28,878 at 30th September 2021. This was based on the latest actuarial valuation of employer's liability.

Charity Bank is not required to make deficit contributions but is planning on looking into the withdrawal from this scheme, an accrual has been raised at the balance sheet date and is included in 'Other pension costs'.

The amount charged in the Statement of Comprehensive Income in respect of pension costs is the contribution payable in the year and includes an accrual for the potential withdrawal. Differences between contributions payable and the year-end contributions actually paid are shown as either accruals or prepayments in the balance sheet.

The amount of contributions upon which the benefits are calculated is 17.00% of basic salary. Charity Bank contributes up to 11.33% and its employees up to 5.67%.

Cash and balances at banks

Cash and cash equivalents comprise cash and demand deposits with banks.

Capital instruments

Charity Bank classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms. An instrument is classified as equity if it evidences a residual interest in the assets of Charity Bank after the deduction of liabilities. The components of a compound financial instrument issued by Charity Bank are classified and accounted for separately as financial liabilities or equity as appropriate.

Subordinated debt

Subordinated debt is recognised at amortised cost. In the event of Charity Bank's liquidation before the loans mature, the repayment of subordinated debt and outstanding interest will rank behind ordinary creditors.

2 Accounting policies (continued)

LEAP programme

The LEAP lending programme is to be launched in 2023. The first tranche of grant income was received in December 2022 which includes equity and grant income.

The **operating grant** covers the operating costs associated with starting the programme and its delivery. This grant is initially recognised on the balance sheet and released on a systematic basis and recognised as 'Other operating income.'

The **direct grant** is to be disbursed by the bank to LEAP programme borrowers. These small grants will complement programme lending by funding expenditure with no clear source of repayment and/or improving loan affordability. This grant may also be used to support investment readiness work and encourage applications that meet programme objectives on social impact and diversity. This grant is recognised on the balance sheet and will be released when the grant is paid.

The **first loss grant** is to provide coverage for the LEAP loan portfolio to offset the programmes ECL and any future bad debt write offs. This grant is initially recognised on the balance sheet and released against the ECL calculated for the programme monthly and recognised in the 'Impairment charge/ (reversal)' note.

3 Segmental reporting

In the opinion of the Directors, Charity Bank carries on one principal class of business, banking, and operates almost entirely within one geographical segment, the United Kingdom. Deposits are drawn from throughout the United Kingdom together with a small amount of funds from abroad. Charity Bank lends in every county and region of the United Kingdom, with a small proportion committed in support of UK non-governmental organisations working internationally.

4 Net Interest Income

Interest income	2022 £'000	2021 £'000
Loans and advances to customers	11,489	7,013
Cash and balances at banks	655	46
Other assets	-	2
Financial assets at amortised cost	74	55
	12,218	**7,116**

The interest income of £74k from Financial assets at amortised cost relates to the UK Treasury stock. The total interest income of £12.2m is calculated using the EIR method and relates to income from all financial assets measured at amortised cost.

Interest expense and similar charges	2022 £'000	2021 £'000
Due to customers	2,725	1,513
Debt issued	78	71
Lease liability	19	18
	2,822	**1,602**

5 Fee income

	2022 £'000	2021 £'000
Arrangement fees on loans that did not proceed	53	18
Arrangement fees refunded for Energy Improvement Green Loan Offer	(2)	-
Non-utilisation fees	673	762
	724	**780**

6 Profit on financial assets at fair value through profit & loss

	2022 £'000	2021 £'000
Distributable income from Open Ended Investment Companies ('OEICs')	-	2
Realised gains on OEICs	-	10
	-	**12**

7 Other operating income

	2022 £'000	2021 £'000
Commission from the Reach Fund (Access- The Foundation for Social Investment)	17	7
Commission from the Resilience and Recovery Loan Fund	21	54
Miscellaneous income and fees	2	37
Operating grant for LEAP programme	12	-
	52	**98**

8 Administrative expenses

	2022	2021
Average monthly number of employees	**63**	**57**

	2022 £'000	2021 £'000
Wages and salaries	3,212	2,774
Social security costs	395	317
Other pension costs	293	314
Other staff costs	301	323
Total staff costs	**4,201**	**3,728**
Other administrative expenses	1,809	1,413
	6,010	**5,141**

Total number of employees at 31st December 2022 were 73 (of which 67 were permanent and includes employees on fixed-term contracts) and at 31st December 2021 there were 56 (of which 55 were permanent). Full-time equivalents at 31st December 2022 were 65 and at 31st December 2021 were 52.

Employee emoluments

The number of staff whose annualised emoluments exceeded £60,000 as at 31st December 2022 and at 31st December 2021 were as follows:

8 Administrative expenses (continued)

	2022 Number	2021 Number
£60,001 - £70,000	7	5
£70,001 - £80,000	2	3
£80,001 - £90,000	7	1
£90,001 - £100,000	1	1
£100,001 - £110,000	2	3
£110,001 - £120,000	2	-
£120,001 - £130,000	1	-
£140,001 - £150,000	-	1
£150,001 - £160,000	1	-
	23	**14**

Employees

The Directors consider the mission of Charity Bank will be best achieved if the staff work together as a team and that the reward structure should reflect this. The current ratio between the highest and lowest paid member of staff is six times (2021: six times). Pension contributions were made to TPT Retirement solutions or other approved pension schemes in respect of employees and Directors included above.

Directors

In 2022, four Non-Executive Directors (2021: 3) were reimbursed expenses totalling £605 (2021: £567), relating primarily to travel expenses incurred in attending Board meetings and events arranged by Charity Bank. Emoluments are not paid to Non-Executive Directors.

Directors' remuneration

	2022 £'000	2021 £'000
Directors' emoluments	214	142
Contribution to a defined contribution pension scheme	24	16
Medical insurance	7	4
	245	**162**

The highest paid Director during the year received a total remuneration package of £176k (2021: £162k). Two Executive Director received pension benefits in the year to 31 December 2022 (2021: one). Directors do not receive any share options and no share options were awarded under long term incentive plans.

Key management personnel

	2022 £'000	2021 £'000
Emoluments	848	740
Contribution to a defined contribution pension scheme	93	74
Medical insurance	17	12
	958	**826**

Key management personnel comprise the Board of Directors and all members of the EXCO.

Loans and deposit accounts are held by members of the Board and Key Management Personnel. All loans are in the form of staff loans and total £11k (2021: £16k) and are unsecured.

Deposits held by key management personnel total £12 (2021: £12) and subordinated debt held by members of the Board is £401k (2021: £400k). Deposits held by related parties comprise those held by connected individuals to Charity Bank are £74k (2021: £95k) and deposits held by connected entities are £6.6m (2021: £1.5m).

Auditors remuneration has been disclosed in note 10.

9 Pension costs

Charity Bank operates a defined contribution pension scheme for staff. Charity Bank contributed £293k during the year (2021: £314k). This amount forms part of total staff costs recorded under administrative expenses. There was £47.6k (2021: £58) outstanding contributions at the balance sheet date.

Refer to pension costs under note 2 for additional details of the defined benefit scheme.

10 Profit before taxation

	2022 £'000	2021 £'000
Operating profit is stated after charging:		
Depreciation - property and equipment	61	59
Depreciation - right-of-use asset	199	198
Amortisation - intangible assets	164	166
	424	423
Auditors' remuneration:		
- audit of annual financial statements	173	144
- additional audit fee relating to prior year	-	13
- audit-related assurance services	3	3
	176	160

11 Tax expense

In the budget on 3 March 2021, the UK Government announced an increase in the main UK corporation tax rate from 19% to 25% with effect from 1 April 2023. The change in rate was substantively enacted on 24 May 2021. As this was substantively enacted by the balance sheet date, deferred tax balances on timing differences as at 31 December 2022 have been measured at 25% and are not recognised on the balance sheet due to uncertainty around future utilisation.

	2022 £'000	2021 £'000
Current tax:		
Current tax on profits for the year	-	-
Total current tax	**-**	**-**
Tax per Statement of Comprehensive Income	**-**	**-**

11 Tax expense (continued)

Factors Affecting Total Tax Charge for the Current Year

The charge for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows:

	2022 £'000	2021 £'000
Profit before taxation- continuing activities	2,716	944
Tax on profit at standard UK tax rate of 19% (2021: 19%)	516	179
Effects of:		
Expenses not deductible	(2)	(2)
Rate differences	162	57
Utilisation of brought forward tax losses	(676)	(234)
Tax charge for the year	-	-

Unrecognised deferred tax

	2022 £'000	2021 £'000
Carried forward tax losses	878	1,534
Accelerated capital allowances	70	77
IFRS change in basis adjustment	37	61
Short-term temporary differences	12	-
	997	**1,672**
Deferred tax rate	25%	25%

A deferred tax asset has not been recognised in the balance sheet, these assets are only recognised if it is probable that future taxable amounts will be available to utilise the temporary differences and losses against. The losses can be carried forward indefinitely and have no expiry date.

12 Cash and balances at banks

	31st Dec 2022 £'000	31st Dec 2021 £'000
Cash	11,345	6,811
Short-term balances with other banks	51,859	39,126
Less expected credit loss	(6)	(3)
	63,198	**45,934**

The Bank of England reserve account was opened during 2020, the balance at 31st December 2022 was £52m (2021: £38m) and included in the 'Short-term balances with other banks' line above.

13 Financial assets

	31st Dec 2022 £'000	31st Dec 2021 £'000
Financial assets at amortised cost		
UK Treasury Stock	18,792	24,895
Less expected credit loss	(16)	(7)
	18,776	**24,888**
Maturity:		
- less than three months	-	-
- one year or less but over three months	2,105	6,056
- between one year and five years	16,687	18,839
Less expected credit loss	(16)	(7)
	18,776	**24,888**

UK Treasury stock has been classified as amortised cost and is held to meet regulatory liquidity requirements for HQLAs.

14 Loans and advances to customers

	Performing loans 31st Dec 2022 £'000	Impaired loans 31st Dec 2022 £'000	Total 31st Dec 2022 £'000	Performing loans 31st Dec 2021 £'000	Impaired loans 31st Dec 2021 £'000	Total 31st Dec 2021 £'000
Remaining maturity:						
- three months or less excluding on demand or at short notice	50	-	50	356	-	356
- one year or less but over three months	2,189	-	2,189	59	-	59
- five years or less but over one year	3,894	97	3,991	5,417	19	5,436
- over five years	267,578	1,609	269,187	232,238	1,613	233,851
	273,711	**1,706**	**275,417**	**238,070**	**1,632**	**239,702**
Less allowance for impairment	(1,179)	(538)	(1,717)	(593)	(414)	(1,007)
	272,532	**1,168**	**273,700**	**237,477**	**1,218**	**238,695**

As at 31st December 2022, Charity Bank had advanced variable and managed rate loans amounting to £256.8m (31st December 2021: £230.9m) and fixed rate loans amounting to £18.5m (31st December 2021: £8.7m) to customers. £39.7k was the balance granted as staff loans (31st December 2021: £48.0k).

Total credit impaired loans and advances to customers amounted to £1.7m (31st December 2021: £1.6m), within which an allowance for specific impairment of £476k (31st December 2021: £410k) was included.

15 Other assets

	31st Dec 2022 £'000	31st Dec 2021 £'000
Bank placements	1	4
Fees receivable	275	212
Less expected credit loss	(7)	(5)
Interest receivable	89	4
	358	**215**

16 Property and equipment

	Equipment £'000	Leasehold improvements £'000	Total £'000
Cost			
At 1st January 2022	543	213	756
Additions	14	-	14
At 31st December 2022	**557**	**213**	**770**
Accumulated depreciation			
At 1st January 2022	433	213	646
Charged in year	61	-	61
At 31st December 2022	**494**	**213**	**707**
Net book value			
At 31st December 2022	**63**	**-**	**63**
At 31st December 2021	**110**	**-**	**110**

	Equipment £'000	Leasehold improvements £'000	Total £'000
Cost			
At 1st January 2021	514	213	727
Additions	29	-	29
At 31st December 2021	**543**	**213**	**756**
Accumulated depreciation			
At 1st January 2021	374	213	587
Charged in year	59	-	59
At 31st December 2021	**433**	**213**	**646**
Net book value			
At 31st December 2021	**110**	**-**	**110**
At 31st December 2020	**140**	**-**	**140**

17 Right-of-use asset

	31st Dec 2022 £'000	31st Dec 2021 £'000
Right-of-use asset		
Building	406	622
Lease liability		
Current	151	151
Non-current	184	350
	335	**501**
Maturity:		
- less than three months	34	35
- one year or less but over three months	117	116
- between one year and five years	184	350
	335	**501**

The total cash outflow for the lease liability in 2022 was £147k (2021: £164k). Depreciation for right-of-use asset is disclosed in note 10 and interest on the lease liability is in note 4.

The liability is measured as the present value of future lease payments discounted using the incremental borrowing rate (which was 6.5% at year-end). The asset is measured at cost comprising of the amount of the initial measurement of the lease liability and the restoration costs. Charity Bank is exposed to potential future increases in the lease payments, when this occurs the lease liability will be reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and interest expense. The interest expense is charged to the profit and loss over the lease period.

18 Intangible fixed assets

	Computer software £'000	Total £'000
Cost		
At 1st January 2022	1,937	1,937
Additions	-	-
At 31st December 2022	**1,937**	**1,937**
Accumulated amortisation		
At 1st January 2022	585	585
Charged in year	164	164
At 31st December 2022	**749**	**749**
Net book value		
At 31st December 2022	**1,188**	**1,188**
At 31st December 2021	**1,352**	**1,352**

18 Intangible fixed assets (continued)

	Computer software £'000	Total £'000
Cost		
At 1st January 2021	1,900	1,900
Additions	37	37
At 31st December 2021	**1,937**	**1,937**
Accumulated amortisation		
At 1st January 2021	419	419
Charged in year	166	166
At 31st December 2021	**585**	**585**
Net book value		
At 31st December 2021	**1,352**	**1,352**
At 31st December 2020	**1,481**	**1,481**

19 Customer accounts

	31st Dec 2022 £'000	31st Dec 2021 £'000
With agreed maturity dates or periods of notice by remaining maturity:		
- three months or less	173,421	153,399
- one year or less, but over three months	101,890	91,062
- more than one year but less than five years	38,524	28,108
- more than five years	-	2
	313,835	**272,571**

20 Other liabilities

	31st Dec 2022 £'000	31st Dec 2021 £'000
Social security and other taxes	373	299
Cash collateral	3,534	3,611
Credit loss allowance on commitments	503	169
Other payables	11	-
Operating grant for LEAP programme	23	-
Direct grant for LEAP programme	62	-
First loss grant for LEAP programme	265	-
	4,771	**4,079**

Cash collateral held is in the form of deposits received from loan borrowers.

An expected credit loss charge has been raised on commitments in accordance with IFRS 9. Refer to note 26 for the commitments balance at 31st December 2022. The expected credit loss on commitments has been included in the 'Charge to Statement of Comprehensive Income' in note 25.

20 Other liabilities (continued)

During December 2022, the first tranche for the LEAP programme was received from Access- The Foundation for Social Investment. Refer to note 7 for the income recognised relating to the operating grant and note 25 first loss grant.

21 Subordinated debt

	31st Dec 2022 £'000	31st Dec 2021 £'000
Principal	8,135	7,135
Accrued Interest	6	2
	8,141	**7,137**
Maturity:		
- less than three months	6	2
- one year or less but over three months	-	1,000
- between one year and five years	8,135	6,135
	8,141	**7,137**

£2m of new subordinated debt was raised during the year, which matures in 2027, £1m matured in 2022 and was not reinvested.

In the event of Charity Bank's liquidation before the loans mature, the repayment of subordinated debt and outstanding interest will rank behind ordinary creditors.

22 Called up share capital

	Number of shares	31st Dec 2022 £'000	Number of shares	31st Dec 2021 £'000
Authorised, issued, allotted and fully paid				
Ordinary shares of £0.50 each	31,486,762	15,743	30,874,422	15,437
	31,486,762	**15,743**	**30,874,422**	**15,437**

	Number of shares	Share capital £'000	Share premium £'000
At 31st December 2022	**31,486,762**	**15,743**	**6,873**
At 31st December 2021	**30,874,422**	**15,437**	**6,629**

No dividend has been declared (2021: £nil).

All of the issued ordinary shares are equity shares.

Ordinary shares carry one vote each up to a maximum of 49.9%. Any excess votes over and above the 49.9% are reapportioned across the remaining voting shares. They entitle the holder to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held.

23 Total equity

	At 1st Jan 2022 £'000	Incoming resources £'000	Profit for the year £'000	At 31st Dec 2022 £'000
Called-up share capital				
Fully paid ordinary shares	15,437	306	-	15,743
Retained earnings				
Capital contribution	14,478	-	-	14,478
Accumulated loss	(9,796)	-	2,716	(7,080)
Total unrestricted equity shareholders' funds	**20,119**	**306**	**2,716**	**23,141**
Share premium	6,629	244	-	6,873
Total equity shareholders' funds	**26,748**	**550**	**2,716**	**30,014**

During 2022, additional share capital of £550k was received for cash consideration.

	At 1st Jan 2021 £'000	Incoming resources £'000	Profit for the year £'000	At 31st Dec 2021 £'000
Called-up share capital				
Fully paid ordinary shares	12,509	2,928	-	15,437
Retained earnings				
Capital contribution	14,478	-	-	14,478
Accumulated loss	(10,740)	-	944	(9,796)
Total unrestricted equity shareholders' funds	**16,247**	**2,928**	**944**	**20,119**
Share premium	4,657	1,972	-	6,629
Total equity shareholders' funds	**20,904**	**4,900**	**944**	**26,748**

24 Reconciliation of liabilities arising from financing activities

The table below details changes in the bank's liabilities arising from financing activities, including both cash and non-cash changes.

	Note	1st Jan 2022 £'000	Cash changes £'000	Non-cash changes £'000	31st Dec 2022 £'000
Subordinated debt	22	7,137	1,004	-	8,141
		7,137	**1,004**	**-**	**8,141**

	Note	1st Jan 2021 £'000	Cash changes £'000	Non-cash changes £'000	31st Dec 2021 £'000
Subordinated debt	22	5,827	1,310	-	7,137
		5,827	**1,310**	**-**	**7,137**

25 Impairment charge/ (reversal)

	2022 £'000	2021 £'000
Opening balance	1,192	1,281
Bad debts recovered	-	15
Impairment charge/ (reversal)	1,057	(104)
First loss grant for LEAP programme	(35)	-
Closing balance	**2,214**	**1,192**

26 Contingent liabilities and commitments

a) Legal issue- contingent liability

At 31st December 2022, there were no pending legal cases or other issues in progress which might have a material impact on the financial statements of Charity Bank (2021: nil).

b) Off-balance sheet liabilities

	31st Dec 2022 £'000	31st Dec 2021 £'000
Loan commitments		
Undrawn irrevocable loan commitments	52,506	59,051

Commitments comprise amounts yet to be drawn under loan offers or agreements issued to borrowing customers or where formalities, for example, completion of security arrangements, have yet to be finalised. Refer to note 20 where an impairment has been raised for the expected credit loss on commitments in accordance with IFRS 9.

27 Related party transactions

Directors' and Key Management Personnel emoluments and transactions are disclosed in note 8.

Loans made in partnership with The Big Society Capital Limited total £10.6m (7 loans with 7 borrowers) (2021: £10.2m, 7 loans with 7 borrowers). Commitments relating to the partnership with The Big Society Capital Limited total £468.8k (2021: £1.3m). Charity Bank loans made in partnership are treated as other loans recorded in the loan portfolio earning interest in the same calculation and subject to the same risks and considerations.

28 Financial Risk Management

Interest rate risks

A robust understanding of the drivers and manifestation of the various interest rate risks to which Charity Bank is exposed is required to facilitate good risk management, supervision and potentially capital adequacy.

The following tables show the interest rate profiles of assets and liabilities, demonstrating the exposures to a change in rate.

28 Financial Risk Management (continued)

Interest rate risks (continued)

As at 31st Dec 2022	Next day £'000	Up to 3 months £'000	3 - 6 months £'000	6 months to 1 year £'000	1 - 5 years £'000	Over 5 years £'000	No specific repricing £'000	Total £'000
Assets								
Cash and balances at banks	63,198	-	-	-	-	-	-	63,198
Financial assets	-	(16)	-	2,105	16,687	-	-	18,776
Loans and advances to customers	250,988	4,178	1,033	497	17,004	-	-	273,700
Prepayments and other assets	-	-	-	-	-	-	719	719
Right-of-use asset	-	-	-	-	-	-	406	406
Property and equipment	-	-	-	-	-	-	63	63
Intangible fixed assets	-	-	-	-	-	-	1,188	1,188
	314,186	4,162	1,033	2,602	33,691	-	2,376	358,050

As at 31st Dec 2022	Next day £'000	Up to 3 months £'000	3 - 6 months £'000	6 months to 1 year £'000	1 - 5 years £'000	Over 5 years £'000	No specific repricing £'000	Total £'000
Liabilities								
Customer accounts	52,626	119,905	63,127	38,763	38,524	-	890	313,835
Accruals and deferred income	-	-	-	-	-	-	954	954
Lease liability	-	-	-	-	-	-	335	335
Other liabilities	-	3,895	-	-	-	-	876	4,771
Subordinated debt	-	-	-	-	8,135	-	6	8,141
Shareholder's funds	-	-	-	-	-	-	30,014	30,014
	52,626	123,800	63,127	38,763	46,659	-	33,075	358,050
Interest rate sensitivity gap	265,738	(123,816)	(62,094)	(36,161)	(12,968)	-	(30,699)	

28 Financial Risk Management (continued)

Interest rate risks (continued)

As at 31st Dec 2021	Next day £'000	Up to 3 months £'000	3 - 6 months £'000	6 months to 1 year £'000	1 - 5 years £'000	Over 5 years £'000	No specific repricing £'000	Total £'000
Assets								
Cash and balances at banks	45,934	-	-	-	-	-	-	45,934
Financial assets	-	(7)	-	6,056	18,839	-	-	24,888
Loans and advances to customers	225,396	4,955	-	-	8,344	-	-	238,695
Prepayments and other assets	-	-	-	-	-	-	471	471
Right-of-use asset	-	-	-	-	-	-	622	622
Property and equipment	-	-	-	-	-	-	110	110
Intangible fixed assets	-	-	-	-	-	-	1,352	1,352
	271,330	4,948	-	6,056	27,183	-	2,555	312,072

As at 31st Dec 2021	Next day £'000	Up to 3 months £'000	3 - 6 months £'000	6 months to 1 year £'000	1 - 5 years £'000	Over 5 years £'000	No specific repricing £'000	Total £'000
Liabilities								
Customer accounts	50,707	102,211	52,795	38,267	28,108	2	481	272,571
Accruals and deferred income	-	-	-	-	-	-	1,036	1,036
Lease liability	-	-	-	-	-	-	501	501
Other liabilities	-	3,611	-	-	-	-	468	4,079
Subordinated debt	-	-	-	1,000	6,135	-	2	7,137
Shareholder's funds	-	-	-	-	-	-	26,748	26,748
	50,707	105,822	52,795	39,267	34,243	2	29,236	312,072
Interest rate sensitivity gap	225,578	(105,829)	(52,795)	(33,211)	(7,060)	(2)	(26,681)	

28 Financial risk management (continued)

Interest rate risks (continued)

The majority of Charity Banks loan portfolio is made up of variable rate loans that are linked to the Bank of England base rate, with the interest rate updating in line with base rate changes. The remainder of the loan book is split between a small portfolio of fixed rate loans and a legacy run-off portfolio of managed loans, whereby the rate can be changed by giving 90 days' notice to its the customers.

Charity Bank has the option to change the deposit rate paid on the customer accounts with variable rate products by giving 30 days' notice to its savings customers. Customer deposit accounts included in the next day profile relate to Easy Access accounts.

For loans and advances, if Base Rate were to fall by 0.25%, the main group of loans that would be impacted are variable rate loans. The impact would be a reduction in interest received income of £689k p.a. (2021: £599k). There would be no impact on the income stream from fixed loans.

For Charity Bank's customer deposit accounts, if there were an increase in Base Rate, management would review the bank's rates and take appropriate action. For every 0.5% increase in Deposit Rate, the interest paid would increase by £849k based on the customer accounts open at 31st December 2022 (2021: £742k).

Credit risk

Charity Bank is exposed to credit risk, which is the risk that counterparties will not be able to meet their obligations as they fall due. Charity Bank is exposed to both credit risk through loans and advances to its customers, and wholesale credit risk from its treasury operations.

Charity Bank uses collateral to mitigate against credit risk. Within loans and advances to customers, non-cash collateral is in the form of residential and commercial property. Collateral is independently valued on origination of the loan unless the loan to value of the collateral is less than 33.3% or for other exceptional reasons, in which case an informal valuation or estimate is accepted. The collateral is reviewed annually using indices or independently revalued in accordance with Charity Bank's Credit Risk Policy.

Some cash collateral is held by Charity Bank against a small proportion of its drawn loans. For 2022 this equated to 1.3% of the total loans and advances to customers (2021: 1.5%).

The main credit risk sensitivities on loans and advances for Charity Bank are as follows:

- probability of default: a decrease in the internal credit score of 10% of all borrowers would result in an increase in the collective provision of £1.3m; and
- loss given default: a decrease in the value of security of 5% across all loans would result in an increase in the collective provision of £127k, 10% would increase the collective provision by £265k.

28 Financial risk management (continued)

Expected credit loss measurement

Maximum exposure to credit risk

The following table contains an analysis of the credit risk exposures of financial assets for which an ECL allowance is recognised.

		2022				2021
		Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cash and balances at banks	Gross carrying amount	63,204	-	-	63,204	45,937
	Expected credit loss	(6)	-	-	(6)	(3)
	Carrying amount	**63,198**	-	-	**63,198**	**45,934**
Financial assets	Gross carrying amount	18,792	-	-	18,792	24,895
	Expected credit loss	(16)	-	-	(16)	(7)
	Carrying amount	**18,776**	-	-	**18,776**	**24,888**
Loans and advances to customers	Gross carrying amount	177,047	96,664	1,706	275,417	239,702
	Expected credit loss	(227)	(952)	(538)	(1,717)	(1,007)
	Carrying amount	**176,820**	**95,712**	**1,168**	**273,700**	**238,695**
Other assets	Gross carrying amount	365	-	-	365	220
	Expected credit loss	(7)	-	-	(7)	(5)
	Carrying amount	**358**	-	-	**358**	**215**
Loan commitments	Gross carrying amount	31,972	20,534	-	52,506	59,051
	Expected credit loss	(177)	(326)	-	(503)	(169)
	Carrying amount	**31,795**	**20,208**	-	**52,003**	**58,882**

Loss allowance

The loss allowance recognised in the year is impacted by many factors, as described below:

- Transfers between Stages 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decrease) of credit risk with a consequent of a ‘step up’ (or ‘step down’) between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognised during the year as well as releases for financial instruments derecognised in the year;
- Impact on the measurement of the ECL due to changes in PDs, EADs and LGDs in the year from regularly refreshing the assumptions applied;
- Impacts on the measurement of ECL due to changes made to models and assumptions; and
- Financial assets derecognised during the year and write-offs of allowances related to assets that were derecognised during the year.

The table on the following page explains the change in the loss allowance between the beginning and end of the year due to these factors:

28 Financial risk management (continued)

Loss allowance (continued)

Loans and advances to customers impairment	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Expected credit loss at 1st Jan 2022	240	353	414	1,007
Loans drawn and recognised	97	270	-	367
Loans repaid and derecognised	(3)	(21)	-	(24)
Write-offs	-	-	-	-
Change in credit risk and model	289	(25)	103	367
Transfer between stages				
- Transfer to Stage 1	20	(20)	-	-
- Transfer to Stage 2	(416)	416	-	-
- Transfer to Stage 3	-	(21)	21	-
Other movements	-	-	-	-
Expected credit loss as at 31st Dec 2022	**227**	**952**	**538**	**1,717**

Loans and advances to customers impairment	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Expected credit loss at 1st Jan 2021	224	430	402	1,056
Loans drawn and recognised	81	1	-	82
Loans repaid and derecognised	(15)	(7)	(19)	(41)
Write-offs	-	-	-	-
Change in credit risk and model	(39)	(44)	(7)	(90)
Transfer between stages				
- Transfer to Stage 1	91	(24)	(67)	-
- Transfer to Stage 2	(102)	111	(9)	-
- Transfer to Stage 3	-	(114)	114	-
Other movements	-	-	-	-
Expected credit loss as at 31st Dec 2021	**240**	**353**	**414**	**1,007**

28 Financial risk management (continued)

Loss allowance (continued)

Non lending financial assets impairment	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Expected credit loss at 1st Jan 2022	15	-	-	15
Financial assets purchased and recognised	14	-	-	14
Financial assets sold and derecognised	(2)	-	-	(2)
Write-offs	-	-	-	-
Change in credit risk	2	-	-	2
Transfer between stages				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
Other movements	-	-	-	-
Expected credit loss as at 31st Dec 2022	**29**	**-**	**-**	**29**

Non lending financial assets impairment	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Expected credit loss at 1st Jan 2021	40	-	-	40
Financial assets purchased and recognised	21	-	-	21
Financial assets sold and derecognised	(9)	-	-	(9)
Write-offs	-	-	-	-
Change in credit risk	(37)	-	-	(37)
Transfer between stages				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
Other movements	-	-	-	-
Expected credit loss as at 31st Dec 2021	**15**	**-**	**-**	**15**

Commitments impairment	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Expected credit loss at 1st Jan 2022	168	1	-	169
Commitments approved and recognised	163	176	-	339
Commitments drawn and derecognised	(74)	(34)	-	(108)
Change in credit risk and model	12	127	-	139
Transfer between stages				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(59)	59	-	-
- Transfer to Stage 3	-	-	-	-
Other movements	-	-	-	-
Commitments not proceeding	(33)	(3)	-	(36)
Expected credit loss as at 31st Dec 2022	**177**	**326**	**-**	**503**

28 Financial risk management (continued)

Loss allowance (continued)

Commitments impairment	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Expected credit loss at 1st Jan 2021	179	7	-	186
Commitments approved and recognised	95	-	-	95
Commitments drawn and derecognised	(39)	(1)	-	(40)
Change in credit risk and model	(48)	(1)	-	(49)
Transfer between stages				
- Transfer to Stage 1	4	(4)	-	-
- Transfer to Stage 2	(1)	1	-	-
- Transfer to Stage 3	-	-	-	-
Other movements	-	-	-	-
Commitments not proceeding	(22)	(1)	-	(23)
Expected credit loss as at 31st Dec 2021	**168**	**1**	**-**	**169**

The following table further explains changes in the gross carrying amount to help explain their significance to the changes in the loss allowances as above:

Loans and advances to customers	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Loans and advances to customers at 1st Jan 2022	212,640	25,430	1,632	239,702
Loans drawn and recognised	33,923	19,985	-	53,908
Loans repaid and derecognised	(21,209)	(7,780)	(108)	(29,097)
Interest charged	7,505	3,880	104	11,489
Write-offs	-	-	-	-
Transfer between stages				
- Transfer to Stage 1	712	(712)	-	-
- Transfer to Stage 2	(56,084)	56,103	(19)	-
- Transfer to Stage 3	-	(97)	97	-
Other movements	(440)	(145)	-	(585)
Loans and advances to customers at 31st Dec 2022	**177,047**	**96,664**	**1,706**	**275,417**

28 Financial risk management (continued)

Loss allowance (continued)

Loans and advances to customers	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Loans and advances to customers at 1st Jan 2021	174,727	31,478	1,832	208,037
Loans drawn and recognised	51,246	60	-	51,306
Loans repaid and derecognised	(20,847)	(4,634)	(700)	(26,181)
Interest charged	5,947	960	106	7,013
Write-offs	-	-	13	13
Transfer between stages				
- Transfer to Stage 1	12,417	(11,905)	(512)	-
- Transfer to Stage 2	(10,364)	10,601	(237)	-
- Transfer to Stage 3	-	(1,130)	1,130	-
Other movements	(486)	-	-	(486)
Loans and advances to customers at 31st Dec 2021	**212,640**	**25,430**	**1,632**	**239,702**

Other movements comprise of arrangement and legal fees being transferred to the carrying value of the loans.

Non lending financial assets	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Non lending financial assets at 1st Jan 2022	71,052	-	-	71,052
Financial assets purchased and recognised	19,172	-	-	19,172
Financial assets sold and derecognised	(7,863)	-	-	(7,863)
Transfer between stages				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
Non lending financial assets at 31st Dec 2022	**82,361**	**-**	**-**	**82,361**

Non lending financial assets	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Non lending financial assets at 1st Jan 2021	51,423	-	-	51,423
Financial assets purchased and recognised	32,913	-	-	32,913
Financial assets sold and derecognised	(13,284)	-	-	(13,284)
Transfer between stages				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
Non lending financial assets at 31st Dec 2021	**71,052**	**-**	**-**	**71,052**

28 Financial risk management (continued)

Loss allowance (continued)

Commitments	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Commitments at 1st Jan 2022	58,759	292	-	59,051
Commitments approved and recognised	38,856	700	-	39,556
Commitments drawn and derecognised	(39,113)	(445)	-	(39,558)
Transfer between stages				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(20,233)	20,233	-	-
- Transfer to Stage 3	-	-	-	-
Commitments not proceeding	(6,297)	(246)	-	(6,543)
Commitments at 31st Dec 2022	**31,972**	**20,534**	**-**	**52,506**

Commitments	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Commitments at 1st Jan 2021	61,718	911	-	62,629
Commitments approved and recognised	32,144	-	-	32,144
Commitments drawn and derecognised	(32,394)	(258)	-	(32,652)
Transfer between stages				
- Transfer to Stage 1	535	(535)	-	-
- Transfer to Stage 2	(250)	250	-	-
- Transfer to Stage 3	-	-	-	-
Commitments not proceeding	(2,994)	(76)	-	(3,070)
Commitments at 31st Dec 2021	**58,759**	**292**	**-**	**59,051**

Credit risk by asset class

As at 31st Dec 2022 Loans and advances to customers at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Good quality	164,104	66,159	-	230,263
Satisfactory quality	12,943	25,731	-	38,674
Lower quality	-	4,774	1,534	6,308
Below standard	-	-	172	172
Gross carrying amount	177,047	96,664	1,706	275,417
Expected credit loss	(227)	(952)	(538)	(1,717)
Carrying amount	176,820	95,712	1,168	273,700

28 Financial risk management (continued)

Credit risk by asset class (continued)

As at 31st Dec 2022 Non lending financial assets	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Investment grade accounts	82,361	-	-	82,361
Non investment grade accounts	-	-	-	-
Impaired	-	-	-	-
Gross carrying amount	82,361	-	-	82,361
Expected credit loss	(29)	-	-	(29)
Carrying amount	82,332	-	-	82,332

As at 31st Dec 2022 Commitments	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	£'000	£'000	£'000	£'000
Good quality	27,500	16,250	-	43,750
Satisfactory quality	4,272	3,254	-	7,526
Lower quality	200	1,030	-	1,230
Below standard	-	-	-	-
Gross carrying amount	31,972	20,534	-	52,506
Expected credit loss	(177)	(326)	-	(503)
Carrying amount	31,795	20,208	-	52,003

Charity Bank uses an internal credit grading method considering financial, quality of income, qualitative and general factors.

The table below categorises the levels of credit risk, this is determined separately for each asset.

Credit risk	Internal credit grading	Investment grading
Good quality	A, B1, B2	Investment grade
Satisfactory quality	C1, C2	Non Investment grade
Lower quality	D, E	
Below standard	F	

Age analysis of past-due and impaired assets

The table below shows the age analysis of loans that are past-due and impaired assets.

Past-due and impaired

	31st Dec 2022 £'000	31st Dec 2021 £'000
Neither past-due or impaired	273,703	204,573
Past-due		
Within three months	3	-
Over three months	5	-
Total past-due	8	-
Impaired	1,706	1,632
	275,417	**206,205**

Charity Bank held security that fully covered the past-due and impaired values.

28 Financial risk management (continued)

Security against past-due and impaired

	31st Dec 2022 £'000	31st Dec 2021 £'000
Neither past-due or impaired	786,524	673,194
Past-due		
Within three months	-	-
Over three months	300	-
Total past-due	300	-
Impaired	1,945	2,420
	788,769	**675,614**

Analysis of impaired loans and advances to customers

Refer to note 14 for a detailed analysis of impairments.

Credit exposure by sector

	31st Dec 2022 £'000	31st Dec 2021 £'000
Banks	63,205	45,941
Corporates	-	-
Government	18,792	24,895
Loans and advances to customers	273,700	238,695
Other	2,374	2,549
	358,071	**312,080**

The above sector analysis includes cash and balances at banks, financial assets, and loans and fees receivable.

A proportion, 20% (31st December 2021: 20%) of Charity Bank's total financial assets was to high quality financial institutions, the majority of which had external ratings of between A- and AA+.

Liquidity risk

Charity Bank is exposed to liquidity risk. The liquidity policy is reviewed at least annually by the ALCO before being reviewed by the Risk Committee, with final review and approval by the Board.

The liquidity policy requires that sufficient HQLAs are held in a form and at a level which reflects prudent banking practice and regulatory criteria to meet funding requirements under normal and abnormal circumstances. In particular, under internal policies the required levels of HQLAs in approved investments are required to be higher than the minimum levels determined by prudential regulation.

Currency profile

As at the year-end, Charity Bank was not exposed to foreign exchange risk.

Instruments held for trading

None of Charity Bank's financial instruments are held for trading purposes and no trading book is held.

Hedging

Financial instruments are not held for hedging purposes.

28 Financial risk management (continued)

Market price risk

Charity Bank is exposed to market price risk consisting of investments in approved debt securities, principally high-quality securities issued by the government or central Banks of the UK or a European Economic Area member state. These investments represent Charity Bank's policy to invest in HQLAs in accordance with regulatory requirements.

These investments are subject to market price fluctuations in response to interest rate expectations and Charity Bank is therefore exposed to potential gains or losses on these investments.

Categories of financial instruments

The table below represents Charity Bank assets and liabilities carrying amounts, classified by the categories as defined in IFRS 9.

	31st Dec 2022 £'000	31st Dec 2021 £'000
Financial assets		
Cash and balances at banks	63,198	45,934
Financial assets at amortised cost	18,776	24,888
Loans and advances to customers	273,700	238,695
Other assets	358	215
	356,032	**309,732**
Financial liabilities		
Customer accounts	313,835	272,571
Other liabilities	3,534	3,611
Subordinated debt	8,141	7,137
	325,510	**283,319**

Fair values of financial instruments

Set out below is a year-end comparison of carrying values and fair values of all the Charity Bank's financial instruments by category. The fair values are determined as stated below.

	Carrying value 31st Dec 2022 £'000	Carrying value 31st Dec 2021 £'000	Fair value 31st Dec 2022 £'000	Fair value 31st Dec 2021 £'000
Financial assets				
Cash and balances at banks	63,198	45,934	63,198	45,934
Financial assets at amortised cost	18,776	24,888	17,313	24,635
Loans and advances to customers	273,700	238,695	278,262	245,840
Other assets	358	215	358	215
	356,032	**309,732**	**359,131**	**316,624**
Financial liabilities				
Customer accounts	313,835	272,571	313,835	272,571
Other liabilities	3,534	3,611	3,534	3,611
Subordinated debt	8,141	7,137	5,837	5,330
	325,510	**283,319**	**323,206**	**281,512**

28 Financial risk management (continued)

Basis of determination of fair values

Cash and balances at banks: these consist of cash held in hand and balances held with other banks. The carrying amount of the cash balances is deemed to be a reasonable representation of the fair value.

Financial Assets at FVPL: these comprise of OEIC. The basis of estimating the fair value of these assets is by ascertaining the market value as at the balance sheet date from quoted prices. As these financial assets are measured at fair value, the fair value is equal to the carrying value. These investments were sold during 2021.

Financial Assets at amortised cost: these comprise of financial assets. The basis of estimating the fair value of these assets is by ascertaining the market value as at the balance sheet date from quoted prices.

Loans and advances to customers: these comprise of loans and other facilities granted to non-bank customers. The fair value is calculated based on cash flows discounted using a current lending rate.

Customer accounts: these comprise deposits made with Charity Bank by all depositors. Fair value is calculated based on the present value of future payments of principal and interest cash flows. Given the majority of customer accounts are considered to be at current market rates, the carrying value generally approximates their fair value.

Subordinated debt: as at 31st December 2022, there is one type of subordinated loan note in issue which is a long-term debt liability.

Subordinated notes are valued using a discounted cash flow technique. The discount factor is derived using management's best estimate of what the market rate would be for a debt instrument with similar characteristics taking into account what the primary market is in which such instruments would be traded.

Fair value measurement recognised in the statement of financial position

The following tables provide an analysis of financial instruments for Charity Bank that are measured subsequent to initial recognition at amortised cost and fair value through profit or loss. These are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

28 Financial risk management (continued)

Fair value measurement recognised in the statement of financial position (continued)

As at 31st December 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Amortised cost				
Loans and advances to customers	-	-	278,262	278,262
Financial assets	17,313	-	-	17,313
Cash and balances at banks	63,198	-	-	63,198
Other assets	-	358	-	358
	80,511	358	278,262	359,131
Financial liabilities				
Amortised cost				
Customer accounts	-	313,835	-	313,835
Subordinated debt	-	-	5,837	5,837
Other liabilities	-	3,534	-	3,534
	-	317,369	5,837	323,206

As at 31st December 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Amortised cost				
Loans and advances to customers	-	-	245,840	245,840
Financial assets	24,635	-	-	24,635
Cash and balances at banks	45,934	-	-	45,934
Other assets	-	215	-	215
	70,569	215	245,840	316,624
Financial liabilities				
Amortised cost				
Customer accounts	-	272,571	-	272,571
Subordinated debt	-	-	5,330	5,330
Other liabilities	-	3,611	-	3,611
	-	276,182	5,330	281,512

28 Financial risk management (continued)

Capital risk

Charity Bank's Capital Resources at the year-end were as follows:

	31st Dec 2022 £'000	31st Dec 2021 £'000
Tier 1		
IFRS9 Transitional relief	35	69
Intangible assets	(1,188)	(1,352)
Ordinary share capital	15,743	15,437
Retained earnings	4,682	3,738
Share premium	6,873	6,629
Total Tier 1 capital	**26,145**	**24,521**
Tier 2 capital		
Subordinated loan notes	3,674	3,290
Total Tier 2 capital	**3,674**	**3,290**
Total capital resources	**29,819**	**27,811**

29 Post balance sheet events

On 10th January 2023, The Archbishop's Council (a new shareholder) invested £1.1m purchasing 1,200,000 new ordinary shares for cash consideration.

On 30th March 2023, Access- The Foundation for Social Investment (an existing shareholder) invested £200k purchasing 201,012 new ordinary shares for cash consideration.

No adjustment has been made to the financial statements for these transactions.

Country by country reporting

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions within the scope of the Capital Requirements Directive (CRD IV). All of the activities of the bank are conducted in the United Kingdom and therefore 100% of the total income, profit before tax and tax paid as well as employee figures are related to the United Kingdom.

	UK
Number of employees (average full-time equivalent)	63
Interest income (£'000)	12,218
Profit before taxation (£'000)	2,716
Tax expense (£'000)	-
Corporation tax paid (£'000)	-

The bank has not received any public subsidies.

1 Basis of preparation

The Report and Financial Statements for the year ended 31st December 2022 have been prepared in accordance with UK adopted International accounting standards and the requirements of the Companies Act 2006.

2 Accounting policies

This note sets out Charity Bank's accounting policies which relate to the financial statements as a whole. All policies have been consistently applied to all the years presented unless stated otherwise.

Income recognition

a) Interest income and expense

Interest income on financial assets and interest expense on financial liabilities are recognised in 'interest income' and 'interest expense' in the Statement of Comprehensive Income using the 'effective interest rate' ('EIR') method. Interest income is calculated by applying the EIR to the gross carrying amount on loans.

The EIR is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. The EIR incorporates fees receivable or paid that are an integral part of the yield of an effective interest rate, transaction costs and all other premiums and discounts.

All income derives from banking business carried out in the United Kingdom.

Taxation

A tax expense represents the sum of the tax currently payable and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Charity Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of the assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Recognition of both deferred tax assets and deferred tax is reviewed on an annual basis at the balance sheet date.

Country by country reporting (continued)

2 Accounting policies (continued)

Taxation (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities and there is an intention to settle the balances on a net basis.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised.

Independent auditors' report to the directors of The Charity Bank Limited

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

Opinion

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

We have audited the country-by-country information for the year ended 31 December 2022 in the Annual 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 Note 1 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:

- Evaluation of management's going concern assessment;
- Evaluation of management's financial forecasts and management's stress testing of liquidity and regulatory capital, including the severity of the stress scenarios and assumptions that were used;
- Evaluation of management's assessment of its liquidity diversification profile and risk; and
- Substantiation of cash and other liquid assets held by the company, as well as access to liquidity facilities at the Bank of England.

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.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the country-by-country information and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the country-by- country information does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the country-by-country information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the country-by-country information 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 country-by-country information 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.

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 Note 1 and accounting policies in Note 2 to 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 the rules of the Financial Conduct Authority and Prudential Regulatory Authority, UK tax legislation and equivalent laws and regulations applicable to the company, 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 journals, and management bias through judgments and assumptions in significant accounting estimates. Audit procedures performed included:

- Making enquiries of management and those charged with governance in relation to non compliance with laws and regulation and fraud;
- Reviewing key correspondence with the Financial Conduct Authority and Prudential Regulation Authority;
- Challenging assumptions and judgments made by management in their significant accounting estimates, in particular in relation to the risk of bias in the impairment of loans and advances (see related key audit matter above);
- Identifying and testing selected journal entries, in particular journal entries posted by senior management or with unusual account combinations; and
- Incorporating unpredictability into the nature, timing and/or extent of our testing.

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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory
Auditors London
21 April 2023

Directors, Committees and Advisers

Registered Office
Fosse House, 182 High Street
Tonbridge
Kent TN9 1BE
Tel: 01732 441900
Email: enquiries@charitybank.org
Website: www.charitybank.org

Registered Company No. 4330018
PRA No. 207701

Independent Auditors
Pricewaterhouse Coopers LLP
Statutory Auditor
7 More London Riverside
London SE1 2RT

Principal Banker
NatWest (National Westminister Bank)
Newcastle-under-lyme
ST5 0QX

Investment Manager
Barclays Bank
1 Churchill Place, Canary Wharf
London E14 5HP

Board of Directors
Alan Hodson (Chair)
Paul Berry (from 7th June 2022)
Jonathan Britton OBE
Michael Crabb
David Godfrey CBE (to 7th June 2022)
Neil Heslop OBE - a connected Director
Rebecca MacDonald- a connected Director (from 7th June 2022)
Caspar Mackay (from 7th June 2022)
Caroline Price
Charlotte Ravenscroft
Dr Ambreen Shah
Anna Shiel - a connected Director (to 7th June 2022)
Edward Siegel
Toby Walter - a connected Director

Audit Committee
Jonathan Britton OBE (Chair)
Paul Berry (from 7th June 2022)
David Godfrey CBE (to 7th June 2022)
Caroline Price
Alan Hodson (Observer)

Risk Committee
David Godfrey CBE (Chair) (to 7th June 2022)
Paul Berry (Chair) (from 7th June 2022)
Jonathan Britton OBE
Michael Crabb
Anna Shiel - a connected Director (to 7th June 2022)
Toby Walter - a connected Director (from 7th June 2022)
Alan Hodson (Observer)

Governance Committee
Alan Hodson (Chair)
Michael Crabb (from 7th June 2022)
David Godfrey CBE (to 7th June 2022)
Toby Walter - a connected Director

Executive Management Committee
Edward Siegel (CEO)
Natasha Breen (from 1st March 2022)
Justin Hort
Mark Howland
Caspar Mackay
Thomas Ralph
Carolyn Sims
Kirstie Smith

Internal Credit Committee
Chief Executive Officer
Credit Department Representatives:
- Director of Credit
- Senior Credit Manager
- Head of Lending Services
Banking Department Representatives:
- Director of Lending
- Senior Banking Department Manager (nominated by CEO)
Alternate Members:
- Finance Director
- Chief Risk Officer

Super Internal Credit Committee
As per the Internal Credit Committee
Plus one Non-Executive Director (chosen from the NED panel)

Assets & Liabilities Committee
Justin Hort
Caspar Mackay (from 3rd January 2022)
Max Mulroy (from 6th December 2022)
Jacqueline Murray (from 6th December 2022)
Thomas Ralph
Edward Siegel
Kirstie Smith
Susan Terblanche
Ben Trinder (from 6th December 2022)

Annual report

> A high-street bank may not have been able to help us with what we were trying to achieve. With Charity Bank, the loan wasn't just seen as a financial transaction; we discussed what we were doing and why we were doing it and it was clear that they supported us. We felt very comfortable working with Charity Bank.

Colin Waters
CEO of The Stable Family Home Trust

Unless indicated otherwise the photographs in this report are of our staff, savers, investors or organisations we have loaned money to. The majority of the photographs in this report were taken by Lucy Hunter (c) to whom we express our gratitude.

Nothing within this document should be deemed to constitute advice or a recommendation. If you are in any doubt please seek professional advice before any course of action is taken.

Registered Office:
The Charity Bank Limited, Fosse House, 182 High Street, Tonbridge, TN9 1BE. Company registered in England and Wales No. 4330018. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Financial Services Register No.207701. Member of the Financial Services Compensation Scheme (FSCS).

Charity bank