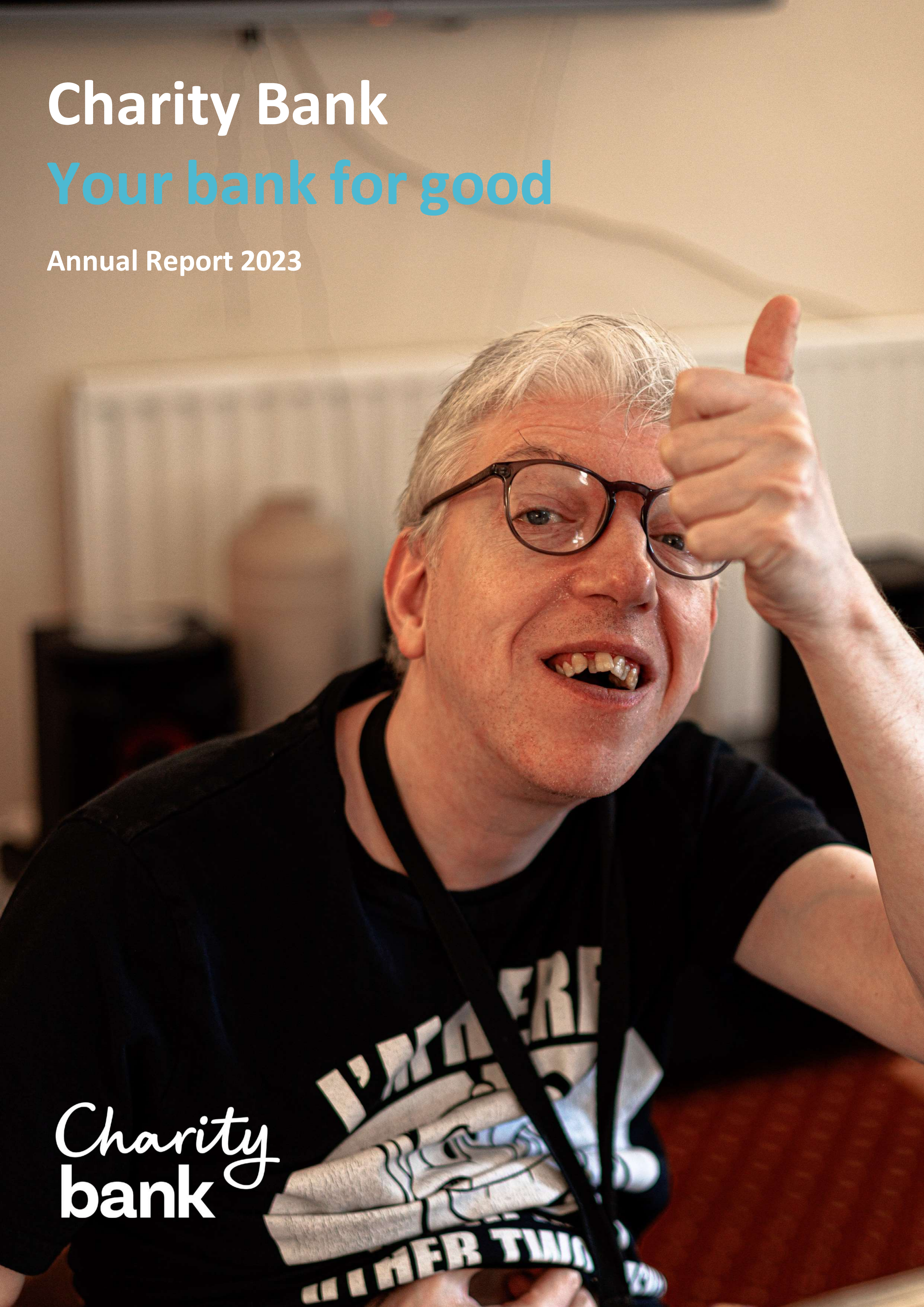
Charity Bank

Your bank for good

Annual Report 2023



Charity bank

The Charity Bank Limited ('Charity Bank') is a UK incorporated company limited by private 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.

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About Us

Charity Bank is the bank for people driven to create positive change. We bring together passionate savers, who want their savings to make a difference, with organisations seeking loans to create real change in the lives of people, communities and the planet – both now and for the long term.

If you're a charity or social enterprise on a mission to make a lasting impact, we care about your work and are committed to helping you achieve your goals. Our team of specialists understands the unique challenges faced by organisations focused on social impact. With Charity Bank, you can expect personal, flexible, and transparent relationships with tailored solutions for your borrowing needs.

For savers, we put your money to work on projects tackling social challenges. By entrusting your funds to Charity Bank, you not only earn a financial return; you are also actively contributing to driving positive transformation and shaping a brighter future for all.

Charity Bank is more than just an ethical bank – we're fueled by a dedication to foster positive change in everything we do. We only provide loans to organisations actively working to improve the world around them, and all our shareholders are charities or social purpose organisations. As a result, every loan, deposit and investment is working for social good.

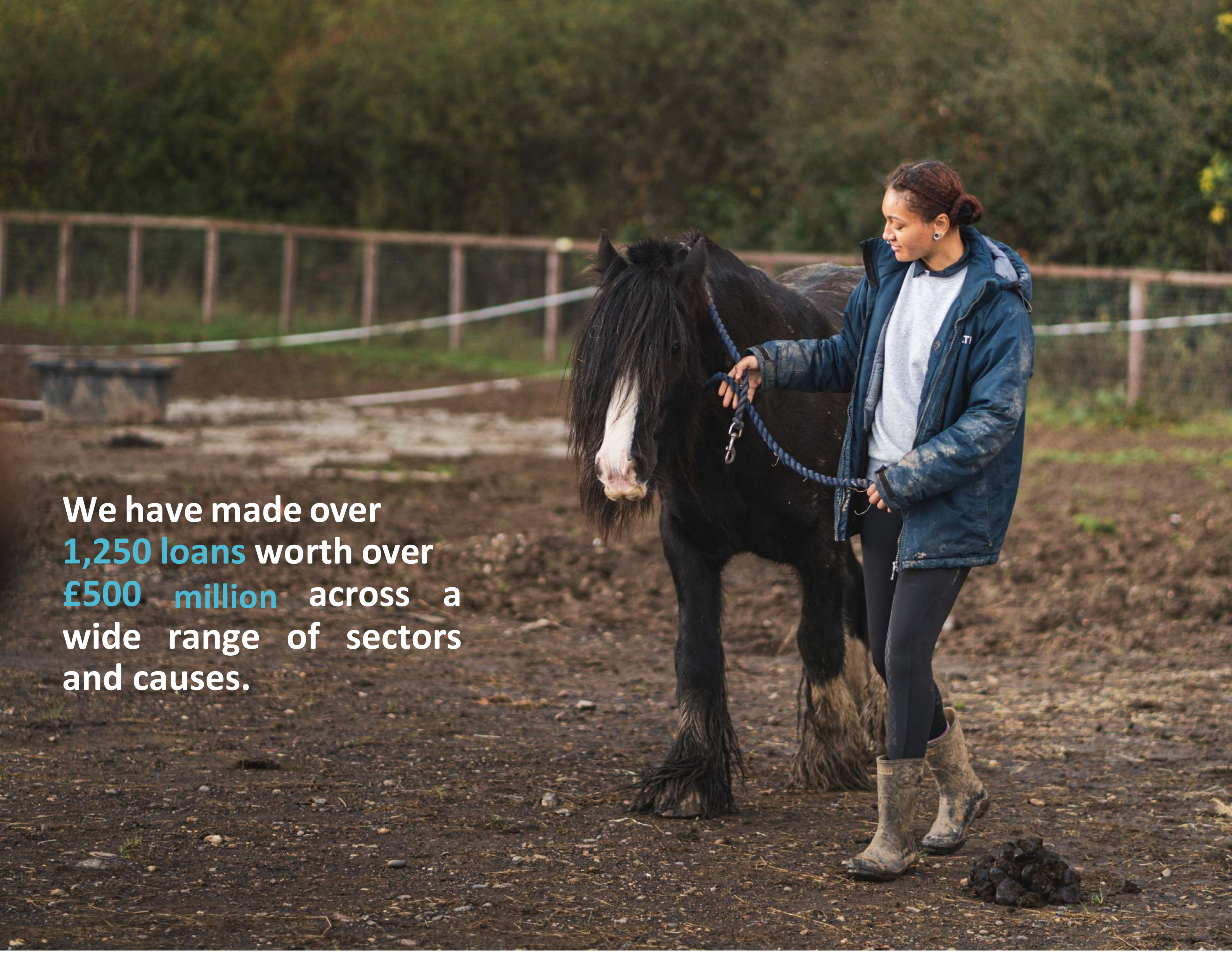
Whether you need a loan to help you to deliver your social mission, or you want your savings to drive positive social change, Charity Bank is here for you. We're your trusted partner, committed to supporting your efforts to improve lives and make the world a better place.

"Charity Bank is not an ordinary bank, we're a community of people working to bring about positive social change. We're here to align financial resources with values and a commitment to social progress."

Ed Siegel, CEO, Charity Bank

In this section of the report, we share the stories behind the numbers that demonstrate the impact of our loans on UK charities and social enterprises and show the positive difference they have made to the lives of people, communities and the planet.

Charity Bank – Your Bank for Good.



We have made over 1,250 loans worth over £500 million across a wide range of sectors and causes.

Established in 2002 as an independent regulated bank, Charity Bank has become a trusted partner for social sector organisations and people who want to make the world a better place.

Vision

A society that fosters vibrant communities and a healthy planet, giving every individual the opportunity to thrive.

Mission

To support and strengthen impact-driven organisations that improve people's lives, while empowering savers and investors to put their money to work for positive social change.

Values

Working in harmony

We are all part of a whole, one community working together and depending on one another to deliver our shared mission and vision.

Mutual respect

We want to be known as an organisation that understands, values, and encourages difference. That means respecting the values, ideas, and beliefs of our customers, colleagues and stakeholders.

Being the change

Through our choices and actions, we are being the change – empowering charities and social enterprises to make UK society a better place.

Our strategy
for impact

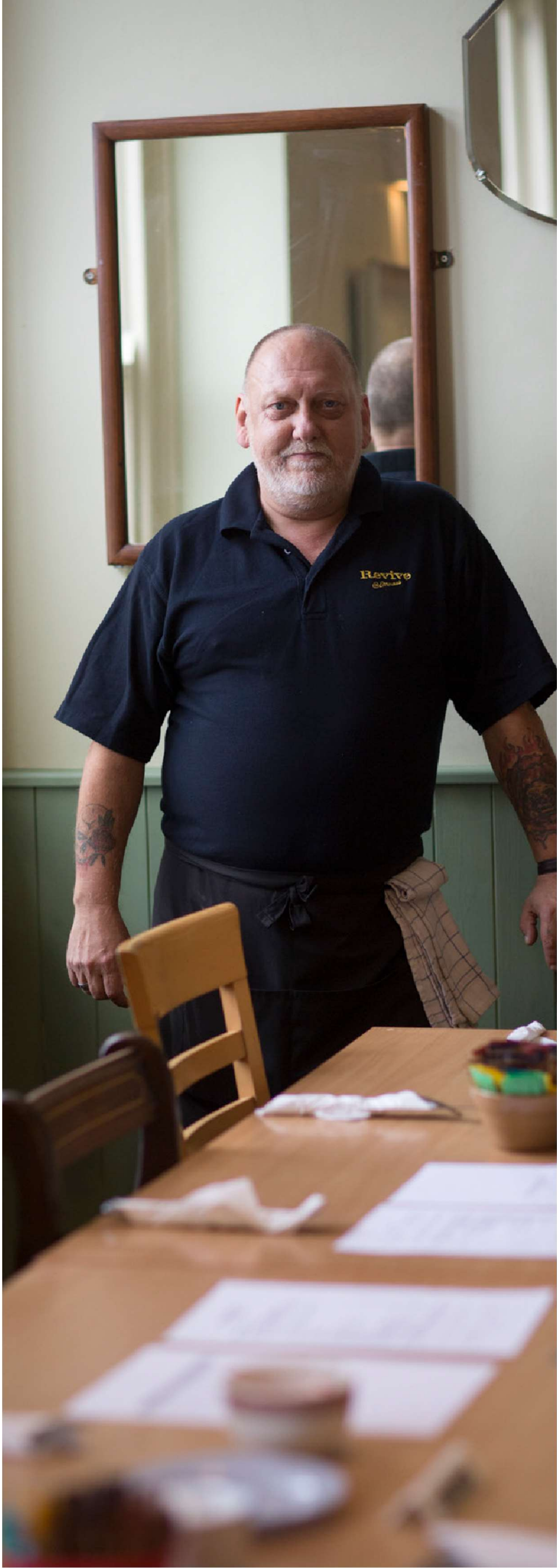
Charity Bank is driven by social impact, and it is central to how we measure our success. By using the funds deposited by individuals and organisations to provide loans to impactful organisations, we aim to create positive change and address societal challenges.

Our strategy is targeted and specific about the impact we aim to achieve. It was developed in consultation with shareholders and guided by the findings and recommendations of the Adebowale Commission on Social Investment.

"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 the 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."

Ed Siegel, CEO, Charity Bank



Impact strategy focus

We seek positive impact on three levels.

1 Strengthening charities and social enterprises:

Customer: Continually improve customer service to remain the lender of choice for UK impact-driven organisations.

Additionality: Fill gaps in the provision of finance with appropriate funding solutions for social sector organisations.

Strengthen: Build resilience and capacity to help our borrowers better deliver their mission.

2 People, community and planet:

Diversity: Extend outreach to systemically underfunded groups.

Depth of need: Prioritise organisations that are serving the most vulnerable, underserved, and marginalised.

Locality: Seek to increase the penetration of our lending into the underserved localities that most need the services of our borrowers.

Complex housing needs: Be more thoughtful and deliberate about lending activity in the area of complex housing needs.

Environment: Build a 'green lending' portfolio.

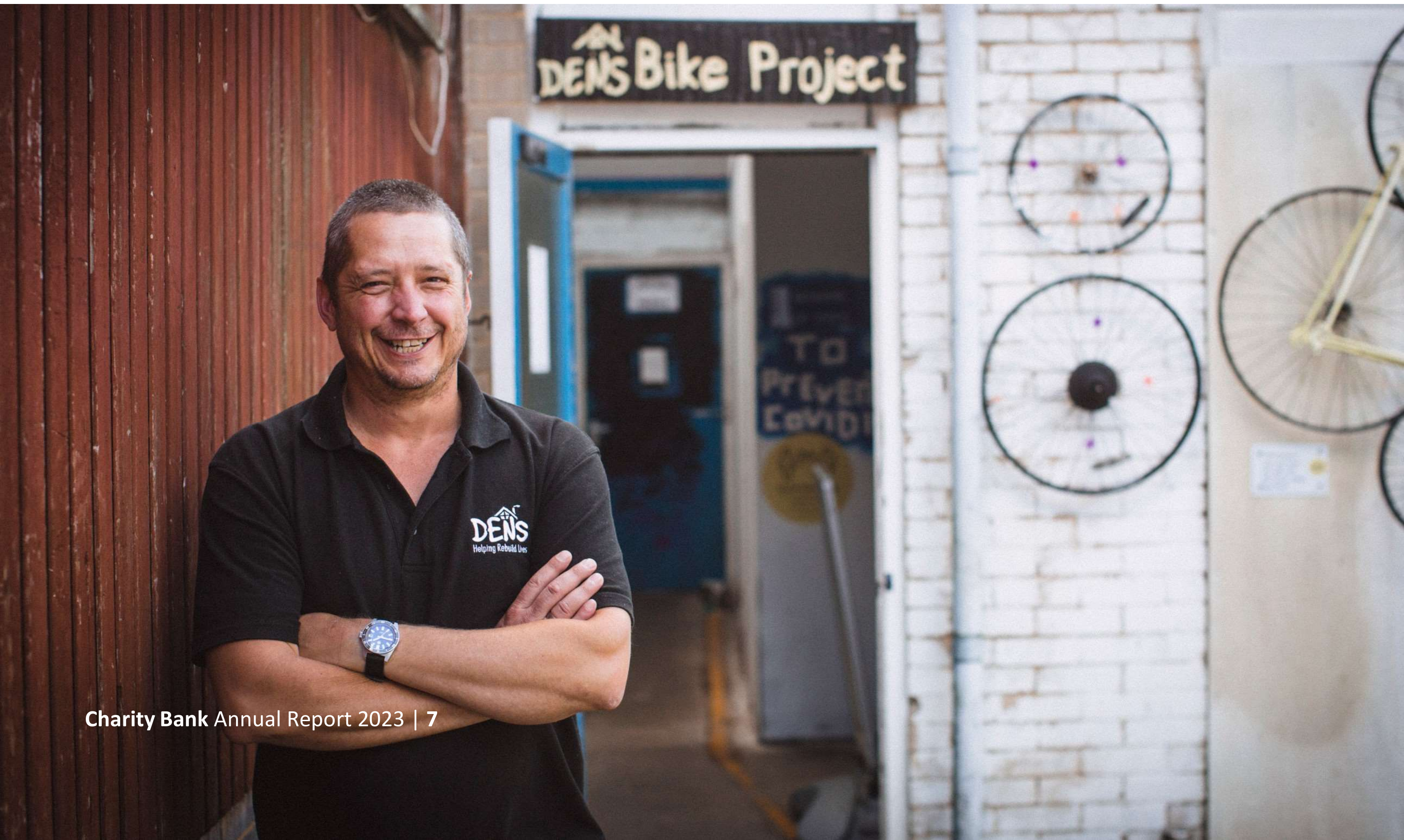
3 Charity Bank-specific impact:

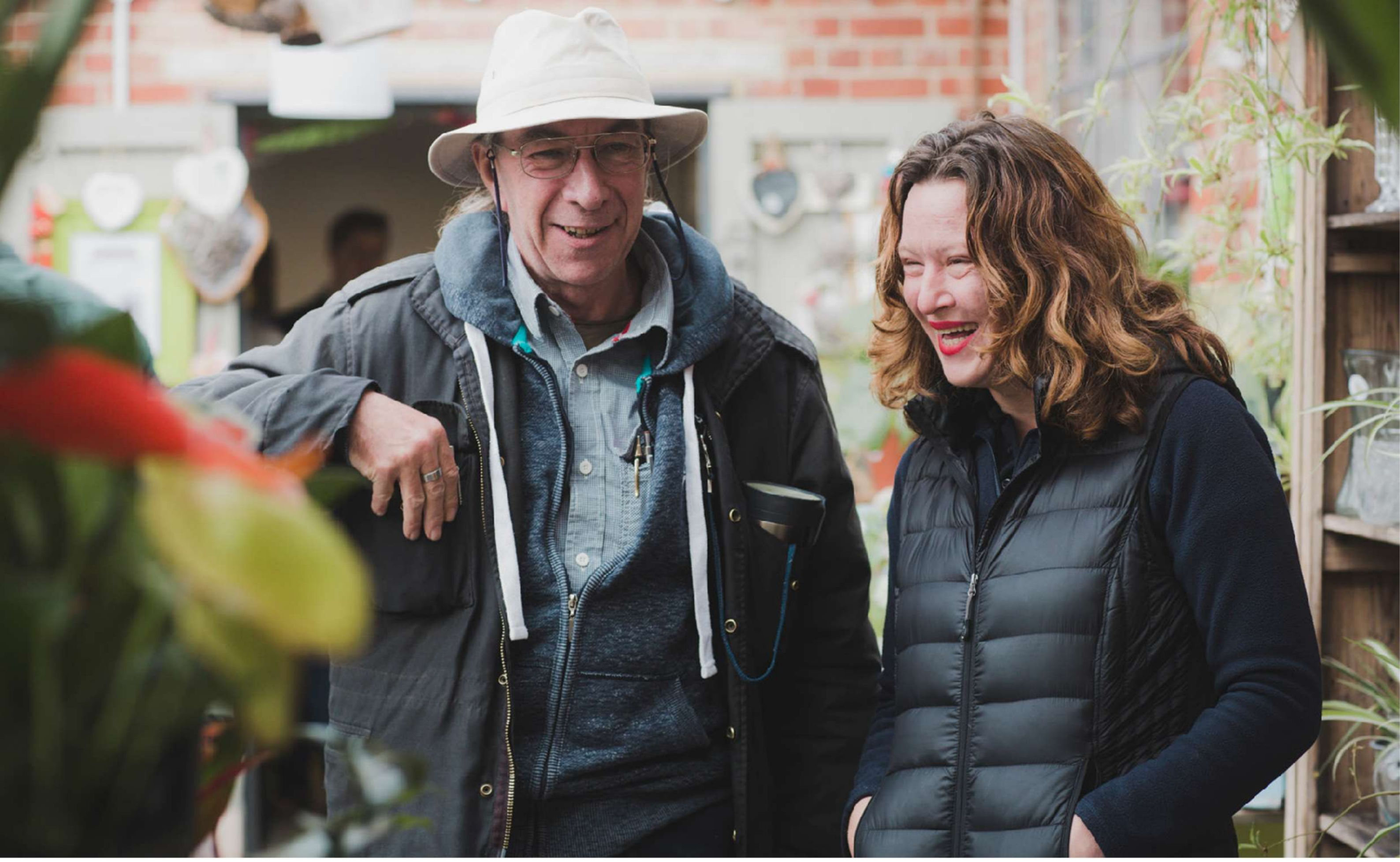
Culture: Create an inclusive and positive employee experience by promoting policies and ways of working that provide equal opportunity, attract and develop diverse talent, and enhance personal growth.

Our approach to assessing impact

For every loan application, we consider both the capacity to support repayable finance, as well as the nature and magnitude of the social impact that the organisation delivers.

When we assess the social and environmental impact of a loan application, we are not attempting to grade the impact as either 'weak' or 'strong'. More precisely, we are seeking to determine how closely the organisation and the project being financed meet our key borrower impact objectives of diversity, additionality, environment, locality and depth of need.





Savings that create positive change

At Charity Bank, we go beyond typical "ethical" choices; we make your savings a force for good. We are clear about where your money goes, and share updates on how funds are used and the impact they make through our regular reports.

Make a meaningful choice

Choosing Charity Bank for your savings is more than just a financial decision —it's a deliberate choice to match your money with your values. Each deposit you make helps change the financial landscape, directing funds to causes that create real and tangible change in communities.

"People who choose to save with an ethical lender for greater social good rather than simply financial return are leaving a positive legacy for future generations. Not only this, but they're making a real difference to people right now. The men who live in the property we purchased with help from a Charity Bank loan are being given a chance to turn their lives around. This is all thanks to the people who save and invest with Charity Bank."

Matthew Nice, St George's Crypt

Investing for a better society

Charity Bank's ability to meet the ongoing needs of the social sector and support a wider range of social sector organisations also rely on the capital investment from our shareholders and subordinated debt investors. They play a crucial role in our ongoing success and impact.

Through their investments, we can leverage deposit funds and make social loans, creating a multiplier effect that magnifies the positive change we achieve. Their support enables us to serve as a dependable and consistent source of funding for organisations driving social change.

Social Impact Multiplier

For every £1 million of investment capital (equity, reserves and subordinated debt), Charity Bank can provide approximately £7 million in social loans. As these loans are repaid, the funds can be recycled, creating even greater impacts.

Moreover, thanks to our loans, over half of our borrowers were able to unlock additional funding, such as grants or contracts, further amplifying the positive effects in our communities.

"The way that Charity Bank is able to leverage equity investments means that the number of organisations supported, and the social impact created as a result, will be multiplied many times over."

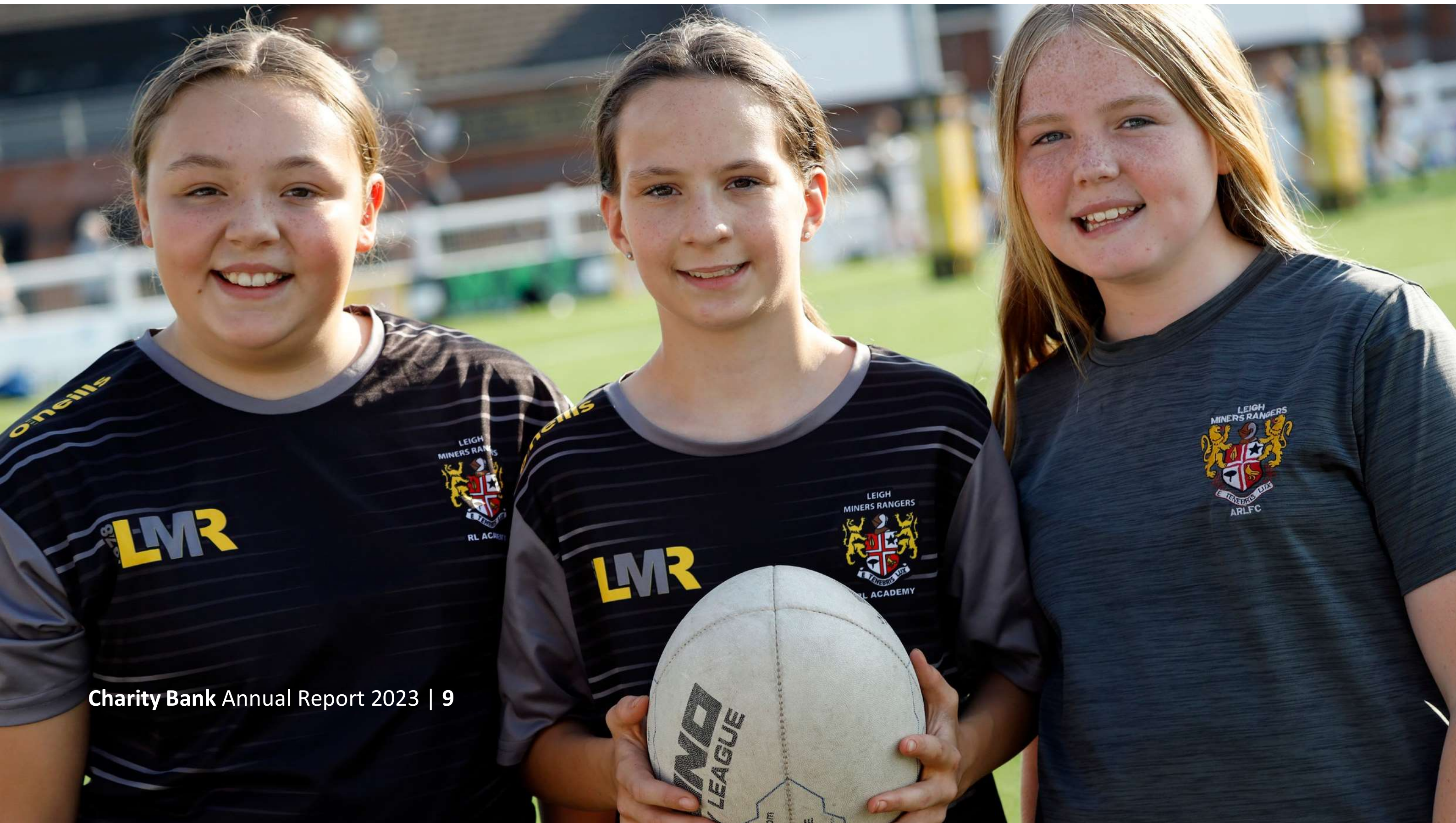
Philippa Charles OBE, Director of the Garfield Weston Foundation

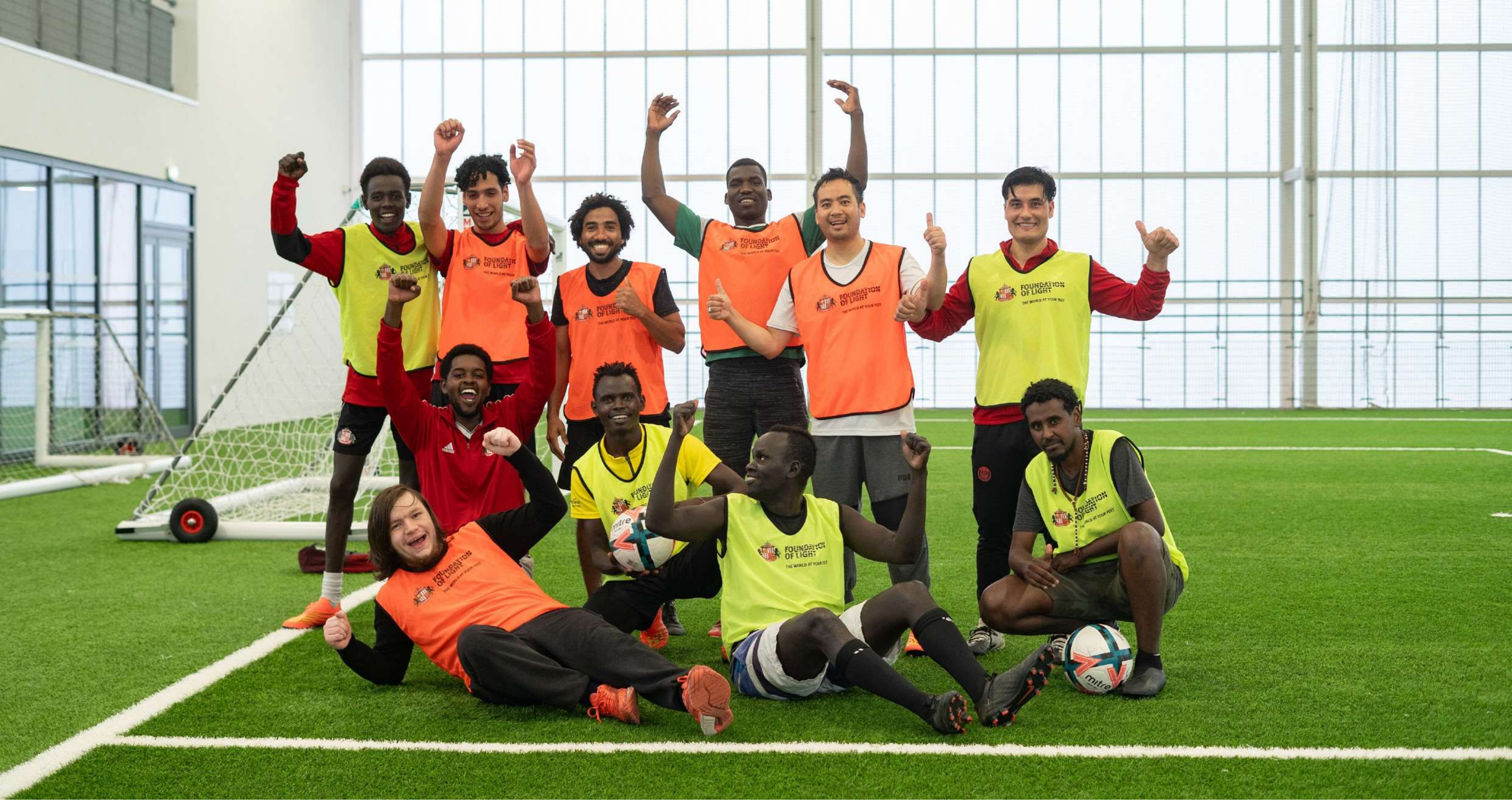
£1 → £7

£1 of capital

enables

£7 of loans





Social Impact **Highlights**

In our 2023 Social Impact Report, we share the stories and numbers that demonstrate the impact of our loans on UK charities and social enterprises and show the positive difference they have made to the lives of people, communities and the planet. Here are 8 key areas where Charity Bank has made a significant difference:

Reaching Underserved Communities:

Charity Bank has prioritized serving the most deprived areas, where people face financial hardships, limited affordable housing options, and premature mortality rates. In 2023, 67% of Charity Bank's new loan approvals were directed towards the 50% most deprived communities in the UK, bringing hope and support to communities that need it the most.

Reaching Diverse Organisations:

Recognising the underfunding of diverse groups, Charity Bank has made a commitment to extend its outreach and support to these communities. The 2023 Social Impact Report highlights the representation of diverse- led management teams among respondents to Charity Bank's borrower survey, 29% are women-led management teams, 1% LGBTQ+ led, 9% are from Black, Asian, and/or Global Majority led, and 2% are led by those with a disability. This represents a baseline from which we aim to improve.

Financially Stronger Borrowers:

In a first-of-its-kind study, Charity Bank analysed financial metrics for 79 social sector borrowers over a four-year period, encompassing one year prior to the borrowers' initial loan and three years following the loan. The key results for supported charities, include a 16% average increase in turnover, 8% growth in net income, a 47% rise in total assets, and a 35% increase in net assets.

Growth and Resilience:

Our survey conducted among Charity Bank borrowers found: 78% reporting increased resilience, 71% became less dependent on grant funding, 74% improved their planning abilities, 57% enhanced their ability to withstand short-term shocks, 74% expanded the number of people they supported, and 58% delivered higher- quality programs and services.

Enabling Vital Projects:

Some borrowers turned to Charity Bank as their sole viable option to secure financing. Whether they faced obstacles with high interest rates or inflexible loan conditions from other lenders, Charity Bank stepped in to make their projects possible. Where a loan was for a specific project: 68% of respondents reported their project would not have proceeded without their Charity Bank loan and 26% would have been delayed.

Mission-Critical Support:

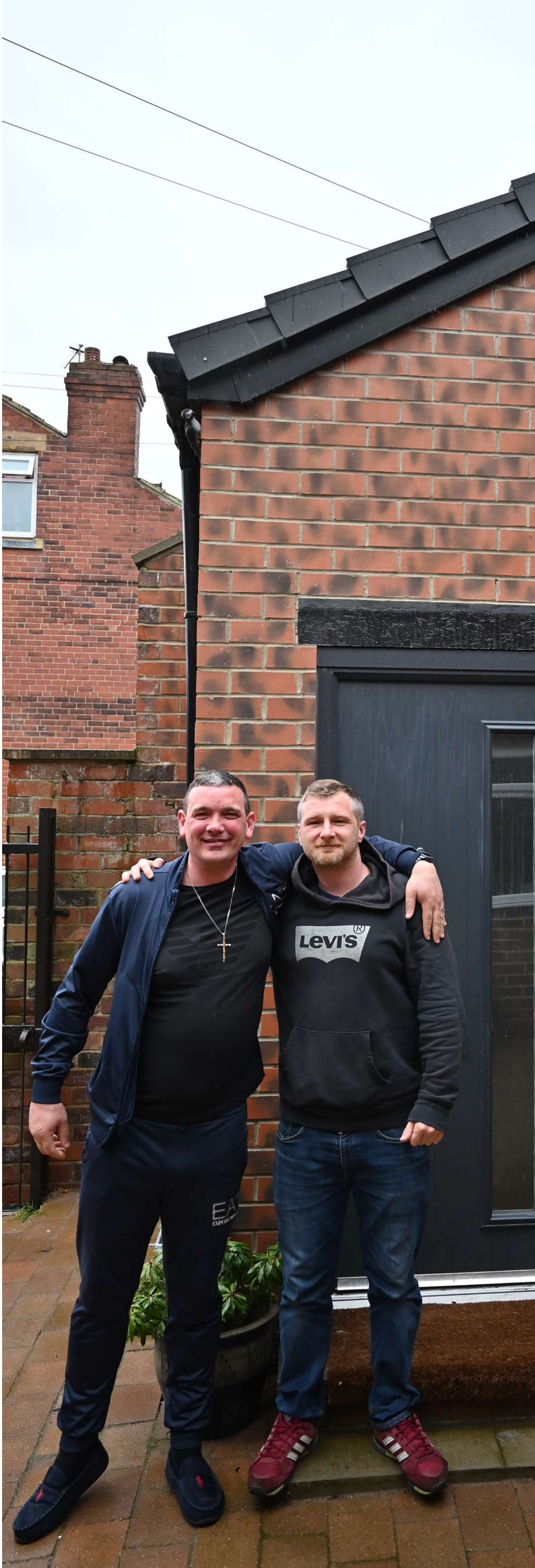
Respondents consistently reported that Charity Bank's loans made a major positive contribution toward delivering their mission. Charity Bank's commitment to supporting organisations in achieving their goals was evident, with 74% of respondents acknowledging a significant impact.

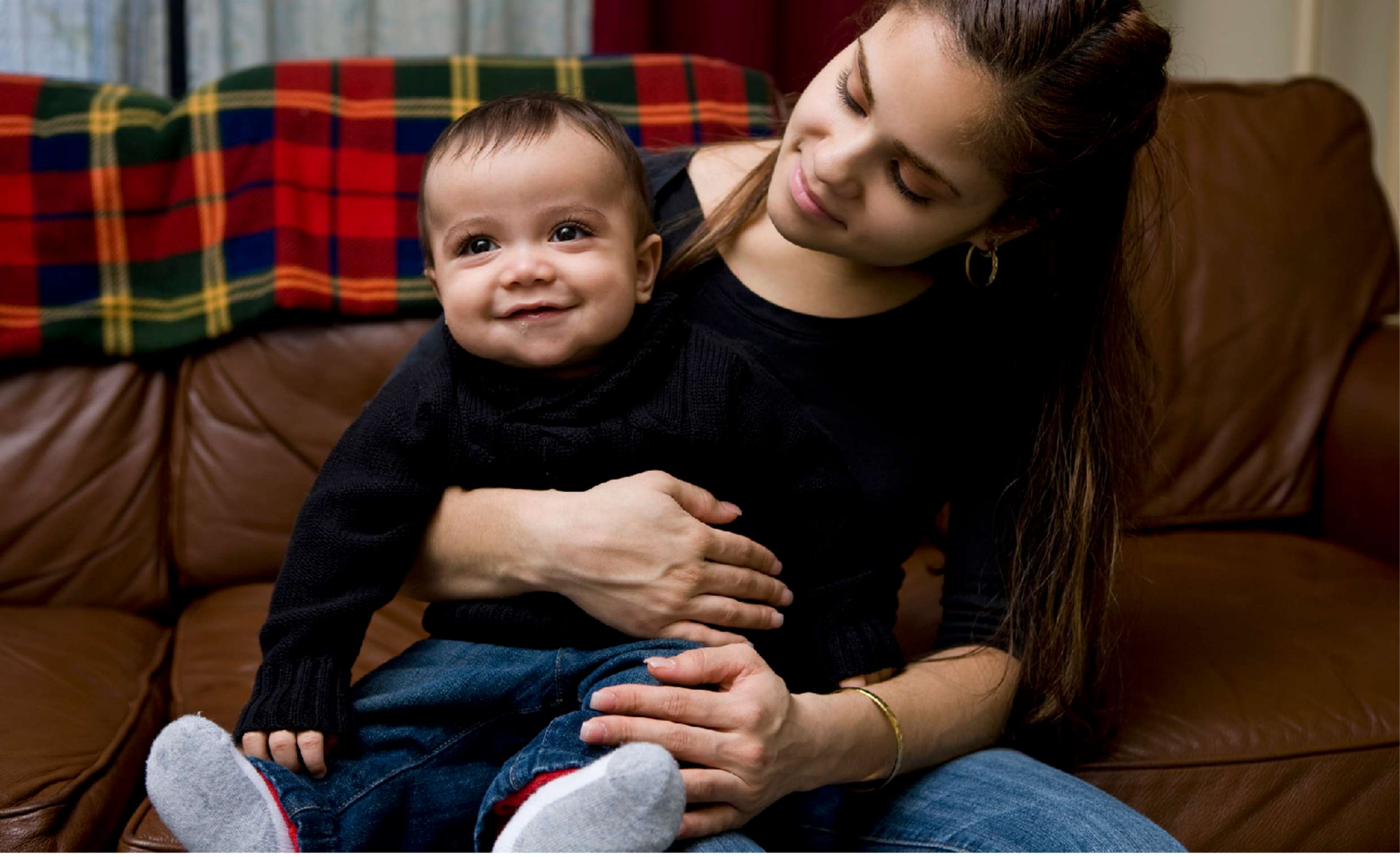
Support for First-Time Borrowers:

Recognising that loan finance is still relatively new in the social sector, Charity Bank extended its expertise and support to first-time borrowers. The report reveals that 70% of survey respondents approached Charity Bank for their first loan, demonstrating Charity Bank's dedication to assisting smaller charities and those lacking in-house financial skills. Each borrower is matched with a relationship manager, ensuring personalised support throughout the loan process.

Navigating the Cost-of-Living Crisis:

The report reveals that 96% of respondents experienced increased operating costs, affecting cash balances and hindering their ability to meet growing demand. Charity Bank's loans and supportive approach have helped organisations weather economic turmoil, with 66% of respondents affirming that Charity Bank's support bolstered their resilience and 58% stating it improved their crisis response capabilities.





Lending where it is needed most

In 2023, Charity Bank extended support by lending £53.5 million to charities and social enterprises. Our borrowers focus on aiding some of the most vulnerable individuals in the UK, such as children in need, abuse survivors, and people living with disabilities. Their dedicated efforts cover diverse areas like education, training, housing, mental health services, and arts programs. We believe in the transformative power of these initiatives to bring positive change to the lives of individuals facing various challenges.

Dundee Women's Aid: Expanding Shelter for Families in Need

Dundee Women's Aid offers one-to-one support, advice and refuge to women and young people experiencing domestic abuse. The charity leases most of its refuges, but it was struggling to find a property to let with more than three bedrooms, meaning that it couldn't accept women with large families. When the charity decided to buy a four-bed house it managed to raise most of the money it needed, but the deadline to accept one of the largest grants was quickly approaching. A £65,000 Charity Bank loan allowed the charity to secure the grant in time and buy the property. A family were able to move in shortly after the purchase went through.

The Hamlet Centre: Expanding Opportunities for Those with Complex Needs

The Hamlet Centre offers services for children and adults with severe disabilities and complex needs. When the charity was faced with the prospect of having to move premises to accommodate the growing demand for its day centre services, a Charity Bank loan enabled them to purchase the adjacent property. The new building will give the charity far more space for their services, a new garden and improved access for the people they support.

The Children's Trust: Stabilising Finances for Critical Support

The Children's Trust provides intensive rehabilitation for children with acquired brain injuries and services for children with neurodisability. It is the only national inpatient facility of its kind in the UK for neurorehabilitation for children. When The Children's Trust faced financial challenges, the charity developed a recovery plan and turned to Charity Bank for a £4 million loan, complemented by an additional £1 million from Big Society Capital. With this support, the charity regained financial stability and remains on course to implement its recovery plan, continuing its crucial role in assisting children with severe brain injuries.

Birmingham Supported Living 2010: Transforming Lives through Stability

Birmingham Supported Living 2010 offers accommodation and care to adults with mental health challenges, learning difficulties, and autism. The social enterprise leases most of its properties but wanted more stability. So, when an old hotel came up for sale in a perfect location, the opportunity was too good to miss. When the social enterprise faced difficulty finding a lender that didn't require personal guarantees, Charity Bank, in collaboration with Big Issue Invest, provided the financial support needed.

This allowed Birmingham Supported Living 2010 to acquire the property paving the way for the creation of supported accommodation for 11 vulnerable adults.

Strength & Learning Through Horses: A Safe Space for Growth

Strength & Learning Through Horses ('SLTH') is an equine therapy and education charity in London. It offers a range of support to young people who are struggling with mental health challenges. The charity had outgrown its old site and was being asked to vacate. Strength & Learning Through Horses found a new home, however, the site required £390,000 in renovations for safety and functionality. Charity Bank's £70,000 loan played a crucial role in making the new space usable. Rosie Bensley, CEO of SLTH, attests, "Charity Bank was the only loan provider that was genuinely helpful. With the others, it was a case of 'Computer says no.'"

Statement from the Chair and Chief Executive

We are pleased to share an overview of Charity Bank's progress in 2023 — a year marked by purposeful strides in both social impact and financial performance, made possible with your support.

The Crucial Role of Charity Bank in Challenging Economic Times

With social sector organisations facing challenging economic conditions, including high interest rates, rising operating costs, and an unsupportive funding environment, Charity Bank did not slow down in 2023, remaining steadfast in its commitment to supporting UK charities and social enterprises. We continued to grow the impact we enable through our lending, making over £50 million in new loans to UK charities and social enterprises. Significant progress was also made on a number of our Impact Strategy strands, including the rollout of the pilot Lending Equal Access Programme ('LEAP') of unsecured blended finance loans to smaller organisations that have struggled to access finance, including diverse-led charities and social enterprises historically excluded from both mainstream and social investment. We also began piloting blended finance products to support energy efficiency investments by social sector organisations, with plans for expansion in 2024.

Charity Bank has consistently stepped in to fill funding gaps during hard economic times, notably in the last recession and during the recent pandemic when traditional lenders reduced their support. Our 2023 Impact Report details how Charity Bank's funding plays a pivotal role in enabling charities and social enterprises to broaden their impact, improve resilience, enhance service quality, and finance activities beyond the scope of grant funders alone.

Financial Performance

Charity Bank concluded 2023 with a record net profit of £7.8 million for the year, compared to £2.7 million in 2022. This result was significantly influenced by the increasing interest rate trend of the last two years which generated a temporary benefit between asset and liability pricing (7% of the loan portfolio is fixed rate versus 48% of deposits). This increase in profits can also be attributed to the efforts of our co-workers over many years to build Charity Bank to a scale sufficient to cover the substantial costs of operating a regulated banking institution. The net outstanding loan portfolio stood at £285 million at year-end, up 4.2% from £274 million at the end of 2022.

Approvals of new loans totaled £68.7 million in 2023, up 11.5% from £61.6 million one year ago. We also saw more loan repayments, as charities looked to reduce their interest costs.

Profits Enable Dividends . . . and Greater Social Impact

Although our primary intention as a social enterprise is to reinvest the vast majority of our profits into growing our social impact, the high net profit achieved in 2023 has allowed us to recommend the first dividend payment in Charity Bank's history at this year's Annual General Meeting of Shareholders ('AGM'). Our shareholders are exclusively charitable foundations and social purpose investors, so we are happy that these dividend payments will continue to benefit the wider social sector.

By reinvesting most of our profits, we can continue to expand our lending activities and therefore the social impact that they facilitate. In addition, mindful of the challenges currently faced by social sector organisations, and given the extraordinary nature of Charity Bank's financial result for 2023, we are also planning to seed what we are calling a 'Development Fund.' This will be a discrete source of grant and investment funding to support impactful organisations and projects that the Charity Bank cannot serve with its existing suite of repayable loan products because they do not meet our credit risk requirements or are otherwise not commercially viable. Our intention is for the Development Fund to be launched in 2024 and to become a permanent facet of Charity Bank's support for the sector.

Social Investment Solutions

For a number of years, our average approved loan size has been shrinking as we work to extend our reach to smaller organisations where the financing gap is greatest. In the past year, this focus has sharpened with the introduction of an increasingly diverse offering of 'blended' finance products and programmes, many of which feature an element of grant funding, to support smaller, earlier-stage and diverse-led charities and social enterprises that have previously faced barriers to investment. We call this innovative product area: **Social Investment Solutions.**

With funding support from the Access Foundation, we launched at the start of the year the LEAP programme which aims to bridge disparities by allocating at least 30% of blended finance loans to support diverse-led organisations and investing a minimum of 75% in England's most deprived areas.

Statement from the Chair and Chief Executive (continued)

Both these impact targets have been exceeded and the initial funding pool of £5 million was close to fully allocated by the end of the year. We are currently in the process of applying learnings from this pilot and hope to offer such products on an ongoing basis whilst extending best practices to our wider lending strategies and processes.

Green Lending

Climate change stands out as an extraordinary challenge facing the world today. With recent spikes in energy prices amplifying its economic impact on our customers, we've recently begun piloting specialist energy efficiency financing products which include a grant subsidy element to pay for energy savings assessments and to make the loans more affordable. This will hopefully motivate organisations to invest in lowering their energy bills while also reducing their carbon footprints. We are monitoring the wider environmental issues that are relevant to Charity Bank including the rollout of the Biodiversity Net Gain policy over the coming year.

Equity, Diversity, and Inclusion ('EDI')

Our efforts to transform Charity Bank into a more equitable, diverse and inclusive organisation, both as a lender and as a place of work, are a core part of our Strategy. A range of internal initiatives are complementing targeted lending programmes such as LEAP. Collaborations with partners strengthen our EDI efforts, which have included the appointment of a dedicated EDI lead, integration of diversity targets into our core Impact KPIs, and the revitalisation of our diversity working group. Our commitment to EDI is an ongoing effort and we recognise we have more work to do.

Savers and Investors

Since our launch in 2002, we've provided over 1,250 loans worth over half a billion pounds to UK charities and social enterprises across various sectors. Charity Bank would not be able to provide these loans without the savers and investors who made the decision to use their money to support positive social change. Our deposit book increased by 9% to £343.0 million in 2023, a testament to the socially conscious choices of our depositors.

In 2023, we completed a £1.1 million investment from The Archbishops' Council of the Church of England, and at the start of 2024 welcomed the Linbury Trust as the newest shareholder of Charity Bank. These new investments, alongside the retention of our recent profits, leave Charity Bank in a strong position to deliver on its medium-term impact plans.

Four-Day Working Week

As part of our effort to make Charity Bank a great place to work, we trialed throughout 2023 a four-day working week to enhance co-worker welfare and productivity. Positive results were reported across a range of measures, including productivity, well-being, and quality of life, leading to the trial's permanent implementation from the start of 2024.

Statement from the
Chair and Chief Executive (continued)

Thanks

We extend our gratitude to Charlotte Ravenscroft for her valuable contributions during her time on the Board, as she steps down following this year's AGM. Additionally, we thank Malcolm Elliott for his outstanding service to Charity Bank, as he leaves the executive team after more than a decade in a range of senior roles.

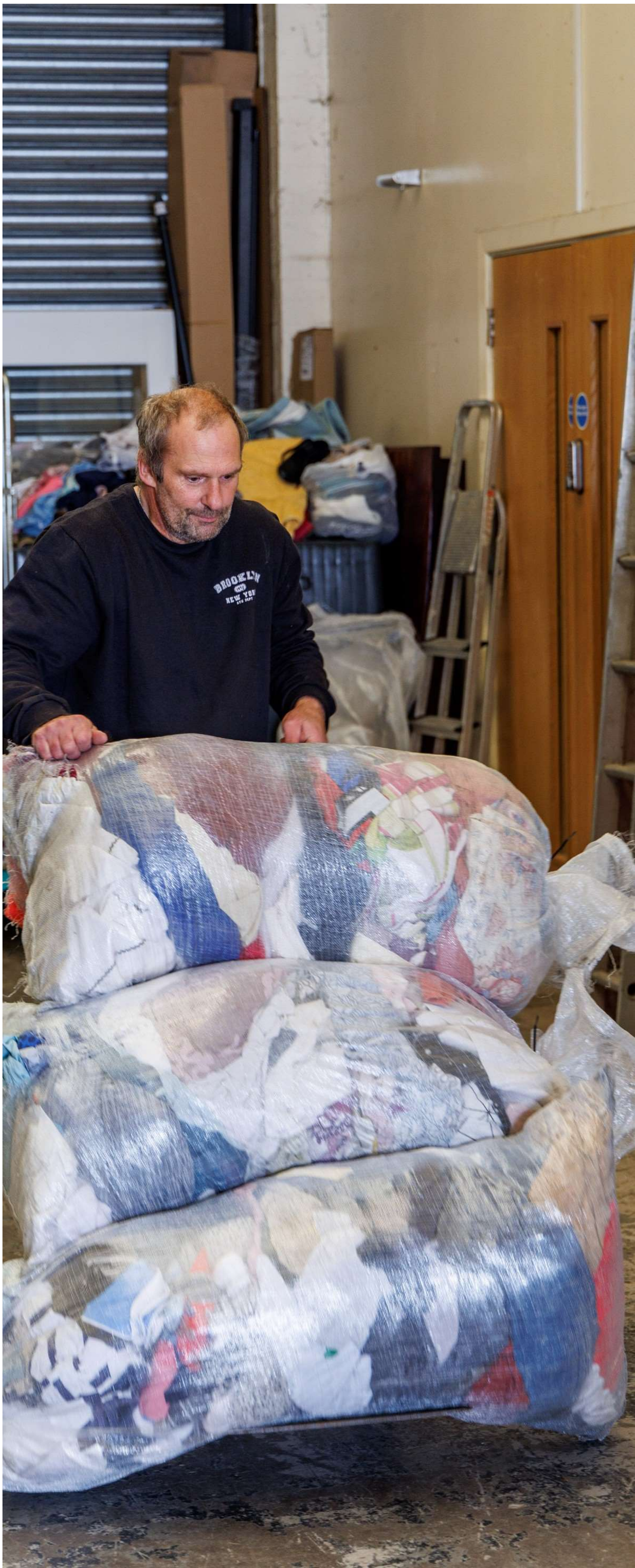
We also wish to thank Weil LLP, Linklaters LLP, and Ashurst LLP for their generous pro bono support, along with all our partners who have played a crucial role in Charity Bank's success in 2023. It is through the combined efforts of our savers, investors, co-workers, directors, advisors, and partners that we can make a meaningful impact on society.

We greatly appreciate the support of everyone who has contributed to the growth and success of Charity Bank in 2023 enabling the bank to make a difference in society.

Thank you!

Alan Hodson
Chair, Charity Bank

Edward Siegel CEO,
Charity Bank



Strategic Report

Strategic Evolution- Your Bank for Good

Last year, we introduced an updated five-year Business Strategy to amplify our impact in the years ahead. In our strategy, when we talk about growth, we're mainly talking about growing our impact, recognising that our purpose and potential lie in expanding our positive influence on society. Underpinning this strategy is our ongoing mission to be the lender of choice for UK impact-driven organisations.

Our Impact Strategy, outlined on page 6, focuses on continuous service improvement, filling gaps in the provision of finance for social sector organisations, serving the most vulnerable, reaching economically deprived and underserved localities, promoting diversity in our lending as well as our internal operations, addressing complex housing needs, exploring opportunities for environmental impact through green lending, and fostering a positive workplace culture.

Highlights from our 2023 Impact Strategy including new lending:

- **Customer:** Net Promoter Score of 83 among organisations with new loans (79 in 2022), positioning Charity Bank in the top 5% for customer satisfaction compared to published data from high street banks (Customer Gauge, 2023).
- **Diversity:** 21 loan approvals to organisations with boards led by diverse individuals (18 in 2022).
- **Complex Housing Needs:** 65% of approved housing loans provided additional support alongside housing characterised by 'the provision of support, supervision, or care aimed at fostering independent living' (77% in 2022).
- **Locality:** 67% of loan approvals for organisations supporting the 50% most deprived communities in the UK (61% in 2022).
- **Depth of Impact:** 61% of approved loans for organisations primarily serving vulnerable groups (62% in 2022).

The variations between 2022 and 2023 trends provide valuable insights that will guide our strategic focus moving forward.

For additional social impact highlights, please refer to page 10.

Impact data for this report was collected from the following sources:

- Loan Application Impact Scorecard which included self-reported data;
- Financial metrics obtained from Companies House, Charity Commission UK, Charity Commission NI, and the Office of the Scottish Charity Regulator ('OSCR'); and
- Borrower Impact Survey conducted between March and May 2023.

This analysis was based on the available data at the time of compiling the report. Where data was not available, it has been excluded from the analysis.

Financial highlights

The Report and Financial Statements for the year ended 31st December 2023 have been prepared in accordance with UK adopted International accounting standards and the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Strategic Report (continued)

Financial highlights (continued)

Summary financial indicators at 31 December 2023 and 2022 are set out below.

	2023 £'000	2022 £'000	% Increase/ (Decrease)	
Balance sheet				
Balance sheet total assets	395,967	358,050	10.6%	
Loans and advances to customers before impairments	286,967	275,417	4.2%	What we are about - support and finance for charities
Deposits	342,963	313,835	9.3%	Funded by private individuals, companies and charities
Cash and balances at banks	91,420	63,198	44.7%	Cash and short-term balances with other banks
High quality liquid assets	16,679	18,792	(11.2%)	As defined under prudential regulations
Subordinated loan notes	8,141	8,141	0.0%	From individuals benefiting from Community Investment Tax Relief
Total shareholders' funds	39,563	30,014	31.8%	Representing share capital and retained earnings
Profit after taxation and total comprehensive income for the year				
Net interest income	16,015	9,396	70.4%	What we earn from lending and interest earned after the cost of our funds
Other income	740	776	(4.6%)	Fees and commission income, grant income from LEAP programme
Administrative expenses	(7,818)	(6,010)	30.1%	Total costs for operating and managing Charity Bank
Profit after taxation and total comprehensive income for the year	7,837	2,716	188.5%	
Loan origination and progression				
Approvals	68,715	61,645	11.5%	Loans approved during the year for progression to be drawn down
Committed loans	53,230	52,506	1.4%	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	2023	2022
Loans to customers as a proportion of balance sheet before impairment	72.5%	76.9%
Deposits as a proportion of balance sheet	86.6%	87.7%
Loan (after impairments) to deposit ratio	83.2%	87.8%
Income yield	6.4%	3.7%
Average cost of funds	2.4%	0.9%
Return on shareholder funds	19.8%	9.0%
Net asset value per share	119.01p	95.32p

Charity Bank made a profit for the year of £7.8 million compared to £2.7 million in 2022.

The increase in Charity Bank's cost of funds is driven by the increasing Bank of England base rate environment from December 2021 until July 2023.

Balance sheet

Charity Bank's gross assets increased by 10.6% (2022: 14.7%) during 2023.

On the assets side, loans (after impairment) to charities, community groups and social enterprises increased by 4.2% (2022: 14.7%), with 72.5% (2022: 76.9%) of the balance sheet being used to make such 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 2024.

With respect to liabilities, our deposits increased during the year, growing by 9.3% in 2023 (2022: 15.1%).

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 217 days to 224 days. The average residual maturity of our term deposits remained unchanged at fourteen months, whilst the average notice period increased fractionally from 39 to 41 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% (2022: 70.4%) 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 17.7% from £724k to £596k (2022: 7.2% decrease), this is mainly due to a decrease in income from commitment fees.

On the expenditure side, our administrative expenses increased by 30.1% from £6.0 million to £7.8 million (2022: 16.9%), the main driver being an increase in headcount.

Strategic Report (continued)

Profit and loss (continued)

There was a £365k impairment release for loans and non-lending assets (2022: £1.1 million charge). Improving economic indicators enabled Charity Bank to unwind some of the loan loss provisions taken in previous periods. The actual bad debt expense continues to remain low, with no write offs having been expensed in 2023. Refer to note 25 relating to the impairment charge for the year.

Environmental impact

Introduction

At Charity Bank, we strive for a sustainable blend of social, economic, and environmental benefits for all stakeholders and society at large. Guided by our mission to support people and the planet, we are committed to reducing our environmental footprint across all facets of our operations.

Our environmental impact encompasses two primary areas:

1. **Internal Activities**: This includes our travel, material usage, procurement practices, office operations, and staff travel arrangements.
2. **Lending Activities**: Through the projects and activities we finance, we aim to support climate change mitigation efforts and environmental sustainability.

Governance

Charity Bank acknowledges the significant impact that climate change could have on the economic and political landscape. Our Board ensures that governance arrangements, risk management policies, scenario analyses, and disclosure arrangements adequately address financial risks stemming from climate change.

We recognise climate change as one of the most significant social challenges facing the world today. Rising energy prices have made this an economic issue for our customers as well as an environmental one, prompting us to expand our 'green lending' activities. Additionally, we closely monitor broader environmental issues such as the implementation of the Biodiversity Net Gain policy.

In April 2024, Charity Bank formed a Net Zero working group to lead our journey towards environmental sustainability and achieving net-zero emissions, succeeding our 2022 Green Champions working group. Tasked with developing strategies, setting targets, and engaging stakeholders, the committee aims to enhance our sustainability culture, integrate climate risk management, and drive us towards a low-carbon economy and our vision for a society that fosters vibrant communities and a healthy planet, giving every individual the opportunity to thrive.

Strategy

Our commitment to environmental stewardship extends beyond regulatory requirements. In 2022, we integrated "healthy planet" into our vision statement and prioritised the growth of our green lending portfolio in subsequent business plans.

Through our lending business, we actively support borrowers' climate change mitigation initiatives and are continually seeking new partnerships and products to advance this goal. Additionally, we consider Environmental, Social, and Governance (‘ESG’) factors alongside traditional financial measures in investment decision-making.

Strategic Report (continued)

Environmental impact (continued)

Strategy (continued)

Our Initiatives

In 2022, we introduced two green loan offers to incentivise energy-efficient building purchases and upgrades. Building on this, in 2023, we partnered with Key Fund to launch the Energy Resilience Fund ('ERF'), providing blended finance solutions that include grants for energy audits and a mix of grants and loans for recommended investments.

Expanding further, in 2024, Charity Bank initiated its own energy efficiency blended finance program with funding from Access – The Foundation for Social Investment. This program focuses on building improvements such as energy-efficient heating, solar panels, and retrofitting measures like LED lighting.

Our Environmental Practices

As an ethical bank, we are mindful of our own environmental impact and take proactive steps to mitigate climate change. This includes recycling efforts, sourcing electricity from green energy providers, encouraging staff to use public transport, and minimising our carbon footprint through office operations.

Our Silver Level accreditation from Investors in the Environment ('iiE') in 2023 underscores our commitment to reducing our operating emissions. We are actively pursuing the 'green' certification, targeting travel emissions, enhancing our supply chain, and setting ambitious carbon reduction goals. Negotiations are underway with our landlord to improve the energy efficiency of our Tonbridge office.

Fossil-Free Alliance

Charity Bank is a member of the Fossil-Free Alliance, a global network of organisations, communities, and individuals committed to divesting from fossil fuels and promoting a transition to renewable energy sources. Member organisations of the Fossil-Free Alliance work together to advocate for divestment from fossil fuel industries, encourage investment in renewable energy alternatives, and raise awareness about the environmental and social impacts of fossil fuel extraction and consumption. The alliance aims to accelerate the transition to a sustainable, low-carbon future by challenging the influence of the fossil fuel industry and promoting climate-friendly investment practices.

Risk management

Charity Bank identifies climate risk as encompassing two main categories:

1. **Physical Risk**: This involves the potential adverse impact on Charity Bank from climate-related or weather-related events such as droughts, floods, storms, or rises in sea level. These events could result in substantial financial losses to our lending customers, affecting their creditworthiness, and impairing the value of assets pledged to Charity Bank as security. We consider this aspect in lending decisions and collateral quality evaluations.

2. **Transition Risk**: This includes risks arising from wider societal shifts away from fossil fuels toward a lower-carbon economy. It encompasses policy changes, public sentiment, technological developments, and may result in reassessments of asset values, potentially leaving Charity Bank with stranded, devalued, or unsaleable assets. Transition risk may create or amplify credit exposures for lenders and affect affordability for customers due to increased investment requirements in energy efficiency. We closely monitor transition risks affecting our clients and their ability to meet repayments and other financial commitments. We're also developing new lending products to assist customers with transition challenges, a focus expected to continue into 2024.

Strategic Report (continued)

Environmental impact (continued)

Risk management (continued)

While there is currently no material impact on our reported results and financial position, Charity Bank remains attentive to environmental risks and will continue to prioritise environmental sustainability in our operations and lending practices in the coming months and years.

Metrics and targets

Over the past year, we have enhanced our carbon accounting methodology and data quality with support from iiE, the Partnership for Carbon Accounting Financials ('PCAF'), and the Global Alliance for Banking on Values ('GABV'). The first table below presents a breakdown of our Scope 1, Scope 2, and Scope 3 emissions pertaining to our internal operations, along with Scope 3 financed emissions related to 85% of our loan portfolio as at 31st December 2023. The second table provides definitions for Scopes 1, 2 and 3 and how they relate to Charity Bank's operations and emissions calculations.

It is worth noting that our operating emissions increased in 2023, primarily due to the incorporation of natural gas reporting and a rise in business travel by car. This uptick can be attributed to the expansion of our workforce and an increase in borrower visits post-pandemic. We are closely monitoring this trend and proactively implementing measures to mitigate emissions. To counterbalance our operating emissions, for the first time we have purchased offsets through Forest Carbon for an amount equal to our measured 2023 and 2022 operating emissions. Forest Carbon supports woodland and peatland restoration and creation, which sequester carbon over many decades. Charity Bank has purchased verified credits in international projects, which are certified under internationally recognised standards and follow a strict set of "Code of Best Practice" criteria. International standards adhered to include Plan Vivo, Verra and Gold Standard.

Charity Bank has signed up to the Climate Change Commitment sponsored by the GABV and is an active member of PCAF. Through these initiatives, we are dedicated to measuring and disclosing the greenhouse gas ('GHG') emissions associated with our loan portfolio, aligning with the objectives of the Paris Climate Agreement. The figures presented serve as a baseline from which we will develop a comprehensive plan to achieve Net Zero emissions.

Strategic Report (continued)

Environmental impact (continued)

Metrics and targets (continued)

Emissions:	31st Dec 2023 Location Based	31st Dec 2023 Market Based[1]	31st Dec 2022 Location Based
Operating Emissions	tCO2e	tCO2e	tCO2e
Scope 2:			
Provision of heat at Charity Bank office through natural gas boiler (generation)	4.99	4.99	-
Electricity use at Charity Bank office (generation)	17.38	**-**	17.09
Scope 3:			
Business travel by car (Grey fleet)	14.98	14.98	8.24
Water supply & treatment from the Charity Bank office	0.16	0.16	0.17
Purchase of Gas (distribution)	0.82	0.84	
Electricity (distribution)	5.69	1.84	6.03
Total	**44.02**	**22.81**	**31.53**
Purchased Offsets	45		32
Loan Portfolio Financed Emissions (PCAF Scope 3, Category 15)			
Commercial Real Estate *(Method 2b and 3, Data Quality 4 and 5)*	25,582.94	-	-
Business Loans *(Method 3a, Data Quality 4)*	10,387.17	-	-
Project Finance *(Method 3a, Data Quality 4)*	985.60	-	-
Total	**36,955.71**	**-**	**-**
Net Carbon Outturn	**36,999.73**	**-**	**-**

[1] Location-based emissions account for greenhouse gas emissions directly produced within a specific geographical area, while market-based emissions consider the broader impact of goods and services consumed, factoring in their entire lifecycle. Charity Bank's use of 100% renewable electricity substantially reduces calculated market-based emissions as it eliminates emissions associated with electricity generation, a significant contributor to overall emissions in the market-based approach.

Strategic Report (continued)

Environmental impact (continued)

Metrics and targets (continued)

Category	Descriptions
Scope 1	Direct emissions stem from activities where Charity Bank owns or has direct control over the emission source. However, since we do not regulate gas usage (which is managed by the landlord), none of our emissions fall within Scope 1 classification.
Scope 2	These emissions are associated with Charity Bank's purchase of electricity and heat. We exclusively use 100% renewable electricity, which reduces our market-based emissions. The heating boilers at our office falls under the operational control of the landlord, so gas emissions are reported as Scope 2.[2]
Scope 3	These refer to indirect emissions resulting from Charity Bank's actions occurring at sources we do not own or control, excluding Scope 2 emissions. Currently, we report on business travel by car, water supply and treatment from the Charity Bank office[3], and gas and electricity distribution emissions. Our Scope 3 Category 15 loan portfolio emissions are calculated using PCAF methodology across three asset classes: Commercial Real Estate (Method 2b and 3, Data Quality 4 and 5), Business Loans (Method 3a, Data Quality 4), and Project Finance (Method 3a, Data Quality 4). This represents 85% of our loan book as of December 31, 2023. [4]

In the coming years, we will continue to enhance our environmental practices, expand our green lending initiatives, collaborate with others, and improve the quality of our emissions data.

These efforts align with our goal to achieve Net Zero emissions, contribute to global climate action and pursue our vision for a society that fosters vibrant communities and a healthy planet, giving every individual the opportunity to thrive.

[2] Gas emissions are determined based on our rent share of the building. In 2022, unreliable natural gas usage data from the landlord led to the exclusion of gas emissions from our reporting.

[3] Water contributions are determined according to our rent share of the building. In both 2022 and 2023, the landlord provided partial bills for water usage. Therefore, full-year data has been extrapolated from the available bills and evenly attributed across both years.

[4] Category 15 specifically focuses on emissions associated with investments, with the method outlined in The Global GHG Accounting and Reporting Standard Part A accessible through the PCAF website. Data reliability is scored on a scale from 1 to 5, with lower scores indicating better quality. In 2023, for Commercial Real Estate loans, we applied an attribution approach using property value data at loan origination to link emissions to the loan amount. Older loans lacked data, resulting in full emissions attribution to Charity Bank, likely overstating emissions. For 3% of our Commercial Real Estate loans, we used PCAF's mortgages emissions factors to complete the calculations as a more accurate reflection of the emissions estimate of these loans. Our calculations may evolve as we collect more data, potentially decreasing emissions with additional attribution factors, depending on the loan book's composition.

Strategic Report (continued)

Environmental impact (continued)

Metrics and targets (continued)

For detailed PCAF methodology, visit www.carbonaccountingfinancials.com.

Loan origination and progression

Our loan origination activities for the year have increased from 2022, with approvals in the year of £68.7 million, an increase of 11.5% on the previous year (2022: £61.6 million). Our undrawn loan commitments of £53.2 million at 31st December 2023 increased by 1.4% from 2022 (2022: £52.5 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 Charity Bank considers to be its shareholders, borrowers, depositors, and staff.

Charity 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 attracted by the idea of their money being used to support positive social change.

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 for the quality of our products, service and support to be the best in the social 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 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 Charity Bank. Charity Bank recognises the importance of its staff, and ensures Charity Bank's culture and the morale of its employees are considered in decision-making committees and through the active engagement of the HR function. Charity 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. Charity 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.

Strategic Report (continued)

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 Charity Bank through membership of Board committees, supporting and challenging management. They also have direct meetings with customers, attend events and take part in the arrangements we make for our stakeholders to visit borrowers.

Starting in 2024, non-executive board members now have the option to claim a fee for attending meetings. This change is motivated by our commitment to removing barriers to full participation at all levels of the bank. By offering compensation, we aim to encourage broader involvement and ensure that individuals from diverse backgrounds have the opportunity to contribute meaningfully to the bank's governance.

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.

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 Charity 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.

Strategic Report (continued)

Risk management at Charity Bank (continued)

Second line of defence: Risk & Compliance	
The second line of defence has responsibility for providing independent oversight and challenge of the first line and validating its management of risks. It may provide guidance on risks as required. Most second line functions are performed by the Risk & Compliance function, which is led by the Chief Risk Officer ('CRO'), who reports to the CEO with a dual reporting line to the Risk Committee chair. Other support & control functions such as Credit Risk also carry out certain second line functions within their specialisms. These teams report on risks and performance against appetite to the Risk Committee. As a matter of good governance, the second line functions have no business targets and for the most part are non-customer facing.	**The second line:** ▪ Designs, interprets, and develops the risk appetite framework for Charity Bank, consistent with its strategy; ▪ Monitors the business as usual adherence to this framework; ▪ Advises the board on risk appetite; ▪ Monitors Charity Bank's compliance with laws and regulations; ▪ Supports delivery of regulatory change and monitors regulatory developments; ▪ Provides challenge, oversight, and assurance over the management of risks; and ▪ Develops and supports Charity Bank's policies.

Third line of defence: Internal Audit	
The third line has responsibility for providing objective assurance across Charity Bank of its governance, processes, controls, and risk management. Having regard to Charity Bank's size and scope, Charity 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 Charity Bank is through the CRO.	**The third line:** ▪ Conducts independent testing and verification of Charity Bank's business models, controls, processes, and policies; and ▪ Provides assurance Charity Bank's risk management process is functioning as designed.

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

- Assisting and guiding in the development of Charity 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 Charity Bank are robust and appropriate to Charity 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.

Strategic Report (continued)

Committee structure

Charity Bank is governed by a Board that is empowered to take such steps as are necessary to achieve Charity 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.
- **SICC:** responsible for considering credit applications and variations and approve novel or contentious loans in accordance with its delegated limits. The membership of the SICC is the membership of the ICC but has stricter quorum requirements.
- **ALCO:** responsible for assisting the Chief Financial Officer in managing 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.

Strategic Report (continued)

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 Charity Bank realising its strategy, or internally from a poor choice or execution of strategy.
- Financial risk: the credit, liquidity and interest rate Charity Bank takes in its activities or transactions to drive Charity Bank's financial performance (see pages 30 to 33).
- 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 Charity 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.

Although the COVID-19 pandemic is now in the past, it has 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 Charity Bank's assets are exposed. The increases in interest rates in 2023, coupled with increased energy prices and other costs experienced by our customers and potential customers, have made us increasingly cautious about our operations, and we continue to keep abreast of developments.

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 Charity Bank.

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

Strategic Report (continued)

Political and economic environment risk (strategic and operational)

The adverse impact from continuing political and economic uncertainty on Charity 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 may in the future experience impacts to its business performance resulting from ongoing changes to the wider UK political and economic environment, 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 2023, such as in Eastern Europe and the Eastern Mediterranean area. Charity Bank has no direct lending in these areas and the indirect lending effects on 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 Charity 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.

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 increases (credit grade reduces). The credit grade is reviewed annually and compared to the credit grade at sanction 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.

Strategic Report (continued)

Credit risk and concentration risk (financial) (continued)

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 and its Board members;
- ensuring that 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 despite the economic environment.

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 5-year CITR related products;
- 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 Charity Bank when they reach maturity (evidenced by an average retention rate of 84% in 2023);
- a large proportion of our deposit portfolio is covered by the Financial Services Compensation Scheme ('FSCS') guarantee (around 61%), 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

Liquidity risk (financial) (continued)

- Charity Bank is a member of the Bank of England ('BOE') Sterling Monetary Framework and therefore has 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. The ILAAP is updated annually and subject to review by the PRA.

The Risk Committee sets and reviews Charity Bank's appetite for liquidity risk in the liquidity policy, and recommends it for approval to the Board. 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 Chief Financial Officer 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 Chief Financial Officer 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.

Strategic Report (continued)

Interest rate risk (financial) (continued)

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 stresses. Charity Bank does not currently use hedging instruments such as interest rate derivatives.

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 2023, 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 and the PRA rulebook[5] 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 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.

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[5] Subsequent to Brexit, parts of the Capital Requirements Regulation (CRR) have been on-shored by the Treasury and the PRA, whilst other parts remain in effect under transitional regulations.

Capital risk (strategic) (continued)

Capital regulatory framework (continued)

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 is 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 total income in the preceding years.

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 credit 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	31st Dec
	2023	**2022**
	£'000	**£'000**
Risk-weighted assets	190,056	173,774
Leverage exposure	318,506	311,813
CRD IV capital ratios	**%**	**%**
CET1 ratio	16.15	15.05
Leverage ratio	9.64	8.39

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 off-balance sheet exposures), but before impairments and excluding central bank claims.

Strategic Report (continued)

Capital risk (strategic) (continued)

Pillar 2B (continued)

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

Charity Bank notes developments to the regulatory capital framework expected in 2024 and onwards through the implementation in the UK of “Basel 3.1” and the Small Domestic Deposit Takers regime (‘SDDT’). Charity Bank anticipates being able to participate in the SDDT regime, once the refined details have been published in due-course. Charity Bank was accepted into the SDDT regime in January 2024.

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)

Charity Bank believes that climate change has become potentially the most significant social challenge facing the world today. Refer to page 20-25 in the Strategic Report for more information regarding the governance, strategy, risk management and the metrics relating to Charity Bank and carbon reporting.

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 Charity 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.

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 Charity 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 Charity 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 Charity 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. We envisage making provision for read-only online access in 2024, as well as joining the Confirmation of Payee scheme, which will inform an updated risk assessment. The majority of staff have at least some element of remote working and this creates its own risk elements.

Strategic Report (continued)

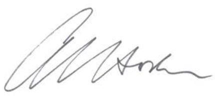
Emerging risks

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 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
Cost of living crisis potentially leading to "stagflation" (stagnation of the economy combined with inflation)	Potential higher credit losses
Potential for BOE base rate to stagnate or fall	Reduction in net interest margin if Charity Bank cannot pass on interest rate reductions to savers
Increase in competition for savings/increase to market interest rates driven by presence of deposit aggregators/FCA Consumer Duty	Reduction in net interest margin due to Charity Bank needing to pay more to attract deposits

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.

The financial statements on pages 51 to 87 were approved by the Board of Directors on 22nd April 2024 and signed on its behalf.



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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 £500 million worth of loans to hundreds of social sector organisations across 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 with the ongoing 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 2023 have been prepared in accordance with UK adopted International accounting standards and the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Share capital, reserves and dividends

As at the Balance Sheet date, Charity Bank had issued 33,242,775 ordinary shares; it also has the ability to issue additional ordinary shares and 'B' and 'C' preference shares, all at £0.50 each.

The Articles of Association permit payment of a dividend to shareholders at the discretion of the shareholders and Board of Directors, a dividend will be considered, and if appropriate approved for the first time at the AGM in June 2024 of £1.6 million (2022: £nil).

Substantial shareholdings

As at 31st December 2023 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	51.06%	49.99%
CAF Nominees Ltd - beneficial owner Charities Aid Foundation	4,100,011	12.33%	12.60%

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 Chairs of Committees	No. of meetings attended during 2023
Alan Hodson	Chair of the Board & Chair of the Governance Committee	6/6
Paul Berry	Chair of the Risk Committee	6/6
Jonathan Britton OBE	Chair of the Audit Committee	4/6
Michael Crabb	Non-Executive Director	6/6
Neil Heslop OBE*	CAF-Connected Non-Executive Director	5/6
Rebecca MacDonald*	BSC-Connected Non-Executive	4/6
Caspar Mackay	Executive Director	6/6
Caroline Price	Non-Executive Director	6/6
Charlotte Ravenscroft	Non-Executive Director	6/6
Dr Ambreen Shah	Non-Executive Director	6/6
Edward Siegel	Executive Director	5/6
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 2023 have been prepared in accordance with UK adopted International accounting standards and the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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 2023 have been prepared in accordance with UK adopted International accounting standards and the requirements of the Companies Act 2006 as applicable to companies reporting under those standards;
- 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 Charity Bank including:

- Charity Bank’s five-year strategy and financial plan, including sensitivity analysis, which were approved by the Board in December 2023.
- The Directors have assessed the adequacy of Charity Bank’s capital and liquidity under both base case and severe but plausible stress scenarios, including the outputs of reverse stress testing, and, in conjunction with Charity Bank’s Supervisory Reviews, consider that Charity Bank have in place adequate resources to support the delivery of its strategic objectives whilst adhering to all its regulatory obligations;
- The Directors have reviewed and approved the ILAAP, ICAAP and Recovery Plan documents and have ensured that the stress testing scenarios appropriately identify and reflect any new, emerging or developing risks including: changes in customer behaviour, model risk, digitalisation and a possible slowdown in economic recovery.

Directors’ Report (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 2023 and the economic uncertainty of recent years, Charity Bank maintained a regulatory capital surplus well above its risk appetite. For 2024, business and capital forecasts show continued profitability and adequate capital maintained in both projected and stressed conditions. Additionally, as documented in the 2023 ICAAP, Charity Bank has available management actions that will further preserve capital under stress.
- Additionally, Charity Bank has been able to efficiently raise deposits and maintain all regulatory liquidity ratios above its board approved risk appetites.
- Profits after tax for 2023 were £7.8 million and the approved 2024 budget shows continued profits over the 5-year planning horizon.

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 Charity 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 Chief Financial Officer;
- 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 Charity 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 pages 26-27.

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

Directors' Report (continued)

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 29.

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.

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. A small proportion of Charity Bank's HQLAs are held in UK treasury gilts which were managed by Barclays Bank on behalf of Charity Bank during the period.

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.

Directors' Report (continued)

Liquidity management (continued)

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		
Loans receivable		Credit Team
LIABILITIES		
Deposits (CITR scheme)	Risk appetite is set by Board and the policies are set by the Risk Committee	Savings 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.

Charity Bank aims to ensure equality of opportunity to all and to provide employees with the opportunity to develop and realise their full potential. Charity 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 (2022 – £nil). £40 of charitable donations (2022: £6,310) were made during the year. The direct grants made for the LEAP programme are not considered to be donations.

Employee and other stakeholders involvement

More information regarding employee and other stakeholder involvement with Charity Bank can be found in the strategic report (see page 25).

Directors’ Report (continued)

Disclosure of information to auditors

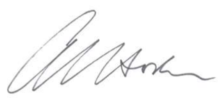
As far as each of the Directors is aware, at the date when this report was approved:

- 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.

The financial statements on pages 51 to 87 were approved by the Board of Directors on 22nd April 2024 and signed on its behalf.



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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 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 31 December 2023; 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 9, 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 below.

Key audit matters

- Determination of expected credit loss allowance.

Materiality

- Overall materiality: £395,000 (2022: £300,000) based on 1% of Net Assets.
- Performance materiality: £296,250 (2022: £225,000).

The scope of our audit

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

Key audit matters

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

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

The key audit matter below is 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. The expected credit loss allowance represents management's estimate of expected credit losses ('ECL') at the balance sheet date. The identification and determination of ECL is inherently judgmental and the degree of estimation is increased as a result of the economic uncertainties driven by factors such as cost of living increases, higher interest rates and higher inflation. Also, the company has limited loss experience. The methodology used by the company to determine the 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') rates; • 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 understood and 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. Assessed the implementation of the selected and approved methodology through our independent replication of the ECL calculation. **PD and LGD rates** • Assessment of the PD rates, which included 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. • Assessed the LGD assumptions, including a conceptual review of the method used to estimate expected recoveries on collateral pledged to facilities on the portfolio. • We have tested samples for PD and LGD rates used in the calculations to supporting evidence. **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 of 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.

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	£395,000 (2022: £300,000).
How we determined it	1% of Net Assets
Rationale for benchmark applied	We believe that net assets is an appropriate benchmark as a key 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% (2022: 75%) of overall materiality, amounting to £296,250 (2022: £225,000) for the company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £39,500 (2022: £30,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- 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 its 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 Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Making enquiries of management, Risk, Internal audit 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;
- Assessing assumptions and judgments made by management in in respect of significant accounting estimates for bias, including in relation to 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 5 years, covering the years ended 31 December 2019 to 31 December 2023.

Darren Meek (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

23 April 2024

Statement of Comprehensive Income

for the year ended 31st December 2023	Notes	2023 £'000	2022 £'000
Interest income	4	24,041	12,218
Interest expense	4	(8,026)	(2,822)
Net interest income		**16,015**	**9,396**
Fee income	5	596	724
Other operating income	6	144	52
Net total income		**16,755**	**10,172**
Administrative expenses	7	(7,818)	(6,010)
Depreciation and amortisation	9, 16-18	(412)	(424)
Impairment reversal/ (charge)	25	465	(1,022)
Profit before taxation	9	**8,990**	**2,716**
Tax expense	11	(1,153)	-
Profit after taxation and total comprehensive income for the year		**7,837**	**2,716**

The notes and information on pages 55 to 87 form part of these financial statements.

All income and expenses are derived from continuing operations.

Balance Sheet

	Notes	31st Dec 2023 £'000	31st Dec 2022 £'000
Assets			
Cash and balances at banks	12	91,420	63,198
Financial assets at amortised cost	13	16,661	18,776
Loans and advances to customers	14	285,315	273,700
Prepayments		407	361
Other assets	15	497	358
Deferred tax asset	11	393	-
Property and equipment	16	41	63
Right-of-use asset	17	208	406
Intangible fixed assets	18	1,025	1,188
Total assets		**395,967**	**358,050**
Liabilities			
Customer accounts	19	342,963	313,835
Deferred income		337	316
Other liabilities	20	2,563	4,771
Current tax liability	11	1,546	-
Accruals		675	638
Lease liability	17	179	335
Subordinated debt	21, 24	8,141	8,141
Total liabilities		**356,404**	**328,036**
Called up share capital	22	16,621	15,743
Retained earnings		15,235	7,398
Share premium		7,707	6,873
Total equity	23	**39,563**	**30,014**
Total liabilities and shareholders' funds		**395,967**	**358,050**

These financial statements were approved by the Board of Directors and authorised for issue on 22nd April 2024.
They were signed on their behalf by:

Alan Hodson – Director

Jonathan Britton OBE – Director

Registered company number: 4330018

The notes and information on pages 55 to 87 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 2023		**15,743**	**7,398**	**6,873**	**30,014**
Profit for the year		-	7,837	-	7,837
Total comprehensive income for the year		**-**	**7,837**	**-**	**7,837**
Capital received	23	878	-	834	1,712
Balance attributable to equity shareholders as at 31st December 2023		**16,621**	**15,235**	**7,707**	**39,563**

	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**

The notes and information on pages 55 to 87 form part of these financial statements.

Cash Flow Statement

for the year ended 31st December 2023

	Note	2023 £'000	2022 £'000
Cash flow from operating activities			
Profit before tax		8,990	2,716
Adjustment to reconcile net profit to cash flow generated from operating activities			
Interest expense		8,026	2,822
Depreciation of property and equipment		56	61
Amortisation of intangible assets		163	164
Depreciation of right-of-use asset		193	199
Movement in impairment		(367)	1,057
		17,061	**7,019**
Net increase in assets relating to operating activities			
Loans and advances to customers		(11,550)	(35,715)
Financial assets		2,113	6,103
Other assets		(139)	(145)
Movement in prepayments		(46)	(105)
		(9,622)	**(29,862)**
Net increase in liabilities relating to operating activities			
Due to customers		29,128	41,264
Interest paid		(7,961)	(2,744)
Deferred income/ (loss)		21	(58)
Movement in accruals and accrued interest		37	(24)
Other liabilities		(1,903)	358
		19,322	**38,796**
Net cash inflow from operating activities		**26,761**	**15,953**
Cash flow from investing activities			
Acquisition of fixed assets		(34)	(14)
Net cash outflow from investing activities		**(34)**	**(14)**
Cash flow from financing activities			
Principal elements of lease payment		(152)	(147)
Proceeds from issue of share capital		1,712	550
Proceeds from issue of subordinated loan stock		-	1,000
Interest on subordinated loan stock		(65)	(78)
Net cash inflow from financing activities		**1,495**	**1,325**
Net increase in cash and cash equivalents		**28,222**	**17,264**
Cash and cash equivalents at the beginning of the year	12	63,198	45,934
Cash and cash equivalents at the end of the year	12	**91,420**	**63,198**

The notes and information on pages 55 to 87 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 Charity 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 2023 have been prepared in accordance with UK adopted International accounting standards and the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Going concern

The Directors consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements. As part of this process, the Directors have considered and approved the most recent budget including scenario analysis and believe Charity Bank to remain a going concern on the basis that it maintains sufficient resources and continue to operate for the foreseeable future. The Directors do not deem there to be any material uncertainties with regard to the assessment on going concern.

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 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. 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)

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 2023:

- IFRS 17 *Insurance Contracts;*
- Definition of *Accounting Estimates* in IAS 8;
- *International Tax Reform- Pillar Two Model Rules*- amendments to IAS 12;
- *Deferred Tax related to Assets and Liabilities arising from a single transaction*- amendments to IAS 12;
- *Disclosure of Accounting policies*- amendments to IAS 1 and IFRS practice statement 2; 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.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2023 reporting periods and have not been early adopted by Charity Bank. These standards are not expected to have a material impact on Charity Bank in the current or future reporting periods:

- Classification of liabilities as current or non-current- Amendments to IAS 1 *Presentation of Financial statements*;
- Lease liability in a sale and leaseback- Amendments to IFRS 16 *Leases*;
- Supplier finance arrangements- Amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*; and
- Sale or contribution of assets between an investor and its associate or joint venture- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*.

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 it 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.

2 Accounting policies (continued)

Financial assets (continued)

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

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 Charity 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.

2 Accounting policies (continued)

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.

In certain cases, Charity Bank may use forbearance measures to assist borrowers experiencing significant financial distress. Charity 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.

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 – a soft landing with flat/modest GDP growth as inflation/energy prices fall, 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 – interest rates continue to rise 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.

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);

2 Accounting policies (continued)

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

- 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).

The assumptions for 2023:

Key Assumptions for Scenarios	Base Case	Upside	Downside	Severe Downside
Residential Non-Social Housing	(5.0%)	(2.5%)	(7.5%)	(15.0%)
Social Housing (Residential)	1.1%	3.2%	-	(5.0%)
Commercial Property	(5.0%)	5.0%	(10.0%)	(30.0%)
Credit Score	(10.0%)	(5.0%)	(15.0%)	(25.0%)
Watch List Overlay	No	No	No	Yes
Probability Weighting	40.0%	10.0%	35.0%	15.0%

The assumptions for 2022 as a comparative were:

Key Assumptions for Scenarios	Base Case	Upside	Downside	Severe Downside
Residential Non-Social Housing	(7.5%)	(2.5%)	(10.0%)	(15.0%)
Social Housing (Residential)	(2.5%)	-	(5.0%)	(7.5%)
Commercial Property	(15.0%)	(5.0%)	(20.0%)	(30.0%)
Credit Score	(10.0%)	(5.0%)	(15.0%)	(25.0%)
Watch List Overlay	No	No	No	Yes
Probability Weighting	35.0%	10.0%	35.0%	20.0%

The sensitivity analysis below demonstrates the effect of a 100% probability weighting for each scenario- this analysis is for the main loan book excluding LEAP (which equates less than 1% of the loan book). The sensitivity analysis shows the impact of the assumptions and watch list overlay on stage 3 under the Severe Downside scenario.

The probability weighting sensitivity for 2023:

Probability Weighting Sensitivity	Collective Provision	Stage 1	Stage 2	Stage 3	Increase on Baseline
		£	£	£	£
Baseline	1,348,856				
Base Case	718,528	48,415	635,456	34,657	(630,328)
Upside	504,207	37,603	431,947	34,657	(844,649)
Downside	1,205,578	50,643	1,120,278	34,657	(143,278)
Severe Downside	4,963,609	31,759	3,949,591	982,259	3,614,753

2 Accounting policies (continued)

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

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. The loan book value used is the loans and advances to customers value before impairments.

					Increase on Baseline	
Assumption	**Sensitivity**	**Collective Provision £**	**% of Loan Book**		**Collective Provision £**	**% of Loan Book**
Baseline		1,348,856	0.47%			
Non-Social Housing	Reduce 5%	1,379,593	0.48%		30,737	0.01%
	Reduce 10%	1,416,967	0.49%		68,111	0.02%
Social Housing	Reduce 5%	1,353,723	0.47%		4,867	0.00%
	Reduce 10%	1,361,124	0.47%		12,268	0.00%
Commercial	Reduce 5%	1,505,132	0.52%		156,276	0.05%
	Reduce 10%	1,682,277	0.59%		333,421	0.12%
Credit score	Reduce 5%	2,045,271	0.71%		696,415	0.24%
	Reduce 10%	2,691,838	0.94%		1,342,982	0.47%

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

Charity 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 it 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.

Dividends

Dividends paid on Charity Bank's ordinary shares are recognised as a reduction in equity in the period in which they are paid.

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.

2 Accounting policies (continued)

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.

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 £20,643 at 30th September 2022. 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.

2 Accounting policies (continued)

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.

LEAP programme

The LEAP lending programme 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 Charity 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 is 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

	2023		2022
Interest income	**£'000**		**£'000**
Loans and advances to customers	20,821		11,489
Cash and balances at banks	3,156		655
Financial assets at amortised cost	64		74
	24,041		**12,218**
	2023		**2022**
Interest expense and similar charges	**£'000**		**£'000**
Due to customers	7,941		2,725
Debt issued	65		78
Lease liability	20		19
	8,026		**2,822**

4 Net Interest Income (continued)

The interest income of £64k from Financial assets at amortised cost relates to the UK Treasury stock. The total interest income of £24.0m is calculated using the EIR method and relates to income from all financial assets measured at amortised cost.

5) FEE INCOME

	2023		2022
	£'000		**£'000**
Arrangement fees on loans that did not proceed	33		53
Arrangement fees refunded for Energy Improvement Green Loan Offer	-		(2)
Non-utilisation fees	563		673
	596		**724**

6) OTHER OPERATING INCOME

	2023		2022
	£'000		**£'000**
Commission from the Reach Fund (Access- The Foundation for Social Investment)	15		17
Commission from the Resilience and Recovery Loan Fund	-		21
Miscellaneous income and fees	3		2
Operating grant for LEAP programme	126		12
	144		**52**

7) ADMINISTRATIVE EXPENSES

	2023		2022
Average monthly number of employees	77		63
	2023		**2022**
	£'000		**£'000**
Wages and salaries	4,276		3,212
Social security costs	506		395
Other pension costs	403		293
Other staff costs	395		301
Total staff costs	**5,580**		**4,201**
Other administrative expenses	2,238		1,809
	7,818		**6,010**

Total number of employees at 31st December 2023 was 78 (of which 75 were permanent and includes employees on fixed-term contracts) and at 31st December 2022 there were 73 (of which 67 were permanent). Full-time equivalents at 31st December 2023 were 71 and at 31st December 2022 were 65.

Employee emoluments

The number of staff whose annualised emoluments exceeded £60,000 as at 31st December 2023 and at 31st December 2022 were as follows:

7 Administrative expenses (continued)

	2023	2022
	Number	Number
£60,001 - £70,000	6	7
£70,001 - £80,000	8	2
£80,001 - £90,000	5	7
£90,001 - £100,000	4	1
£100,001 - £110,000	-	2
£110,001 - £120,000	2	2
£120,001 - £130,000	2	1
£130,001 - £140,000	1	-
£140,001 - £150,000	-	-
£150,001 - £160,000	-	1
£160,001 - £170,000	-	-
£170,001 - £180,000	1	-
	29	**23**

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 and a half times (2022: 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 2023, four Non-Executive Directors (2022: 4) were reimbursed expenses totalling £986 (2022: £605), relating primarily to travel expenses incurred in attending Board meetings and training. Emoluments are not paid to Non-Executive Directors.

Directors' remuneration

	2023	2022
	£'000	£'000
Directors' emoluments	299	214
Contribution to a defined contribution pension scheme	37	24
Medical insurance	12	7
	348	**245**

The highest paid Director during the year received a total remuneration package of £202k (2022: £176k). Two Executive Director received pension benefits in the year to 31 December 2023 (2022: two). Directors do not receive any share options and no share options were awarded under long term incentive plans.

Key management personnel

	2023	2022
	£'000	£'000
Emoluments	1,010	848
Contribution to a defined contribution pension scheme	117	93
Medical insurance	25	17
	1,152	**958**

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 £6k (2022: £11k) and are unsecured.

7 Administrative expenses (continued)

Deposits held by key management personnel total £20k (2022: £12) and subordinated debt held by members of the Board is £401k (2022: £401k). Deposits held by related parties comprise those held by connected individuals to Charity Bank are £106k (2022: £74k) and deposits held by connected entities are £10.4m (2022: £6.6m).

Auditors remuneration has been disclosed in note 9.

8) PENSION COSTS

Charity Bank operates a defined contribution pension scheme for staff. Charity Bank contributed £403k during the year (2022: £293k). This amount forms part of total staff costs recorded under administrative expenses. There was a nil (2022: £47.6k) outstanding contributions at the balance sheet date.

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

9) PROFIT BEFORE TAXATION

	2023		2022
	£'000		**£'000**
Depreciation - property and equipment	56		61
Depreciation - right-of-use asset	193		199
Amortisation - intangible assets	163		164
	412		**424**
Auditors' remuneration:			
- audit of annual financial statements	199		173
- audit-related assurance services	4		3
	203		**176**

10) DIVIDENDS

	2023		2022
	£'000		**£'000**
Ordinary shares			
Proposed final dividend for the year ended	1,567		-
31 December 2023 of 5p per fully paid share			
	1,567		**-**

The proposed dividends will be considered, and if appropriate approved by the shareholders at the AGM to be held in June 2024.

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 2023 have been measured at 25%.

	2023		2022
	£'000		**£'000**
Current tax			
Current year- corporation tax	1,546		-
Deferred tax			
Current year	604		-
Previously unrecognised deferred tax asset	(997)		-
Tax charge for the year	**1,153**		-

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:

	2023	2022
	£'000	£'000
Profit before taxation- continuing activities	8,990	2,716
Tax on profit at standard UK tax rate of 23.5% (2022: 19%)	2,115	516
Effects of:		
Expenses not deductible	-	(2)
Rate differences	35	162
Previously unrecognised deferred tax asset	(997)	(676)
Tax charge for the year	**1,153**	**-**

Deferred tax asset

	2023	2022
	£'000	£'000
Recognised deferred tax asset		
Carried forward tax losses	318	-
Accelerated capital allowances	61	-
IFRS change in basis adjustment	14	-
Short-term temporary differences	-	-
	393	**-**
Deferred tax rate	25%	

A deferred tax asset has been recognised in the balance sheet, these assets are only recognised to the extent that future taxable profits are probable. At 31 December 2022, Charity Bank had an unrecognised deferred tax asset of £997k, which included trading losses with a gross value of £3.5m.

12) CASH AND BALANCES AT BANKS

	31st Dec	31st Dec
	2023	2022
	£'000	£'000
Cash in hand	8,328	11,345
Short-term balances with other banks	83,101	51,859
Less expected credit loss	(9)	(6)
	91,420	**63,198**

The Bank of England reserve account was opened during 2020, the balance at 31st December 2023 was £83m (2022: £52m) and included in the 'Short-term balances with other banks' line above.

13) FINANCIAL ASSETS

	31st Dec	31st Dec
	2023	2022
	£'000	£'000
Financial assets at amortised cost		
UK Treasury Stock	16,679	18,792
Less expected credit loss	(18)	(16)
	16,661	**18,776**
Maturity:		
- less than three months	-	-
- one year or less but over three months	1,843	2,105
- between one year and five years	14,836	16,687
Less expected credit loss	(18)	(16)
	16,661	**18,776**

13 Financial assets (continued)

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	Impaired loans	Total	Performing loans	Impaired loans	Total
	31st Dec 2023	31st Dec 2023	31st Dec 2023	31st Dec 2022	31st Dec 2022	31st Dec 2022
	£'000	£'000	£'000	£'000	£'000	£'000
Remaining maturity:						
- three months or less excluding on demand or at short notice	1	-	1	50	-	50
- one year or less but over three months	1,437	37	1,474	2,189	-	2,189
- five years or less but over one year	6,757	98	6,855	3,894	97	3,991
- over five years	277,263	1,374	278,637	267,578	1,609	269,187
	285,458	**1,509**	**286,967**	**273,711**	**1,706**	**275,417**
Less allowance for impairment	(1,286)	(366)	(1,652)	(1,179)	(538)	(1,717)
	284,172	**1,143**	**285,315**	**272,532**	**1,168**	**273,700**

As at 31st December 2023, Charity Bank had advanced variable and managed rate loans amounting to £268.1m (31st December 2022: £256.8m) and fixed rate loans amounting to £18.8m (31st December 2022: £18.5m) to customers. £46.0k was the balance granted as staff loans (31st December 2022: £39.7k). Revolving loan facilities were introduced in 2023, the balance at 31 December 2023 is included in variable rate loans for £360k.

Total credit impaired loans and advances to customers amounted to £1.5m (31st December 2022: £1.7m), within which an allowance for specific impairment of £366k (31st December 2022: £476k specific and £62k for loans out of order) was included.

15) OTHER ASSETS

	31st Dec 2023	31st Dec 2022
	£'000	£'000
Bank placements	-	1
Fees receivable	284	275
Less expected credit loss	(7)	(7)
Interest receivable	220	89
	497	**358**

16) PROPERTY AND EQUIPMENT

	Equipment	Leasehold improvements	Total
	£'000	£'000	£'000
Cost			
At 1st January 2023	557	213	770
Additions	34	-	34
At 31st December 2023	**591**	**213**	**804**
Accumulated depreciation			
At 1st January 2023	494	213	707
Charged in year	56	-	56
At 31st December 2023	**550**	**213**	**763**
Net book value			
At 31st December 2023	**41**	**-**	**41**

16 Property and equipment (continued)

	Equipment	Leasehold improvements	Total
	£'000	£'000	£'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**

17) RIGHT-OF-USE ASSET

	31st Dec 2023	31st Dec 2022
	£'000	£'000
Right-of-use asset		
Building	208	406
Lease liability		
Current	164	151
Non-current	15	184
	179	**335**
Maturity:		
- less than three months	37	34
- one year or less but over three months	127	117
- between one year and five years	15	184
	179	**335**

The total cash outflow for the lease liability in 2023 was £152k (2022: £147k). Depreciation for right-of-use asset is disclosed in note 9 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 8.25% 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
Cost	
At 1st January 2023	1,937
Additions	-
At 31st December 2023	**1,937**
Accumulated amortisation	
At 1st January 2023	749
Charged in year	163
At 31st December 2023	**912**
Net book value	
At 31st December 2023	**1,025**

18 Intangible fixed assets (continued)

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

19) CUSTOMER ACCOUNTS

	31st Dec	31st Dec
	2023	**2022**
	£'000	**£'000**
With agreed maturity dates or periods of notice by remaining maturity:		
- three months or less	168,732	173,421
- one year or less, but over three months	126,943	101,890
- more than one year but less than five years	47,288	38,524
	342,963	**313,835**

20) OTHER LIABILITIES

	31st Dec	31st Dec
	2023	**2022**
	£'000	**£'000**
Social security and other taxes	396	373
Cash collateral	1,048	3,534
Credit loss allowance on commitments	197	503
Other payables	19	11
Operating grant for LEAP programme	34	23
Direct grant for LEAP programme	104	62
First loss grant for LEAP programme	765	265
	2,563	**4,771**

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 2023. The expected credit loss on commitments has been included in the 'Impairment (reversal)/ charge' in note 25.

During December 2022, the first tranche for the LEAP programme was received from Access- The Foundation for Social Investment. Refer to note 6 for the income recognised relating to the operating grant and note 25 first loss grant.

21) SUBORDINATED DEBT

	31st Dec	31st Dec
	2023	**2022**
	£'000	**£'000**
Principal	8,135	8,135
Accrued Interest	6	6
	8,141	**8,141**
Maturity:		
- less than three months	6	6
- one year or less but over three months	4,750	-
- between one year and five years	3,385	8,135
	8,141	**8,141**

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

		31st Dec		31st Dec
	Number of	2023	Number of	2022
	shares	£'000	shares	£'000
Authorised, issued, allotted and fully paid				
Ordinary shares of £0.50 each	33,242,775	16,621	31,486,762	15,743
	33,242,775	**16,621**	**31,486,762**	**15,743**

	Number of	Share	Share
	shares	**capital**	**premium**
		£'000	**£'000**
At 31st December 2023	33,242,775	16,621	7,707
At 31st December 2022	31,486,762	15,743	6,873

A dividend of £1.6m has been proposed (2022: £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	Incoming	Profit for	At 31st
	Jan 2023	**resources**	**the year**	**Dec 2023**
	£'000	**£'000**	**£'000**	**£'000**
Called-up share capital				
Fully paid ordinary shares	15,743	878	-	16,621
Retained earnings				
Capital contribution	14,478	-	-	14,478
Accumulated loss	(7,080)	-	7,837	757
Total				
equity shareholders' funds	**23,141**	**878**	**7,837**	**31,856**
Share premium	6,873	834	-	7,707
Total equity shareholders' funds	**30,014**	**1,712**	**7,837**	**39,563**

23 Total equity (continued)

During 2023, additional share capital of £1.7m was received for cash consideration.

	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				
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**

24) RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

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

	Note	1st Jan 2023 £'000	Cash changes £'000	Non-cash changes £'000	31st Dec 2023 £'000
Lease liability	17	335	(172)	16	179
Subordinated debt	21	8,141	-	-	8,141
		8,476	**(172)**	**16**	**8,320**

	Note	1st Jan 2022 £'000	Cash changes £'000	Non-cash changes £'000	31st Dec 2022 £'000
Lease liability	17	501	(168)	2	335
Subordinated debt	21	7,137	1,004	-	8,141
		7,638	**836**	**2**	**8,476**

25) IMPAIRMENT (REVERSAL)/ CHARGE

	2023 £'000	2022 £'000
Opening balance	2,214	1,192
Bad debts recovered	-	-
Impairment (reversal)/ charge	(365)	1,057
First loss grant for LEAP programme	(100)	(35)
Closing balance	**1,749**	**2,214**

26) CONTINGENT LIABILITIES AND COMMITMENTS

a) Legal issue- contingent liability

At 31st December 2023, there were no pending legal cases or other issues in progress which might have a material impact on the financial statements of Charity Bank (2022: nil).

26 Contingent liabilities and commitments (continued)

b) Off-balance sheet liabilities

	31st Dec		31st Dec
	2023		**2022**
	£'000		**£'000**
Loan commitments			
Undrawn irrevocable loan commitments	53,230		52,506

Commitments comprise of 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 7.

Loans made in partnership with The Big Society Capital Limited total £11.9m (8 loans with 8 borrowers) (2022: £10.6m, 7 loans with 7 borrowers). Commitments relating to the partnership with The Big Society Capital Limited total £300k (2022: £468.8k). 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 2023	Next day	Up to 3 mths	3 - 6 mths	6 mths to 1 year	1 - 5 years	Over 5 years	No specific repricing	Total			Next day	Up to 3 mths	3 - 6 mths	6 mths to 1 year	1 - 5 years	Over 5 years	No specific repricing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000			£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets										**Liabilities**								
Cash and balances at banks	91,420	-	-	-	-	-	-	91,420		Customer accounts	58,252	108,125	73,844	53,100	47,287	-	2,355	342,963
Financial assets	-	(18)	-	1,843	14,836	-	-	16,661		Accruals & deferred income	-	-	-	-	-	-	1,012	1,012
Loans and advances to customers	262,632	3,835	748	838	17,262	-	-	285,315		Lease liability	-	-	-	-	-	-	179	179
Prepayments and other assets	-	-	-	-	-	-	1,297	1,297		Other liabilities	-	1,970	1,546	-	-	-	593	4,109
Right-of-use asset	-	-	-	-	-	-	208	208		Subordinated debt	-	-	650	4,100	3,385	-	6	8,141
Property and equipment	-	-	-	-	-	-	41	41		Shareholder's funds	-	-	-	-	-	-	39,563	39,563
Intangible fixed assets	-	-	-	-	-	-	1,025	1,025										
	354,052	**3,817**	**748**	**2,681**	**32,098**	**-**	**2,571**	**395,967**			**58,252**	**110,095**	**76,040**	**57,200**	**50,672**	**-**	**43,708**	**395,967**
										Interest rate sensitivity gap	**295,800**	**(106,278)**	**(75,292)**	**(54,519)**	**(18,574)**	**-**	**(41,137)**	

28 Financial Risk Management (continued)

Interest rate risks (continued)

As at 31st Dec 2022	Next day	Up to 3 mths	3 - 6 mths	6 mths to 1 year	1 - 5 years	Over 5 years	No specific repricing	Total		Next day	Up to 3 mths	3 - 6 mths	6 mths to 1 year	1 - 5 years	Over 5 years	No specific repricing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets									**Liabilities**								
Cash and balances at banks	63,198	-	-	-	-	-	-	63,198	Customer accounts	52,626	119,905	63,127	38,763	38,524	-	890	313,835
Financial assets	-	(16)	-	2,105	16,687	-	-	18,776	Accruals and deferred income	-	-	-	-	-	-	954	954
Loans and advances to customers	250,988	4,178	1,033	497	17,004	-	-	273,700	Lease liability	-	-	-	-	-	-	335	335
Prepayments and other assets	-	-	-	-	-	-	719	719	Other liabilities	-	3,895	-	-	-	-	876	4,771
Right-of-use asset	-	-	-	-	-	-	406	406	Subordinated debt	-	-	-	-	8,135	-	6	8,141
Property and equipment	-	-	-	-	-	-	63	63	Shareholder's funds	-	-	-	-	-	-	30,014	30,014
Intangible fixed assets	-	-	-	-	-	-	1,188	1,188									
	314,186	**4,162**	**1,033**	**2,602**	**33,691**	**-**	**2,376**	**358,050**		**52,626**	**123,800**	**63,127**	**38,763**	**46,659**	**-**	**33,075**	**358,050**
									Interest rate sensitivity gap	**261,560**	**(119,638)**	**(62,094)**	**(36,161)**	**(12,968)**	**-**	**(30,699)**	

28 Financial risk management (continued)

Interest rate risks (continued)

The majority of Charity Bank's 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- this also includes revolving loans. 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 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 £717k p.a. (2022: £689k). 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 Charity Bank's rates and take appropriate action. For every 0.25% increase in Deposit Rate, the interest paid would increase by £448k based on the customer accounts open at 31st December 2023 (2022: £424k).

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 2023 this equated to 0.4% of the total loans and advances to customers (2022: 1.3%).

The main credit risk sensitivities on loans and advances for the main loan book 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 £1.2m; 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 £111k, 10% would increase the collective provision by £242k.

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.

28 Financial risk management (continued)

Expected credit loss measurement (continued)

		2023				2022
		Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
		12-month ECL	Lifetime ECL	Lifetime ECL		
		£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cash and balances at banks	Gross carrying amount	91,429	-	-	91,429	63,204
	Expected credit loss	(9)	-	-	(9)	(6)
	Carrying amount	**91,420**	**-**	**-**	**91,420**	**63,198**
Financial assets	Gross carrying amount	16,679	-	-	16,679	18,792
	Expected credit loss	(18)	-	-	(18)	(16)
	Carrying amount	**16,661**	**-**	**-**	**16,661**	**18,776**
Loans and advances to customers	Gross carrying amount	172,112	113,183	1,672	286,967	275,417
	Expected credit loss	(82)	(1,204)	(366)	(1,652)	(1,717)
	Carrying amount	**172,030**	**111,979**	**1,306**	**285,315**	**273,700**
Other assets	Gross carrying amount	504	-	-	504	365
	Expected credit loss	(7)	-	-	(7)	(7)
	Carrying amount	**497**	**-**	**-**	**497**	**358**
Loan commitments	Gross carrying amount	32,189	21,041	-	53,230	52,506
	Expected credit loss	(32)	(165)	-	(197)	(503)
	Carrying amount	**32,157**	**20,876**	**-**	**53,033**	**52,003**

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 and gross carrying amount between the beginning and end of the year due to these factors:

28 Financial risk management (continued)

Loss allowance (continued)

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers impairment	12-month ECL	Lifetime ECL	Lifetime ECL	
	£'000	**£'000**	**£'000**	**£'000**
Expected credit loss at 1st Jan 2023	227	952	538	1,717
Loans drawn and recognised	42	264	-	306
Loans repaid and derecognised	(13)	(107)	-	(120)
Write-offs	-	-	-	-
Change in credit risk and model	(139)	60	(172)	(251)
Transfer between stages				
- Transfer to Stage 1	163	(163)	-	-
- Transfer to Stage 2	(198)	198	-	-
- Transfer to Stage 3	-	-	-	-
Other movements	-	-	-	-
Expected credit loss as at 31st Dec 2023	**82**	**1,204**	**366**	**1,652**

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers	12-month ECL	Lifetime ECL	Lifetime ECL	
	£'000	**£'000**	**£'000**	**£'000**
Loans and advances to customers at 1st Jan 2023	177,047	96,664	1,706	275,417
Loans drawn and recognised	27,260	26,271	-	53,531
Loans repaid and derecognised	(44,915)	(16,936)	(389)	(62,240)
Interest charged	13,022	7,687	112	20,821
Write-offs	-	-	-	-
Transfer between stages				
- Transfer to Stage 1	28,965	(28,965)	-	-
- Transfer to Stage 2	(28,707)	28,707	-	-
- Transfer to Stage 3	(243)	-	243	-
Other movements	(317)	(245)	-	(562)
Loans and advances to customers at 31st Dec 2023	**172,112**	**113,183**	**1,672**	**286,967**

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers impairment	12-month ECL	Lifetime ECL	Lifetime ECL	
	£'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**

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers	12-month ECL	Lifetime ECL	Lifetime ECL	
	£'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)

	Stage 1	Stage 2	Stage 3	Total			Stage 1	Stage 2	Stage 3	Total
Non lending financial assets impairment	12-month ECL	Lifetime ECL	Lifetime ECL			**Non lending financial assets**	12-month ECL	Lifetime ECL	Lifetime ECL	
	£'000	**£'000**	**£'000**	**£'000**			**£'000**	**£'000**	**£'000**	**£'000**
Expected credit loss at 1st Jan 2023	29	-	-	29		Non lending financial assets at 1st Jan 2023	82,361	-	-	82,361
Financial assets purchased and recognised	3	-	-	3		Financial assets purchased and recognised	31,480	-	-	31,480
Financial assets sold and derecognised	(2)	-	-	(2)		Financial assets sold and derecognised	(5,229)	-	-	(5,229)
Change in credit risk	4	-	-	4		Change in credit risk	-	-	-	-
Transfer between stages						Transfer between stages				
- Transfer to Stage 1	-	-	-	-		- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	-	-	-	-		- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-		- Transfer to Stage 3	-	-	-	-
Expected credit loss as at 31st Dec 2023	**34**	**-**	**-**	**34**		**Non lending financial assets at 31st Dec 2023**	**108,612**	**-**	**-**	**108,612**

	Stage 1	Stage 2	Stage 3	Total			Stage 1	Stage 2	Stage 3	Total
Non lending financial assets impairment	12-month ECL	Lifetime ECL	Lifetime ECL			**Non lending financial assets**	12-month ECL	Lifetime ECL	Lifetime ECL	
	£'000	**£'000**	**£'000**	**£'000**			**£'000**	**£'000**	**£'000**	**£'000**
Expected credit loss at 1st Jan 2022	15	-	-	15		Non lending financial assets at 1st Jan 2022	71,052	-	-	71,052
Financial assets purchased and recognised	14	-	-	14		Financial assets purchased and recognised	19,172	-	-	19,172
Financial assets sold and derecognised	(2)	-	-	(2)		Financial assets sold and derecognised	(7,863)	-	-	(7,863)
Change in credit risk	2	-	-	2		Change in credit risk	-	-	-	-
Transfer between stages						Transfer between stages				
- Transfer to Stage 1	-	-	-	-		- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	-	-	-	-		- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-		- Transfer to Stage 3	-	-	-	-
Expected credit loss as at 31st Dec 2022	**29**	**-**	**-**	**29**		**Non lending financial assets at 31st Dec 2022**	**82,361**	**-**	**-**	**82,361**

28 Financial risk management (continued)

Loss allowance (continued)

	Stage 1	Stage 2	Stage 3	Total
Commitments impairment	12-month ECL	Lifetime ECL	Lifetime ECL	
	£'000	**£'000**	**£'000**	**£'000**
Expected credit loss at 1st Jan 2023	177	326	-	503
Commitments approved and recognised	42	224	-	266
Commitments drawn and derecognised	(152)	(299)	-	(451)
Change in credit risk and model	(86)	5	-	(81)
Transfer between stages				
- Transfer to Stage 1	100	(100)	-	-
- Transfer to Stage 2	(39)	39	-	-
- Transfer to Stage 3	-	-	-	-
Other movements	-	-	-	-
Commitments not proceeding	(10)	(30)	-	(40)
Expected credit loss as at 31st Dec 2023	**32**	**165**	**-**	**197**
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commitments impairment	12-month ECL	Lifetime ECL	Lifetime ECL	
	£'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**

	Stage 1	Stage 2	Stage 3	Total
Commitments	12-month ECL	Lifetime ECL	Lifetime ECL	
	£'000	**£'000**	**£'000**	**£'000**
Commitments at 1st Jan 2023	31,972	20,534	-	52,506
Commitments approved and recognised	25,366	19,459	-	44,825
Commitments drawn and derecognised	(25,633)	(13,874)	-	(39,507)
Change in credit risk and model	-	-	-	-
Transfer between stages				
- Transfer to Stage 1	4,931	(4,931)	-	-
- Transfer to Stage 2	(1,349)	1,349	-	-
- Transfer to Stage 3	-	-	-	-
Other movements	-	-	-	-
Commitments not proceeding	(3,098)	(1,496)	-	(4,594)
Commitments at 31st Dec 2023	**32,189**	**21,041**	**-**	**53,230**
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Commitments	12-month ECL	Lifetime ECL	Lifetime ECL	
	£'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)
Change in credit risk and model	-	-	-	-
Transfer between stages				
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	(20,233)	20,233	-	-
- Transfer to Stage 3	-	-	-	-
Other movements	-	-	-	-
Commitments not proceeding	(6,297)	(246)	-	(6,543)
Commitments at 31st Dec 2022	**31,972**	**20,534**	**-**	**52,506**

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

28 Financial risk management (continued)

Credit risk by asset class

As at 31st Dec 2023	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortised cost	12-month ECL	Lifetime ECL	Lifetime ECL	
	£'000	**£'000**	**£'000**	**£'000**
Good quality	152,710	79,721	201	232,632
Satisfactory quality	19,206	28,110	-	47,316
Lower quality	196	5,315	772	6,283
Below standard	-	37	699	736
Gross carrying amount	**172,112**	**113,183**	**1,672**	**286,967**
Expected credit loss	(82)	(1,204)	(366)	(1,652)
Carrying amount	**172,030**	**111,979**	**1,306**	**285,315**

As at 31st Dec 2023	Stage 1	Stage 2	Stage 3	Total
Commitments	12-month ECL	Lifetime ECL	Lifetime ECL	
	£'000	**£'000**	**£'000**	**£'000**
Good quality	28,617	16,746	-	45,363
Satisfactory quality	2,482	4,222	-	6,704
Lower quality	1,090	73	-	1,163
Below standard	-	-	-	-
Gross carrying amount	**32,189**	**21,041**	**-**	**53,230**
Expected credit loss	(32)	(165)	-	(197)
Carrying amount	**32,157**	**20,876**	**-**	**53,033**

As at 31st Dec 2023	Stage 1	Stage 2	Stage 3	Total
Non lending financial assets	12-month ECL	Lifetime ECL	Lifetime ECL	
	£'000	**£'000**	**£'000**	**£'000**
Investment grade accounts	108,612	-	-	108,612
Non investment grade accounts	-	-	-	-
Impaired	-	-	-	-
Gross carrying amount	**108,612**	**-**	**-**	**108,612**
Expected credit loss	(34)	-	-	(34)
Carrying amount	**108,578**	**-**	**-**	**108,578**

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	

28 Financial risk management (continued)

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	31st Dec
	2023	**2022**
	£'000	**£'000**
Neither past-due or impaired	285,275	273,703
Past-due		
Within three months	3	3
Over three months	16	5
Total past-due	**19**	**8**
Impaired	1,673	1,706
	286,967	**275,417**

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

Security against past-due and impaired

	31st Dec	31st Dec
	2023	**2022**
	£'000	**£'000**
Neither past-due or impaired	866,737	786,524
Past-due		
Within three months	-	-
Over three months	-	300
Total past-due	**-**	**300**
Impaired	7,865	1,945
	874,602	**788,769**

Analysis of impaired loans and advances to customers

Refer to note 14 for a detailed analysis of impairments.

Credit exposure by sector

	31st Dec	31st Dec
	2023	**2022**
	£'000	**£'000**
Banks	91,430	63,205
Government	16,679	18,792
Loans and advances to customers	285,315	273,700
Other	2,571	2,374
	395,995	**358,071**

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

A proportion, 27% (31st December 2022: 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 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.

28 Financial risk management (continued)

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.

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.

	31st Dec 2023	31st Dec 2022
	£'000	£'000
Financial assets		
Cash and balances at banks	91,420	63,198
Financial assets at amortised cost	16,661	18,776
Loans and advances to customers	285,315	273,700
Other assets	497	358
	393,893	**356,032**
Financial liabilities		
Customer accounts	342,963	313,835
Other liabilities	1,048	3,534
Subordinated debt	8,141	8,141
	352,152	**325,510**

Categories of financial instruments

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

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	Carrying value	Fair value	Fair value
	31st Dec	31st Dec	31st Dec	31st Dec
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Financial assets				
Cash and balances at banks	91,420	63,198	91,420	63,198
Financial assets at amortised cost	16,661	18,776	15,656	17,313
Loans and advances to customers	285,315	273,700	290,478	278,262
Other assets	497	358	497	358
	393,893	**356,032**	**398,051**	**359,131**
Financial liabilities				
Customer accounts	342,963	313,835	342,963	313,835
Other liabilities	1,048	3,534	1,048	3,534
Subordinated debt	8,141	8,141	7,021	5,837
	352,152	**325,510**	**351,032**	**323,206**

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 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 of 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 2023, 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).

	Level 1	Level 2	Level 3	Total
As at 31st December 2023	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets				
Amortised cost				
Loans and advances to customers	-	-	290,478	290,478
Financial assets	15,656	-	-	15,656
Cash and balances at banks	91,420	-	-	91,420
Other assets	-	497	-	497
	107,076	**497**	**290,478**	**398,051**
Financial liabilities				
Amortised cost				
Customer accounts	-	342,963	-	342,963
Subordinated debt	-	-	7,021	7,021
Other liabilities	-	1,048	-	1,048
	-	**344,011**	**7,021**	**351,032**

28 Financial risk management (continued)

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

	Level 1	Level 2	Level 3	Total
As at 31st December 2022	**£'000**	**£'000**	**£'000**	**£'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**

Capital risk

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

	31st Dec	31st Dec
	2023	**2022**
	£'000	**£'000**
Tier 1		
IFRS9 Transitional relief	**-**	35
Intangible assets	(1,025)	(1,188)
Ordinary share capital	16,621	15,743
Retained earnings	7,398	4,682
Share premium	7,707	6,873
Total Tier 1 capital	**30,701**	**26,145**
Tier 2 capital		
Subordinated loan notes	2,840	3,674
Total Tier 2 capital	**2,840**	**3,674**
Total capital resources	**33,541**	**29,819**

29) POST BALANCE SHEET EVENTS

On 16th January 2024, The Linbury Trust (a new shareholder) invested £300k purchasing 281,184 new ordinary shares and on 28th March 2024, Access- The Foundation for Social Investment (an existing shareholder) invested £100k purchasing 85,085 new ordinary shares for cash consideration.

The Articles of Association permit the payment of a dividend to shareholders, a proposed dividend will be considered, and if appropriate approved for the first time at the AGM in June 2024 of £1.6 million.

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 Charity 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	UK
	2023	**2022**
Number of employees (average full-time equivalent)	77	63
Interest income (£'000)	24,041	12,218
Profit before taxation (£'000)	8,990	2,716
Tax expense (£'000)	(1,153)	-
Corporation tax paid (£'000)	-	-

Charity Bank has not received any direct public subsidies. The Bank manages programmes which provide funding to charities and social enterprises which may consider public subsidy for those enterprises within parameters permitted by relevant law.

1 BASIS OF PREPARATION

The Report and Financial information for the year ended 31st December 2023 have been prepared in accordance with UK adopted International accounting standards and the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as applicable to companies reporting under those standards.

2 ACCOUNTING POLICIES

This note sets out Charity Bank's accounting policies which relate to the financial information 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.

Country by country reporting (continued)

2 Accounting policies (continued)

Taxation (continued)

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.

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 2023 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 December 2023 in the 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; and
- 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 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, 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
23 April 2024

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
Jonathan Britton OBE
Michael Crabb
Neil Heslop OBE - a connected Director
Rebecca MacDonald
- a connected Director
Caspar Mackay
Caroline Price
Charlotte Ravenscroft
Dr Ambreen Shah
Edward Siegel
Toby Walter - a connected Director

Audit Committee

Jonathan Britton OBE (Chair)
Paul Berry
Caroline Price
Dr Ambreen Shah (from 21st April 2023)
Alan Hodson (Observer)

Risk Committee

Paul Berry (Chair)
Jonathan Britton OBE
Michael Crabb
Charlotte Ravenscroft (from 21st April 2023)
Toby Walter - a connected Director
Alan Hodson (Observer)

Governance Committee

Alan Hodson (Chair)
Michael Crabb
Toby Walter - a connected Director

Executive Management Committee

Edward Siegel (CEO)
Natasha Breen
Justin Hort
Mark Howland
Caspar Mackay
Thomas Ralph
Carolyn Sims
Kirstie Smith

Internal Credit Committee and Super Internal Credit Committee

<u>Credit department representatives:</u>
Caspar Mackay (Chair)
Orla Dobson
Yaa Kudom
Jerry Moore
<u>Impact Lending and Social Investment Solutions department representatives:</u>
Jeremy Ince
Adam Ruffinato
Carolyn Sims
Daniel Wilson-Dodd
<u>Additional Members:</u>
Debbie Harmsworth
Thomas Ralph
Ed Siegel
Kirstie Smith

Assets & Liabilities Committee

Kirstie Smith (Chair)
Laura Clements
Justin Hort
Caspar Mackay
Jacqueline Murray
Thomas Ralph
Edward Siegel
Carolyn Sims
David Taylor
Susan Terblanche
Ben Trinder

"Charity Bank created a calm in all the chaos. They set out the process clearly at the outset, kept us in the know at all times, and were on- hand when we needed their support. Without them this would have been a much steeper hill to climb."

Zoheb Shariff, CEO of Mosaic 1898

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).