

REDWOOD BANK LIMITED

PILLAR 3 DISCLOSURES

For the year ended 31 December 2019

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1. Overview

This document sets out the Pillar 3 disclosures of Redwood Bank Limited (“the Bank”) as at 31 December 2019. The disclosures have been prepared in accordance with the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR), together known as CRD IV, which came into force on 1 January 2014.

The CRD sets the framework for implementing Basel III in the European Union (the Basel Framework). All article references made within this document refer to the CRR (Regulation (EU) No 575/2013).

The framework consists of the following three pillars of regulation:

- Pillar 1 defines minimum capital requirements for certain risks, including credit, market and operational risks;
- Pillar 2 sets out the supervisory review process; and
- Pillar 3 on market discipline specifies disclosure requirements, which allow market participants to assess key pieces of information on the firm's capital, risk exposures and risk assessment process.

The Bank has established a disclosure policy for Pillar 3 information that sets out the internal controls and procedures to be applied in producing the disclosure. Pillar 3 disclosures will be prepared and updated on an annual basis, or more frequently if there is a material change to the previously disclosed data or information. The Pillar 3 document should be read in conjunction with the Bank's Annual Report & Financial Statements for the year ending 31st December 2019 filed at Companies House.

2. Pillar 3 Disclosure Policy

The Bank fully appreciates the overarching objectives of Pillar 3 disclosures, which are to promote market discipline and improve comparability and consistency of disclosures. These objectives help to encourage banks to assess risk, maintain capital and develop and maintain sound risk management systems and practices.

The Bank's Pillar 3 disclosures set out its risk management objectives and policies covering:

- the strategies and processes to manage those risks;
- the structure and organisation of the relevant risk management function or other appropriate arrangements;
- the scope and nature of risk reporting and measurement systems; and
- the policies for hedging and mitigating risk.

2.1 Non-material, proprietary or confidential information

The Bank has not sought any exemption from its disclosure on the basis of materiality or on the basis of proprietary or confidential information.

2.2 Verification

These disclosures are not audited but have been reviewed by the Risk Committee, which has recommended to the Board that the disclosures are made available upon request through the Bank's website.

Certain information has been extracted from the Bank's audited Annual Report and Financial Statements for the year ended 31 December 2019.

3. Strategic Risk Management Framework

3.1 Background

The primary strategy of the Bank is to lend to Small and Medium sized enterprises (SMEs), financed primarily by deposits from specialist market sectors such as SMEs, charities, clubs and associations.

The Bank had three lending products as at 31 December 2019:

- (i) *SME Owner/Occupier Mortgages* - mainstream commercial mortgages to business owners, secured over commercial property. This product covers general industrial & distribution businesses, , retail premises , offices, leisure, smaller hotels, guesthouses and bed and breakfast businesses and trading assets that are modern and purpose built.
- (ii) *SME Property Investment Mortgages* - secured mainstream commercial or residential buy-to let mortgages to experienced property investors. Investment property portfolios will have good tenant profiles and/or a wide spread of tenant risk.
- (iii) *SME Property Refurbishment* – an initial refurbishment loan, coupled with a long-term investment mortgage as above.

Loans are secured, with UK commercial or residential real estate as the primary security, either freehold, or leasehold with an unexpired term of at least 75 years over the term of the mortgage agreed. The loans are for terms between 2 and 25 (maximum for commercial property) or 2-30 (maximum for residential property) years.

The Bank's deposit product offering at 31 December 2019 consisted of business notice accounts, with both 35-day notice and 95-day notice products and 12 Months Fixed term bonds. These accounts are competitive within the Bank's targeted markets of SMEs, charities, clubs and associations.

As the governing body of the Bank, it is the responsibility of the Board to understand and manage the risks the Bank faces in pursuit of this strategy. Therefore, the Bank has established a robust risk governance and risk appetite infrastructure to identify, measure and control each risk within agreed risk tolerances.

3.2 Governance

The Bank operates with a Board of Directors, Board Risk Committee, a Board Audit & Compliance Committee (ACC), Nominations and Governance Committee, Remuneration Committee, an Executive Committee, Assets & Liabilities Committee (ALCO) and a Credit Committee. Within this Framework the Bank operates a typical banking "Three Lines of Defence" risk mitigation structure, as follows:

- i) First line: Operationally, the Executive and senior management have primary responsibility for the identification, measurement and management of all risks. In addition to the day to day risk management processes of the Bank, this is managed through ALCO, Sub-ALCO, MAPCO and Credit Committees. The Bank's liquidity and capital positions are managed and reported daily by Finance and reported to ALCO and Risk Committee and the Board at least monthly.
- ii) Second line: The Chief Risk Officer conducts independent reviews of risk management in the Bank and provides challenge to the Executive and senior management including with regard to the adequacy and accuracy of MI used in risk management decision making. In addition, the Chief Risk Officer provides expertise and guidance on appropriate risk management practices, including good practice, policies and procedures. It is also the Chief Risk Officer's responsibility to update relevant personnel and committees at the Bank regarding new and amended rules, regulations or guidance; and ensure that the Bank responds with appropriate actions. The Chief Risk Officer reports to the CEO and directly to the Chair of the Audit and Compliance Committee (ACC) and to the Chair of the Risk Committee.
- iii) Third line: Internal Audit is responsible for the independent review of the effectiveness of risk management at the Bank. Internal Audit report directly to the Chairman of the ACC. External Audit also report directly to the Chairman of the ACC and provide independent review and challenge to risk management.

Board

The Board has overall responsible for the Company. All the powers of the Company are vested in and exercised by the Board; but some are delegated through job specifications and to various committees.

The role of the Board is to provide strategic direction for the Bank within a framework of prudent and effective controls through the regular assessment of management information which enables risks to be assessed and managed.

The Board has evolved through 2019 with the recruitment of a new Independent Non-Executive Director to further increase the balance of independent directors, with another Independent Non-Executive Director planned to join the Board in 2020.

Board Committees

The Risk Committee has been established by the Board to identify, control and manage the risks inherent in the Company ensuring that these risks are fully documented for approval, and to recommend to the Board risk appetite statements.

The Audit & Compliance Committee has been established by the Board to provide an independent interface with the external auditors and to direct the work of the Internal Audit and Compliance functions.

The Committee structure has been expanded to include a Nominations and Governance Committee and also a Remuneration Committee to ensure there is formal oversight over items including succession and an increased formalisation of the governance and review structures. The Committee governance has also been enhanced, by increasing the independence of each committee through where appropriate the removal of previous non-independent members and re-defining the Terms of Reference.

Management Committees

The Executive Committee (“Exco”) is an executive committee established by the Board to manage the activities of the Bank on an on-going basis, within the framework of the Business Plan and subject to the overall control of the Board. Exco is supported by (i) the Project and Systems Development Committee (PSysCo) which focuses on determining the IT requirements and major projects of the Bank and to ensure these are delivered on an on-going basis and (ii) Marketing and Products Committee (MapCo) which focuses on developing new and existing products and marketing activity to support the Bank’s Business Plan

The Credit Committee has been established to manage and monitor the lending activities of the Bank on a day-to-day basis. It has been authorised to do so by the Risk Committee within the framework of the Business Plan and the Policies approved by the Risk Committee. The Credit Committee will regularly review and opine on specific lending requests from customers and in addition meet monthly to undertake its wider responsibilities.

The Assets & Liabilities Committee (“ALCO”) is an executive committee established by the Board to monitor the liquidity, financial and interest rate risk management, funding and net interest margin of the Company on an on-going basis, within the framework of the Business Plan, and the Policies recommended by this committee and approved by the Risk Committee.

Capital management is embedded in the day to day management of the business and is reported to ALCO, Executive Committee, Risk Committee and the Board on a regular basis. In addition to this Business as Usual perspective the Board and its supporting Committees develop the Bank’s Strategic Plan and Budget on an annual basis and assess the impacts of the strategic decisions included in such documents on the Bank’s current and future capital position.

The Sub Assets & Liabilities Committee (“Sub-ALCO”) is a sub-committee of the Assets & Liabilities Committee (“ALCO”), established by ALCO to challenge and authorise the submission of prudential regulatory returns and oversee the regulatory reporting of the Bank.

Figure 1 – Governance Structure

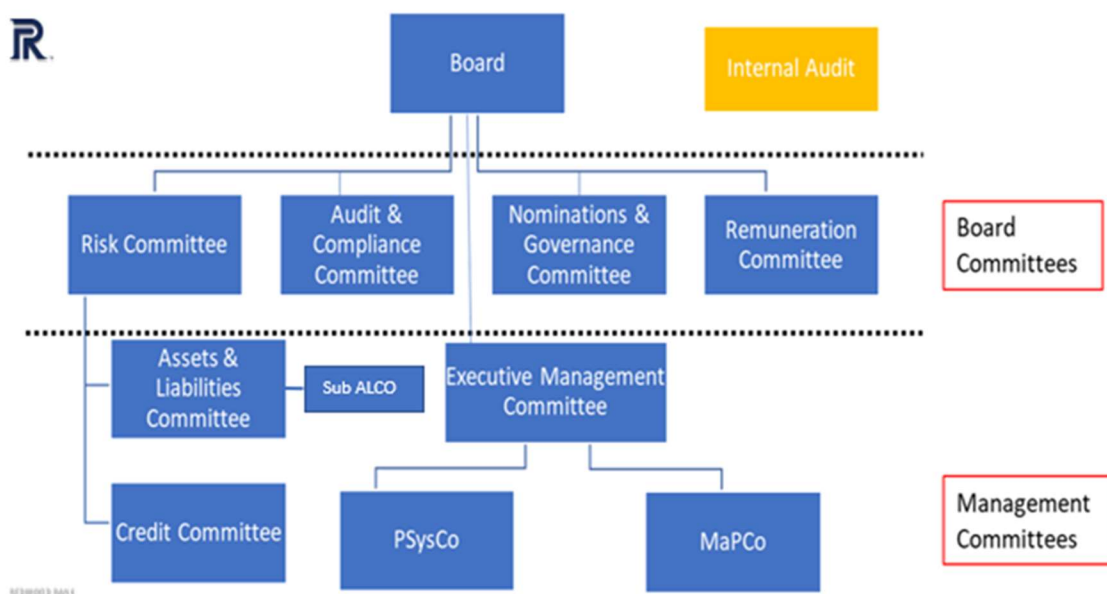


Figure 1

3.3 Risk Management Objectives

The risk management objectives of the Bank are to:

- Protect the interests of all stakeholders in the Bank.
- Identify and evaluate the major risks facing the Bank.
- Take action to mitigate the impact of these risks where appropriate.
- Report identified risks and actions to the Risk Committee.
- Integrate risk management into the culture of the Bank.
- Fully document major threats and opportunities.
- Implement cost effective actions to reduce risks.
- Maintain, update and revise a register of risks and their controls.
- Record and report losses and “near miss” events.
- Maintain a record of breaches of Risk Management Policy and controls.

3.4 Risk Identification

Identification of risks is the first stage of the risk management process. The following processes ensure that all risks are identified in a timely manner:

- Risk Committee review the Risk Register at least twice yearly to ensure that the Register includes all current and emergent risks facing the Bank.
- Internal Audit, External Audit and other relevant external reports are assessed for risks that may need to be included in the Risk Register.
- All staff members are encouraged to bring to the attention of Risk and Compliance any new and/or potential emergent risk.
- The Bank has a whistleblowing policy which encourages staff to report issues of concern to the whistleblowing champion who is an independent non-executive director.

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Managers, or their nominated deputies, are required to work with the Risk and Compliance team to identify the specific risks within their areas of responsibility, their likelihood and impact, and to specify how these risks will be controlled and their consequences reduced. This forms the basis of the Risk Register, which details the Bank's risks.

At least twice yearly, all risk owners are required to attest to the accuracy of the Risk Register regarding the probability and impact scores of each risk and the effectiveness of the controls which manage these risks.

3.5 Risk Categorisation

The Risk Management Framework identifies seven different risk categories into which all identified risks are allocated as per Table 1 below:

Table 1 : Risk categories

Risk Category	Definition
Credit and Concentration	The risk of loss from a business customer (SME) or wholesale counterparty either defaulting on their debt or failing to make timely repayments of a loan. The risk to the Bank from having concentrations of funding from, or lending to, a number of individuals or groups with similar risk characteristics, e.g. geographic area, industry type or product type etc
Financial	
Interest Rate	The risk to economic value or net interest margin from unfavourable movements in interest rates due to re-pricing date mismatches between assets and liabilities and interest rate basis mismatches between assets and liabilities (basis risk)
Liquidity	The risk that the Bank has insufficient financial resources to meet its liabilities as they fall due, or, where financial resources are available, they can only be secured at excessive cost.
Funding	The risk of inadequate funding profile or sources to support the Bank's lending activity
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
Compliance & Regulatory Risk	The risk arising from customers, counterparties, shareholders, investors or regulators having a negative perception of the Bank which could adversely affect the Bank's ability to achieve its strategic plan or even lead to the Bank becoming unviable.
Business and Strategy Risk	The risk that the Bank may not be able to deliver its strategic objectives due to changes in its business environment.
Conduct Risk	The risk that the Bank's behaviours, culture and approach lead to poor outcomes for customers, damage the integrity of or trust in the Bank, or harm market integrity or fair competition

3.6 Internal Control Framework

The Risk Committee and ACC are both Board sub-committees whose members comprise Non-Executive Directors, with the CEO and CFO and General Counsel also attending the Risk Committee. The Risk and Compliance Department is the independent second line of defence with the Chief Risk Officer reporting both to the CEO, but also directly to the Chairs of the ACC and the Risk Committee. Assurance is provided by RSM Risk Assurance Services, who carry out independent reviews on behalf of the Risk and Compliance Department. The reviews are scheduled using risk-based prioritisation and schedule risks to be addressed annually, every two years or every three years for a rolling three-year cycle, ensuring the coverage of all risks.

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3.7 Compliance

The Chief Risk Officer has accountability and responsibility for the Compliance function within the Bank. The Bank operates a standard “Three Lines of Defence” model, whereby compliance responsibility as the “First Line” of defence remains with the front-line business and operating departments, and with the Senior Management thereof. The Compliance function comprises the “Second Line” of defence, and has responsibility for providing compliance advice and expertise, and carrying out reviews and sign-off of new products/customer documentation etc.

3.8 Internal Audit

Internal audit comprises the “Third Line” of defence. The Internal Audit function, but not its ultimate accountability which resides with the Audit and Compliance Committee, is outsourced to Deloitte. The Bank and its internal audit partner together continuously develop and refine an annual Internal Audit Plan, which is presented to, and approved by, the Audit & Compliance Committee. The Bank meets with Deloitte on a regular basis to review the Audit Plan and the internal auditors complete the audits as per the agreed plan.

4. Risk Governance & Organisational Structure

Risk governance refers to the processes and structures established by the Board, to ensure that risks are taken within the approved appetite, with clear delineation between risk taking and oversight responsibilities.

The Bank has established a structural approach to risk governance, ensuring an effective level of alignment between oversight and management responsibility for risk. The risk governance structure has clearly defined roles and responsibilities for Board and Management committees, control functions and the accountable executives. The risk-based roles and responsibilities are organised in adherence to the 'three lines of defence' principle to ensure appropriate levels of segregation.

The Bank's risk governance framework is summarised in the diagram below.

Figure 2 - Board Composition

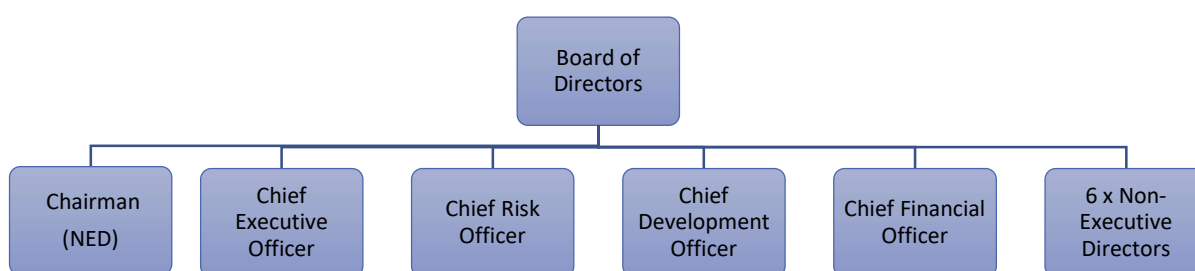


Figure 3 - Board Committees

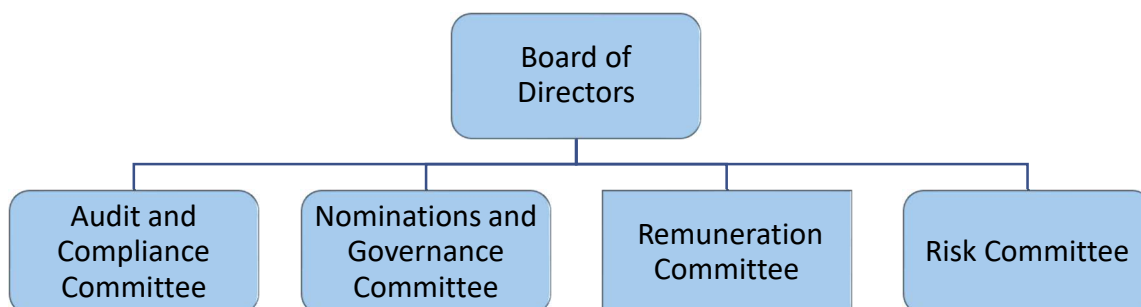


Table 2: Board Committees

Committee	Main objectives and responsibilities
Audit & Compliance Committee	On behalf of the Board the Committee is responsible for reviewing the work of the Compliance, Internal Audit and External Audit functions, including the establishment of work programmes, the review of all reports produced and the assessment of the effectiveness of these functions. The Committee will be responsible for making recommendations to the Board in respect of the appointment of the Internal and External Auditors and their terms of engagement.
Risk Committee	On behalf of the Board the Committee is responsible for reviewing all risks arising from the Bank's activities. The Committee reviews the Bank's ICAAP, ILAAP, Recovery Plan, Resolution Pack and Pillar 3 documents and recommends these to the Board for approval. The Committee is responsible for assessing and sanctioning lending recommendations made by the Credit Committee that fall outside any limits contained within the lending policy. The Committee is also responsible for reviewing risk appetite, risk management information and risk assessments to ensure that all risks are well understood and managed.
Nominations & Governance Committee	On behalf of the Board the Committee is responsible for considering and making recommendations to the Board in respect of appointments to the Board, membership and chairmanship of Board Committees, regulatory and strategic developments in corporate governance and for monitoring the governance arrangements of the Bank and the consideration of succession planning and development programmes, and the composition of the Board.
Remuneration Committee	On behalf of the Board, the Committee is responsible for overseeing the appointment, remuneration and other benefits of all Directors and Executive Management. The Committee will make recommendations as appropriate to the Board concerning such matters, including the implementation of any bonus schemes

Table 3: Executive Committees

Committee	Main objectives and responsibilities
Assets & Liabilities Committee	The Assets & Liabilities Committee ("ALCO") is an executive committee established by the Board to monitor the liquidity, financial and interest rate risk management, funding and net interest margin of the Company on an on-going basis within the framework of the Business Plan, and the Policies recommended by this committee are approved by the Risk Committee.
Sub Assets & Liabilities Committee	The Sub Assets & Liabilities Committee ("Sub-ALCO") is a sub-committee of the Assets & Liabilities Committee ("ALCO"), established by ALCO to challenge and authorise the submission of prudential regulatory returns and oversee the regulatory reporting of the Bank.
Credit Committee	The Credit Committee is an executive committee established by the Board and has been established to manage and monitor the lending activities of the Bank on a day-to-day basis. It has been authorised to do so by the Risk Committee within the framework of the Business Plan and the Policies approved by the Risk Committee. The Credit Committee will regularly review and opine on specific lending requests from customers and in addition meet monthly to undertake its wider responsibilities.
Executive Management Committee	The Executive Management Committee ("EXCO") is an Executive Committee established by the Board to manage the activities of the Bank on an on-going basis, within the framework of the Business Plan and subject to the overall control of the Board. The Exco is responsible for approving the Terms of Reference and responsibilities of the Marketing & Product Committee, and the Project & Systems Development Committee, and receives Minutes from these Committees.
Project & Systems Development Committee	The Project & Systems Development Committee is a Sub-Committee EXCO established to determine the IT requirements and major projects of the Bank and to ensure these are delivered on an on-going basis. The Committee is responsible for making recommendations to EXCO in respect of the IT requirements of the Bank, including the development of change activities and related projects in accordance with the Business Plan and budget.
Marketing & Products	The Marketing & Products Committee is a Sub-Committee of the EXCO established to develop

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Committee	new and existing products and marketing activity to support the Bank's Business Plan. The Committee is responsible for making recommendations to EXCO in respect of new and existing products, marketing activities and materials and brand development for the Bank. The Committee is responsible for considering the customer journey and conduct risk related to these activities.
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Risk Categories

The Bank's risk profile has been managed in accordance with Board approved risk appetite.

Credit and Concentration Risk

The Bank's primary aim is to lend to small and medium sized enterprises. The Bank had three main lending products as at 31 December 2019:

- (i) *SME Owner/Occupier Mortgages* - mainstream commercial mortgages to business owners, secured over commercial property. This product covers general industrial & distribution businesses, , retail premises , offices, leisure, smaller hotels, guesthouses and bed and breakfast businesses and trading assets that are modern and purpose built.
- (ii) *SME Property Investment Mortgages* - secured mainstream commercial or residential buy-to let mortgages to experienced property investors. Commercial Investment property portfolios are required to have good tenant profiles and/or a wide spread of tenant risk.
- (iii) *SME Property Refurbishment* – an initial refurbishment loan, coupled with a long-term investment mortgage as above.

All loans are secured, with UK commercial or residential real estate as the primary security, either freehold, or leasehold with an unexpired term of at least 75 years over the term of the mortgage agreed. The loans are for terms between 2 and 25 years (maximum for commercial property) or 30 years (maximum for residential property).

The Bank monitors the geographical and sectoral concentration of its loan book against limits set out in the Bank's lending policy.

The Bank has a low tolerance for credit losses, but some losses are inevitable in any lending portfolio. The Bank has not recorded any default or any credit risk related losses in 2019. The Bank recorded one impaired loan, with an outstanding balance of £643k at the end of the year.

As at 31 December 2019 the Bank had counterparty exposure to one wholesale counterparty in the UK, rated BBB+ by Fitch. The Bank had no derivatives transactions outstanding as at 31 December 2019. The Bank also had exposure to the UK government in respect of its holdings of UK Gilts and Treasury Bills.

Financial - Liquidity & Funding Risk

The Bank has a prudent approach to liquidity management through maintaining sufficient liquidity resources to meet cash flow obligations in both normal and stressed conditions. The Bank has set a liquidity risk appetite to ensure that it always operates above the minimum prudential requirements.

The Bank holds a portfolio of High-Quality Liquid Assets (HQLA) and has a Bank of England Reserve Account, which is used to hold liquidity.

During the course of 2019 the Bank actively managed its liquidity and funding profile within the confines of its risk appetite as set out in its risk policies and reviewed in its Individual Liquidity Adequacy Assessment Process (ILAAP).

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Financial - Interest Rate Risk in the Banking Book

The Bank does not actively assume interest rate risk and does not seek to take a significant directional interest rate position. Limits have been set to protect earnings and market value from fluctuations in interest rates. Capital has been allocated for this risk, expressed as a variable capital add-on under Pillar 2, and is related to the Bank's risk-weighted assets.

Capital allocation for interest rate risk in the banking book has been set in proportion to CET1 capital, with exposure assessed monitored and reported daily. The balance sheet is also analysed for basis risk and reported against risk appetite to ALCO monthly, with oversight provided by the Risk Committee. Redwood Bank does not have a trading book.

The Bank is exposed to Basis Risk which arises from assets and liabilities re-pricing with reference to different interest rate indices, including positions which reference variable market, central bank policy and managed rates. As with interest rate risk, the Bank does not seek to take a significant basis risk position but maintains defined limits to allow operational flexibility. Risk appetite for basis risk is set out in the Bank's policy statements which are approved by Risk Committee and ratified by the Board.

The Bank's assets and liabilities are all denominated in sterling and the Bank has no exposure to movements in foreign exchange rates or overseas interest rates.

Financial – Market risk

The Bank is not exposed to Market Risk as it does not operate a Trading book.

Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. These could arise from information technology, cyber, information security, tax, legal, fraud and compliance risks.

The Bank has adopted the Basic Indicator Approach to operational risk, and thus will hold, as a minimum, capital against the risk equal to 15% of the projected three-year average net operating income (net interest income plus fees and commissions).

The Bank held Pillar 1 capital against this risk of £2,142,340 as at 31 December 2019.

The first line of defence is responsible for the management of operational risk in accordance with policies, governance, agreed processes and controls. The second line of defence provides oversight and challenge, supplemented by a programme of regular assurance testing. The third line of defence (internal audit) provides an independent overview of key operational risk controls and frameworks via an agreed programme of audits.

The Bank has established a risk management framework, supported by clear policies which are designed to ensure the Bank operates within a low risk appetite for operational risk. Monitoring and reporting of the overall risk profile is undertaken via operationally focused committees reporting into the Executive Management Committee and the Risk Committee.

Compliance and Regulatory Risk

The Bank is committed to the highest standards of regulatory conduct and aims to minimise breaches, financial costs and reputational damage associated with non-compliance.

The Bank has established a compliance function which actively identifies, assesses and monitors adherence with current regulation and the impact of emerging regulation.

The Bank maintains a proactive relationship with key regulators, engages with industry bodies such as the Banking Standards Board and UK Finance, and seeks external advice from our professional advisors. The Bank also assesses the impact of upstream regulation on its business and the wider markets in which it operates and undertakes robust assurance assessments from within the Risk and Compliance functions.

Business & Strategy Risk

The Board has clearly articulated the Bank's strategic vision and business objectives underpinned by performance targets. The Bank does not intend to undertake any medium to long term strategic actions which would put at risk the Bank's vision of being a leading specialist lender in its chosen markets and being backed by a strong and dependable saving franchise.

To deliver against its strategic objectives and Business Plan, the Bank has adopted a resilient and efficient business operating model based on a focused approach to core niche markets, where its experience and capabilities give it a clear competitive advantage.

The Bank remains highly focused on delivering against its core strategic objectives and strengthening its market position further through strong and sustainable financial performance.

The Bank has maintained an appropriate level and quality of capital to support its growth objectives and to meet its prudential requirements

The Board requires that the Bank will maintain capital resources equivalent to the greater of the prevailing regulatory Total Capital Requirement (TCR) plus CRD IV buffers, or the Bank's own internal estimates of its capital requirements. In order to ensure that regulatory limits are not breached, the Bank sets internal limits above the regulatory limits.

It is fully expected that in the early start up years the Bank will incur pre-tax losses. However, once the Bank reaches sustained annual profitability, going forward it should maintain pre-tax profitability throughout any economic cycle, including any downturn.

There is a comprehensive capital management plan in place, including the Internal Capital Adequacy Assessment Process (ICAAP) which ensures appropriate capital and leverage ratios are maintained.

Reputation / Franchise Risk

The Bank recognises that maintaining customer and market confidence in the Bank is critical for its continued operation and viability. As such, all business decisions are taken after due consideration of the potential impact on the Bank's reputation. Reputation/franchise risk is considered across all the Bank's key risk management documents.

Conduct Risk

Conduct risk is the risk that the Bank's behaviours, culture and approach lead to poor outcomes for customers, damage the integrity of or trust in the Bank, or harm market integrity or fair competition. The Bank views effective conduct risk management as a core feature of its risk culture and values, and its risk appetite statement sets out that the Bank will act in the best interests of customers at all times. It will comply fully with all laws and regulations relating to the conduct of its business and will ensure that customers are treated fairly, responsibly and with respect.

On an isolated basis, incidents can result in customer detriment due to human and/or operational failures. Where such incidents occur, they are thoroughly investigated, and the appropriate remedial actions are taken to address any customer detriment and to prevent recurrence.

The Bank monitors measures which assess whether products have been appropriately designed, levels of complaints and expressions of dissatisfaction, customer satisfaction scores and other feedback. Employee training and awareness is carried out as part of the annual programme of training for all staff.

Risk Based Submissions

The Bank undertakes a comprehensive review of its current and projected risk profiles based on expected and stressed market and economic conditions. The three-primary risk-based annual planning exercises are the annual review of the strategic plan, the ICAAP and the ILAAP. The strategic plan describes the Bank's strategic direction for the planning horizon (5 years) including product and marketing strategies, culture, brand and brand values, competitor analysis, risk appetite and management, governance, operational requirements, financial forecasts and scenario analysis. The ICAAP informs the Board's and management's view on the level and quality of capital needed to meet the prudential and risk-based capital requirements over the planning horizon under base and stress scenarios. The ICAAP is an integral input into the PRA's supervisory review process (C-SREP) and forms the basis upon which the Bank's capital guidance is set. The ILAAP informs the Board's view on the Bank's level and quality of liquidity buffer and liquidity management framework. It is an input to the PRA's L-SREP process, which leads to regulatory liquidity buffer guidance (ILG).

The Bank also reviews and updates its Recovery Plan and Resolution Pack, normally on an annual basis. The review is designed to ensure that the Bank's Recovery Plan is credible and can be implemented in a time of stress. The Bank's recovery options are assessed for feasibility and time to implementation under stressed conditions. The Bank has identified a suite of early warning indicators and triggers which inform the nature and type of recovery options which would be put in place. The Resolution Pack provides the regulatory authorities with information and analysis on the Bank's businesses, organisation and structures to facilitate an orderly resolution should it become necessary.

Recovery Plan and the Resolution Pack

The Bank is committed to developing and maintaining the Recovery Plan and the Resolution Pack as a core component of its risk management framework.

The recovery plan process is designed to ensure that the Bank's recovery plan is credible and can be implemented in a time of stress. The Bank's recovery options must be appropriate to ensure its survival and the Bank must be able to execute these options in a timely manner. The Bank has developed a suite of indicators and triggers to ensure it can become aware of, and react to, a firm specific, market wide or combined stress in time to apply remedial actions to ensure the Bank does not fail. These indicators have been set considering the information gathered as part of the Bank's ICAAP and ILAAP updates.

Resolution planning is the provision of information and analysis to the authorities, in order to help them prepare a resolution plan for the Bank.

The Bank's Recovery Plan and Resolution Pack have been reviewed and approved by the Board.

5. Overview of risk management, key prudential metrics and RWA

As at the 31st December 2019 the Bank comfortably met all its regulatory requirements on Capital and Liquidity.

Table 4: Overview of prudential metrics

		2019	2018
Available capital (amounts)			
1	Common Equity Tier 1 (CET1)	25,830,817	15,052,746
1a	Fully loaded ECL accounting model	25,830,817	15,052,746
2	Tier 1	25,830,817	15,052,746
2a	Fully loaded ECL accounting model Tier 1	25,830,817	15,052,746
3	Total capital	26,211,691	15,147,620
3a	Fully loaded ECL accounting model regulatory capital	26,211,691	15,147,620
Risk-weighted assets (amounts)			
4	Total risk-weighted assets (RWA)	114,001,332	52,495,810
Risk-based capital ratios as a percentage of RWA			
5	Common Equity Tier 1 ratio (%)	20.08%	22.83%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	20.08%	22.83%
6	Tier 1 ratio (%)	20.08%	22.83%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	20.08%	22.83%
7	Total capital ratio (%)	20.38%	22.99%
7a	Fully loaded ECL accounting model total capital ratio (%)	20.38%	22.99%
Additional CET1 buffer requirements as a percentage of RWA			
8	Capital conservation buffer requirement (2.5% @ 31/12/2019) (%)	2.50%	1.875%
9	Countercyclical buffer requirement (%)	1.00%	1.00%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0%	0%
11	Total of Bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	3.50%	2.875%
12	CET1 available after meeting the Bank's minimum capital requirements (%)	4.09%	8.275%

Basel III Leverage Ratio			
13	Total Basel III Leverage ratio exposure measure	264,626,187	143,250,300
14	Basel III leverage ratio (%) (row 2 / row 13)	9.76%	10.51%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 3 / row 13)	9.91%	10.51%

Liquidity Coverage Ratio			
15	Total HQLA	84,588,399	56,205,459
16	Total net cash outflows	18,699,805	16,501,130
17	LCR ratio (%)	541.05%	391.32%
18	NSFR (%)	170.9%	193.4%

Table 5: Capital Resources summarises the composition of regulatory capital resources as of 31 December 2019. The Bank's capital resources are in the majority composed off CET1 eligible capital and comfortably complied with all capital requirements to which it is subject, for the year ended December 2019.

Table 5: Capital Resources

	2019 £	2018 £
Common equity tier 1 capital		
Called up share capital	111	111
Share premium / Capital contribution	34,822,405	22,822,405
Retained earnings	8,753,208	7,524,465
Other reserves	42,763	23,776
Deductions from common equity tier 1 capital		
Intangible assets	191,854	217,654
Tier 2 capital	3,874	3,874
Common equity tier 1 capital	25,830,817	15,052,747
Total Tier 1 Capital	25,830,817	15,052,747
Tier 2 capital	3,874	3,874
Paid up capital instruments	3,874	3,874
General loan provisions	377,000	91,000
Total Tier 2 Capital	380,874	94,874
Total regulatory capital	26,211,691	15,147,621

6. Capital requirements

Redwood will maintain a strong and healthy capital position at all times and has set a number of internal triggers to ensure no regulatory requirements are breached. As a result, the Bank maintains capital adequacy ratios above minimum regulatory requirements.

The Bank was operating under a prescribed Total Capital Requirement (TCR) of 12.49% for the year ended 31 December 2019 made up as follows.

Table 6: Capital Requirements

Requirement	Calculation Method	Description	Requirements
Pillar 1			
Credit Risk	Standardised Approach	The Bank applies the standardised method to the entire loan book and other assets. The standardised approach applies a prescribed set of risk weightings to credit risk exposures.	Pillar 1 Requirements (per article 92 of the CRR): 4.5% of RWAs met by CET1 capital 6.0% of RWAs met by Tier 1 Capital 8.0% of RWAs met by total capital.
Market Risk	N/A	The Bank does not operate a trading book and any financial market transactions such as derivatives will only be entered into to hedge the Bank's balance sheet. Therefore, market risk has not been considered in the Bank's capital adequacy calculations.	
Operational Risk	Basic Indicator Approach	The Bank applies the BIA for operational risk capital requirements in accordance with CRR Article 315. A 15% multiplier is applied to the historical average net interest and fee income of the last two years and the next forecast year (per Article 315 (2) of the CRR).	
Credit Valuation Adjustment (CVA)	N/A	Not applicable as Redwood Bank had no derivatives transactions as at 31 December 2019	

Pillar 2			
Pillar 2A	Additional capital is held under Pillar 2 for risks either not captured or not fully captured under Pillar 1. At least annually the Bank undertakes a detailed, forward-looking assessment of capital adequacy in order to assess the Pillar 2 capital requirement. This exercise is part of the ICAAP. Based on the results of the ICAAP the PRA determines the Bank's required TCR which is the Pillar 1 and Pillar 2A requirement.	Expressed as a percentage of RWAs.	Supervisory Statement 31/15 requires banks to disclose the amount and quality of its TCR. Redwood Bank's TCR is 12.49%. At least 56.0% of this must be met with CET 1.
Buffers			
Capital Conservation Buffer (CCoB)	Expressed as a percentage of RWAs.	The capital conservation buffer is part of the CRD IV combined buffer. It is held in combination with the counter-cyclical buffer and the PRA buffer to ensure the Bank can withstand an adverse market stress. To be met with CET1 capital.	2.5% of RWAs
Counter Cyclical Buffer (CCyB)	Expressed as a percentage of RWAs for a specific jurisdiction. In accordance with Regulation (EU) 1152/2014, as foreign credit exposures represent less than 2% aggregate risk weighted exposures, all exposures have been allocated to the UK, as such no other CCyB is applicable to Redwood Bank.		1.0% of RWAs.
PRA Buffer	Expressed as a percentage of RWAs.	The PRA buffer, in combination with the CRD IV combined buffer, is held to ensure the Bank can withstand an adverse market stress. The PRA buffer must be met fully with CET 1 capital.	The PRA buffer is set by the PRA and is not disclosed.

The following table shows the Risk Weighted Assets (RWA) in accordance with the standardised approach to credit risk and the Pillar 1 capital requirement for each of the standardised credit risk exposure classes. The table also shows the Bank's capital requirements due to Operational risk requirements, calculated in accordance with the basic indicator approach.

Table 7: Pillar 1 capital requirements

	2019		2018	
	Risk Weighted Assets	Capital Requirements	Risk Weighted Assets	Capital Requirements
Standardised Exposure Classes	£	£	£	£
Central government and central Banks				
Regional governments or local authorities				
Administrative bodies and non-commercial				
Multilateral development Banks				
International organisations				
Institutions	425,199	34,016	334,991	26,799
Corporates				
Retail				
Secured by mortgages on residential property	26,921,059	2,153,685	13,274,257	1,061,941
Secured by mortgages on commercial real estate	85,870,604	6,869,648	38,181,083	3,054,487
Past due				
Regulatory high-risk categories				
Covered bonds				
Securitisation positions				
Short-term claims on institutions and corporates				
Collective Investment Undertakings (CIUs)				
Other items	784,469	62,757	705,480	56,238
Total Credit Risk	114,001,332	9,120,107	52,495,810	4,199,665
Operational Risk - Basic Indicator Approach	14,611,306	1,168,904	13,398,025	1,071,842
Total Pillar 1 Risk Weighted Assets / Capital Requirement	128,612,638	10,289,011	65,893,829	5,271,506

Large Exposures

The Bank has established a conservative internal exposure limit of £3m at an individual asset level and £5m on an aggregate exposure level). As at 31 December 2019 this internal threshold is lower than the Large Exposure maximum as per Article 395 of the CRR.

As per Article 392 of the CRR the Bank report on any connected exposure higher than 10% of Total Capital. As of 31 December 2019, there were 10 (2018: 13) connected exposures over 10% of Capital, with the highest exposure being 22.1% (2018: 20.3%) of Total Capital.

7. Credit Risk

This section provides detailed information regarding the Bank's exposure to credit risk.

Definition of past due and impaired

For regulatory purposes, a financial asset is considered as past due when the contractual payment is overdue for more than three months or has an impairment provision against it. For accounting purposes, a financial asset is treated as past due and then impaired when there is objective evidence that impairment exists either individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Provisions under regulatory rules are calculated on the same basis as impairment provisions, and so all provisions for impaired loans and advances are referred to as impairment provisions.

Details of past due and impaired loans as at 31 December 2019 are presented in Table 7 below.

Impairment of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Table 8: Impaired, past due, provisions and provision charges by counterparty type

Counterparty Type 2019	Gross impaired loans £'000	Gross past due loans £'000	Impairment provisions £'000	Charges for impairment provisions during the year £'000
Loans	618	618	382	305
Debt Securities	-	-	-	-
Off-balance sheet exposures	-	-	-	-
Total	618	618	382	305

Counterparty Type 2018	Gross impaired loans £'000	Gross past due loans £'000	Impairment provisions £'000	Charges for impairment provisions during the year £'000
Loans	835	835	241	241
Debt Securities	-	-	-	-
Off-balance sheet exposures	-	-	-	-
Total	835	835	241	241

Redwood Bank Pillar 3 Disclosures for the year ended 31 December 2019
Table 9: Reconciliation of changes in provisions for impaired exposures

2019 Impairment provisions	£'000
Opening balance as at 1 January 2019	241
Write offs in year	(164)
Disposals	-
Transfers between reserves	-
Charge/(credit) for the year net of recoveries	305
31 December 2019	382
2018 Impairment provisions	£'000
Opening balance as at 1 January 2018	-
Write offs in year	-
Disposals	-
Transfers between reserves	-
Charge/(credit) for the year net of recoveries	241
31 December 2018	241

Credit risk exposure breakdowns

The following tables show the Bank's credit risk exposure as at 31 December 2019.

Table 10: Credit risk exposure, Credit Conversion Factor (CCF) and Credit Risk Mitigation (CRM) effects

Standardised Exposure Classes	Exposures before CCF and CRM		Exposures after CCF and CRM		After applying SME factor	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Central government and central Banks	84,588,128		84,588,128		-	0%
Regional governments or local authorities						
Administrative bodies and non-commercial						
Multilateral development Banks						
International organisations						
Institutions	2,125,997		2,125,997		425,199	0.37%
Corporates						
Retail						
Secured by mortgages on residential property	75,498,013	9,447,149	75,474,063	1,443,250	26,921,059	23.61%
Secured by mortgages on commercial real estate	96,630,632	19,137,734	96,625,479	2,847,434	85,870,604	75.32%
Past due						
High risk						
Covered bonds						
Securitisation positions						
Short-term claims on institutions and corporates						
Collective Investment Undertakings (CIUs)						
Other items	784,739		808,689		784,469	0.69%
Total	259,627,508	28,584,883	259,622,357	4,290,683	114,001,332	100%

Table 11: Assets by RWA category

	0%	10%	20%	35%	50%	75%	100%	150%	Other	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central Banks	84,588,128									-
Non-central government public sector entities (PSEs)										
Multilateral development Banks (MDBs)										
Banks			2,125,997							425,199
Securities firms										
Corporates										
Regulatory retail portfolios										
Secured by residential property				84,945,162						26,921,059
Secured by commercial real estate							115,768,366			85,870,604
Equity										
Past-due loans										
Higher-risk categories										
Other assets	17,521						784,469			784,469
Total	84,605,649	0	2,125,997	84,945,162	0	0	116,552,835	0	0	114,001,332

Use of External Credit Assessment Institutions (ECAIs)

The Bank subscribes to Fitch Ratings (Fitch), a PRA recognised ECAI. Ratings assessments provided by Fitch are used by the Bank to establish counterparty credit risk weightings using the PRA standardised approach.

The table below map the ECAI's credit assessment ratings to credit quality steps in order to establish the appropriate risk weightings for the rated credit exposures.

Table 12: Short term claims on Institutions and Corporates

Credit Quality Step	Fitch	Moody	S&P	Risk	Exposure	Exposure
				Weight	2019	2018
					£	£
1	AAA to AA-	AAA to AA-	Aaa to Aa3	20%	0	-
2	A+ to A-	A+ to A-	A1 to A3	20%	2,125,997	-
3	BBB+ to BBB-	BBB+ to BBB-	Baa1 to	20%	-	1,674,954
4	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	50%	-	-
5	B+ to B-	B+ to B-	B1 to B3	50%	-	-
6	CCC+ and below	CCC+ and Below	Caa1 and below	150%	-	-
Total					2,125,997	1,674,954

Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk is the risk that the fair value or future cash flows of the Bank's assets and liabilities will fluctuate because of changes in market interest rates.

The Bank is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature.

The Bank measures IRRBB by applying a 2% parallel shift (upwards and downwards) to interest rates and measuring the fair value of the Bank's assets and liabilities under such interest rate environment.

The Bank's assets are linked to Base Rate and deposits are self-administered, which are highly correlated, which greatly reduces the calculated fair-value IRRBB exposure. The Bank has set internal limits to IRRBB well below the regulatory maximum of 20% of Total Capital and the Bank's exposure to a 2% parallel shift in interest rates was, at the end of December 2019, £416k (2018: £210k). This was comfortably below the Bank's appetite for IRRBB. The Bank will consider the use of Interest Rate Swaps to maintain IRRBB within approved limits but has yet to transact any such derivative products.

Securitisation Treatment

As of December 2019, and December 2018, the Bank had no economic interest in any Securitisation vehicle.

Asset Encumbrance

With the exception of £50k collateral held against the Bank's credit card facility, all of the Bank's assets are unencumbered as of 31 December 2019 and 31 December 2018.

Operational Risk

The operational risk capital requirement is calculated under the Basic Indicator Approach as 15 per cent of the three-year average of the Bank's annual gross income. In addition, the Bank maintains levels of operational risk capital consistent with any Pillar 2A adjustment identified through the ICAAP. For new Banks and where historical data is not available, the relevant indicator is taken from the business internal budget and forecasting exercise. As historical data becomes available this will replace business estimates in the calculation of the operational risk requirement under the BIA method.

8. Liquidity Risk

Liquidity is actively monitored on a daily basis by the Bank's Treasury function and reported on a monthly basis through the Asset and Liability Committee and the Board. A range of early warning indicators are monitored for early signs of liquidity risk. These include a range of quantitative and qualitative measures that include the close monitoring of the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

Liquidity Coverage Ratio (LCR)

The Bank's LCR as at the 31st December 2019 was 541.05% (2018: 391.32%). The Bank's HQLA was entirely composed of UK Sovereign Debt securities and cash held in the Bank's Reserve Account with the Bank of England.

Table 13: Liquidity Coverage Ratio (2019)

		Total unweighted amount	Total weighted amount
High-quality liquid assets			
1	Total HQLA	84,588,399	84,588,399
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:		
3	Stable deposits		
4	Less stable deposits	9,737,131	8,695,096
5	Unsecured wholesale funding, of which:		
6	Operational deposits (all counterparties) and deposits in networks of cooperative Banks		
7	Non-operational deposits (all counterparties)		
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which:		
11	Outflows related to derivative exposures and other collateral requirements		
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities		
14	Other contractual funding obligations	28,584,883	10,004,709
15	Other contingent funding obligations		
16	TOTAL CASH OUTFLOWS	38,322,014	18,699,805
Cash inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	1,014,778	
19	Other cash inflows	2,050,997	
20	TOTAL CASH INFLOWS		3,065,775
			Total adjusted value
21	Total HQLA		84,588,399
22	Total net cash outflows		15,634,030
23	Liquidity Coverage Ratio (%)		541.05%

Table 14: Liquidity Coverage Ratio (2018)

2018		Total unweighted amount	Total weighted amount
High-quality liquid assets			
1	Total HQLA	56,205,459	56,205,459
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:		
3	Stable deposits		
4	Less stable deposits	7,356,659	7,001,127
5	Unsecured wholesale funding, of which:		
6	Operational deposits (all counterparties) and deposits in networks of cooperative Banks		
7	Non-operational deposits (all counterparties		
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which:		
11	Outflows related to derivative exposures and other collateral requirements		
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities		
14	Other contractual funding obligations	27,142,865	9,500,003
15	Other contingent funding obligations		
16	TOTAL CASH OUTFLOWS	34,499,524	16,501,130
Cash inflows			
17	Secured lending (eg reverse repos)		
18	Inflows from fully performing exposures	513,083	
19	Other cash inflows	1,624,954	
20	TOTAL CASH INFLOWS		2,138,037
			Total adjusted value
21	Total HQLA		56,205,459
22	Total net cash outflows		14,363,093
23	Liquidity Coverage Ratio (%)		391.32%

Net Stable Funding Ratio (NSFR)

The Bank's NSFR aims to ensure that the Group has an acceptable amount of stable funding to support assets over a one-year period of extended stress. Based on current interpretations of regulatory requirements and guidance, the NSFR as at 31 December 2019 is 170.9% (2018: 193.38%). This is more than the minimum level of 100% required by the Basel Committee on Banking Supervision and European Commission.

Table 15: Net Stable Funding Ratio

£		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
Available stable funding (ASF) item						
1	Capital:	26,211,628				26,211,628
4	Retail deposits and deposits from small business customers:		162,437,296	46,648,062		188,176,822
6	<i>Less stable deposits</i>		21,370,250			10,685,125
14	Total ASF					225,073,575
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)		11,995,980	32,801,890	5,324,078	1,906,298
16	Deposits held at other financial institutions for operational purposes	2,091,280	50,000			363,692
20	<i>Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:</i>		1,593,814	1,802,936	168,218,700	128,112,518
31	<i>All other assets not included in the above categories</i>	1,341,152				1,341,152
32	Off-balance sheet items	28,584,883				1,429,244
33	Total RSF					131,723,661
34	Net Stable Funding Ratio (%)					170.9%

9. Emerging Risks

Covid-19 Pandemic

An emerging risk that the Bank faces is the impact of the COVID-19 outbreak. At the time of publishing this Pillar 3 document, the world is experiencing unprecedented disruption caused by the COVID-19 pandemic. This represents not only a public health and economic crisis, but a massive societal upheaval that is touching each and every one of us. The Board will continue to assess the impact of COVID-19 on the Bank and its business model as well as undertaking stress tests in line with regulatory guidance. The Bank is assessing its growth plans in line with new information becoming available. The employees of the Bank continue to work remotely with minimal disruptions, mainly due to the Bank's cloud-based infrastructure.

The Covid-19 pandemic has created significant uncertainty as to both the short- and longer-term impact on the Bank. As a cloud based Bank the operational change of staff working from home and the closure of the Bank's two offices have been managed well and the Bank has continued to operate efficiently and effectively, and has remained open to service both current and potential new customers. The Bank has performed both a number of new sensitivity analyses which cover a range of potential outcomes and also used the stress test modelling utilised through the Bank's current ICAAP. Regular Management Information is provided to both senior management and the Board to enable an ongoing assessment of the impact of the COVID-19 outbreak and to enable suitable action to be taken. Risk mitigation steps have been undertaken with Board approved actions taken on pricing and credit assessment as needed and through accessing the proposed funding schemes announced by the Bank of England including the Term Funding Scheme for SMEs (TFSME).

Redwood has been pleased to immediately pass on in full the recent interest rate decreases to their lending customers and continues to ensure that the Bank treats all of its customers fairly throughout this exceptional situation.

Cyber Risk

Cyber risk continues to be an area of key focus. The Banks aims to maintain robust cyber security systems and control measures, and to achieve a low level of risk in both of these areas.

We continue to develop and embed our approach to managing cyber risk across the Bank, learning from intelligence sources and industry peers to identify new and emerging cyber risks. We use a combination of techniques to manage our cyber risk profile, enabling us to stay ahead of the continuously evolving threat of cyber-attacks in order to protect our customers and the Bank.

Operational Resilience

Safe and resilient operations remain vital to banks and the financial services sector. Increasing external complexities compound the risk exposure across the industry. At Redwood, we are committed to investing in the continued enhancement of resilience controls and capabilities, so that we can continue to deliver consistently excellent service to our customers.

Operational resilience is high on the regulatory agenda and The Bank of England ('BoE'), FCA and PRA have, on 5 December 2019, released a shared policy summary and co-ordinated consultation papers on requirements to strengthen operational resilience in the financial services sector, further indicating that this is a key priority for 2020 and beyond.

The Bank faces a range of operational risks which are continually managed within its risk governance framework, with action undertaken as required. Key risks are identified in a risk register and graded according to a frequency and impact methodology. The Bank looks to mitigate risks by ensuring that adequate controls and procedures are in place and are identified and monitored as part of risk and control self-assessment exercises as well as by frequent reviews by the Internal Audit function. The Bank holds adequate levels of regulatory capital to absorb any potential losses that may arise from operational risk and reassesses the level of capital holdings required to offset potential operational risk losses as part of its ICAAP.

Brexit

The UK economy continues to face uncertainty resulting from the UK's decision to leave the EU ('Brexit'), which took effect on 31 January 2020. Brexit is a risk to the UK economy in the short, medium and long term. It includes the risks of the withdrawal from the EU itself and also from new trade agreements and foreign investment. The impacts may not be immediately visible but are likely to affect the economy on both a short- and longer-term basis.

Redwood Bank Pillar 3 Disclosures for the year ended 31 December 2019

Underlying economic performance across the UK has, since the referendum, been better than initially projected and in 2019 employment levels improved and wage growth outpaced inflation. However, business investment has remained low.

Direct operational impacts on the Bank from the EU exit are limited but we are aware of indirect impacts on our customers. We continue to monitor external projections and where appropriate we include these within our scenario analyses. Our impairment provision outlook includes an analysis that reflects a worsening outlook for the economy. Using these and more severe outlooks we have stressed the lending portfolios to provide a view on how the business may perform and thus ensure sufficient levels of capital and liquidity.

Climate Change

During 2019, as part of its Future of Finance project, the PRA indicated its initial expectations of firms with regards to managing the financial risks arising from climate change. It expects firms to take a strategic approach which will consider how actions taken today affect future financial risks. Firms are asked to embed climate change considerations in their risk management and day-to-day operations.

The Bank lends to UK borrowers where the funds advanced are secured on property. Climate change risks arise through physical risk which may impact the quality of the property as adequate security and/or transition risk as markets shift towards a low carbon economy. These risks may impact on the ability of borrowers to meet their obligations under the loan. The Bank has commenced its engagement both with regulators and its advisors to align its awareness of risks with emerging research. The Bank will be maturing its governance, risk management, scenario analysis and disclosure relating to climate change.

10. Minimum Requirement for Own Funds and Eligible Liabilities

The Bank of England considers that provision of fewer than around 40,000 to 80,000 transactional Bank accounts (accounts from which withdrawals have been made nine or more times within a three-month period) is generally likely to indicate that a Modified Insolvency would be appropriate. Under the Bank Recovery and Resolution Directive (BRRD) if an institution's failure is unlikely to cause disruption to the wider UK financial system, either directly through the cessation of services it provides or indirectly by negatively affecting confidence in the financial system or similar institutions; or if the institution does not provide significant amounts of transactional banking services or other critical functions, particularly those which depend on continuous access to a service, it would be appropriate to adopt a modified insolvency.

Under these conditions and threshold conditions Redwood would fall under a Modified Insolvency process as part of BRRD under which MREL is set at the same level as regulatory capital requirements and so the Bank will meet its MREL by meeting existing regulatory capital requirements as described in Section 6 Capital Requirements.

11. Remuneration

The following disclosures for Redwood Bank Limited (the “Bank”) are prepared in accordance with the Capital Requirements Regulation (“CRR”) remuneration disclosure requirements, as further elaborated in the FCA’s General guidance on Proportionality: The Remuneration Code (SYSC 19A) & Pillar 3 disclosures on Remuneration (Article 450 of the CRR), and provides details of the remuneration of the Bank’s Material Risk Takers (“MRTs”) for the year ended 31 December 2019, together with an explanation of the Bank’s remuneration policies, practices and governance.

Material Risk Takers are those individuals whose actions have a material impact on the risk profile of the Bank. The Bank identified a total of 9 (2018: 7) individuals as MRTs for the year ended 31st December 2019.

Decision Making

The Nominations and Governance Committee and Remuneration Committee are sub-committees of the Board and is responsible for overseeing the appointment, remuneration and other benefits of all Directors and Executive Management. The Committees makes recommendations as appropriate to the Board concerning such matters, including the implementation of any bonus schemes, the consideration of succession planning and development programmes, and the composition of the Board.

During 2019, the Committees comprised four members, including three Non-Executive Directors and the Chairman of the Nomination and Remuneration Committee. The Committee’s terms of reference are kept under regular review; the last review date in 2019 was December.

The Nominations and Governance Committee and Remuneration Committee are supported by the Chief Risk Officer, Chief Executive Officer, and the General Counsel and Company Secretary, who attend meetings by invitation.

No individual across the Bank, including the CEO, is involved in decisions regarding their own remuneration.

The Committees meets four times a year, although it can meet more frequently as required. There have been four meetings during the year ended 31st December 2019. In carrying out its responsibilities, the Committee has sought independent external advice as necessary.

Material Risk Takers

The following individuals have been identified as Material Risk Takers (“MRTs”) being those employees whose professional activities may have a material impact on the risk profile of the Bank:

- Chief Executive Officer
- Chief Financial Officer
- Chief Development Officer
- Chief Risk Officer
- General Counsel and Company Secretary (EK)
- General Counsel and Company Secretary (JS)
- Director of Operations
- Director of Credit and Underwriting
- Director of Business Development

Table 16: Board Directorships

Name	Position	Directorships ¹
David Buckley	Chairman	8
Gary Wilkinson	Executive Director	4
Brian Mulholland	Executive Director	2
Graham Reynolds	Executive Director	-
Alan Brown	Executive Director	1
Jonathan Rowland	Non-Executive Director	7
Sally Veitch	Non-Executive Director	1
Clive Hetherington	Non-Executive Director	1
Nigel Boothroyd	Non-Executive Director	3
Ian Wilson ²	Non-Executive Director	4

Remuneration policy and structure – link between pay and performance

The Bank's Remuneration Policy is designed to ensure that Material Risk Takers' (MRTs) remuneration rewards them for their responsibilities, performance, and experience, taking into account market data. Remuneration packages aim to aid the recruitment, retention and motivation of high calibre individuals to lead and direct the Bank and deliver continuously improving performance and long-term sustainability for our customers.

There are two main elements of remuneration for MRTs:

- Base salary or fees
- Benefits (pension, healthcare, Insurances, car allowance)

Base salary or fees

Salary levels for employees who are MRTs are reviewed annually (with adjustments taking effect 1 April), taking into account market data, individual experience and performance; the economic environment and the Bank's performance. The approach to reviewing salaries for MRTs is in line with the approach for other employees.

Non-executive directors only receive fees. They are not entitled to benefits or to participate in any performance award. These fees are the only element of remuneration and are set at a level that reflects the market and is sufficient to attract individuals with appropriate knowledge and experience to support the Bank in achieving its strategic objectives. Fees are reviewed annually, taking into account market data, annual pay increases awarded to employees; the economic environment and the Bank's performance.

Benefits

In order to provide a competitive and appropriate benefits package, MRTs receive benefits such as Pension, Private Medical Insurance, Income Protection, Critical Illness and Death in Service Benefit.

¹ The number of directorships shown excludes the Bank.

² Ian Wilson was appointed as a non-executive director in October 2019

Remuneration for MRTs

The table below shows fixed base remuneration awarded to MRT's in respect of the year ending 31 December 2019 (2018).

Table 17: Remuneration for MRTs

MRT's £000s	2019	2018
Total Fixed remuneration	£1,399	£984
Number of MRTs	9	7

Table 18: Code staff aggregate remuneration for 2019 (2018)

2019	Senior Management (ExCo & ED's)		Other Code staff		Notes
	No. of recipients	£'000	No. of recipients	£'000	
Fixed remuneration during 2019	15	1,517	0	0	Basic salary, employers' contributions
Variable remuneration awarded for 2019					
Performance Cash (Paid)					
Total Remuneration		1,517		0	
2018	Senior Management (ExCo & ED's)		Other Code staff		Notes
	No. of recipients	£'000	No. of recipients	£'000	
Fixed remuneration during 2018	7	984	0	0	Basic salary, employers' contributions
Variable remuneration awarded for 2018					
Performance Cash (Paid)					
Total Remuneration		984		0	

Appendix I - Disclosure on Asset Encumbrance

Template A – Assets

2019

2019		Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
		10	40	60	90
10	Assets	-	-	257.9	257.9
30	Equity instruments	-	-	-	-
40	Debt securities	-	-	50.1	50.1
	Other assets		-	207.8	207.8

2018

2018		Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
		10	40	60	90
10	Assets			139	
30	Equity instruments	-	-	-	-
40	Debt securities	-	-	16.2	15
	Other assets		-	122.8	

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Template B - Collateral received

2019

2019		Fair value of encumbered collateral received or own debt securities issued £m 010	Fair value of collateral received or own debt securities issued available for encumbrance £m 040
130	Collateral received	-	-
140	Loans on demand	-	-
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

2018

2018		Fair value of encumbered collateral received or own debt securities issued £m 010	Fair value of collateral received or own debt securities issued available for encumbrance £m 040
130	Collateral received	-	-
140	Loans on demand	-	-
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

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Template C - Encumbered assets/collateral received and associated liabilities

2019

2019		Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £m
		010	030
010	Carrying amount of selected financial liabilities	-	-

2018

2018		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	-	-

Template D - Information on importance of encumbrance

The Bank currently has no assets that are encumbered as part of the Bank's funding strategy. The Bank has been granted access to the Reserve Account with the Bank of England and now can pre-position assets in the BoE Contingent Liquidity Facilities. The Bank is currently not using its lending assets as collateral as part of its Funding Strategy. An encumbrance ratio is reported to ALCO on a monthly basis.

Appendix II - Own Funds

Disclosure of the Bank's own funds for the current year.

Redwood Bank	£	£
	31/12/2019	31/12/2018
Capital: instruments and		
Reserves		
Capital instruments and the related share premium	34,822,516	22,822,516
Accounts		
of which: Common shares	111	111
Retained earnings	-8,753,208	-7,524,465
Accumulated other comprehensive income (and any other reserves)	-42,763	-23,776
	-----	-----
Capital before regulatory adjustments	26,026,656	15,274,386
Common Equity Tier 1 (CET1) capital: regulatory		
Adjustments		
Goodwill and Other intangible assets (net of related tax liability)	-191,854	-217,654
Deferred tax assets that rely on future profitability excluding those arising from temporary difference		
Tier 2 capital	-3,874	-3,874
	-----	-----
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-195,728	-221,528
	-----	-----
Common Equity Tier 1 (CET1) capital	25,830,817	15,052,747
Additional Tier 1 (AT1) capital	-	-
	-----	-----
Tier 1 capital (T1 = CET1 + AT1)	25,830,817	15,052,747
Tier 2 (T2) capital: instruments and provisions		
Capital instruments	3,874	3,874
Credit risk adjustments	377,000	91,000
	-----	-----
Tier 2 (T2) capital before regulatory adjustment	380,874	94,874
Tier 2 (T2) capital: regulatory adjustments		
of which holdings existing before 1 January 2013	-	-
	-----	-----
Total regulatory adjustments to Tier 2 (T2) capital		
Total Tier 2 (T2) capital	380,874	94,874
	-----	-----
Total capital (TC = T1 + T2)	26,211,691	15,147,621

Redwood Bank Pillar 3 Disclosures for the year ended 31 December 2019

Total risk-weighted exposures

Capital ratios and buffers

Common Equity Tier 1 ratio	20.08%	22.84%
Tier 1 ratio	20.08%	22.84%
Total capital ratio	20.38%	22.99%

Applicable caps on the inclusion of provisions in Tier 2

Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)

Appendix III: Leverage Ratio

Summary reconciliation of accounting assets and leverage ratio exposures

Item		2019 CRR leverage Ratio Exposure £	2018 CRR leverage Ratio Exposure £
1	Total assets as per published accounts	257,912,436	138,334,395
4	Adjustments for derivative financial instruments	-	-
5	Adjustment for securities financing transactions (SFTs)	-	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	5,003,830	4,205,623
7	Other adjustments	1,709,921	710,533
8	Leverage ratio total exposure	264,626,187	143,250,300

Leverage ratio common disclosure

On-balance sheet exposures (excluding derivatives and SFT's)

		2019 CRR leverage Ratio Exposure £	2018 CRR leverage Ratio Exposure £
Item		£	£
	On-balance sheet items (excluding derivatives and SFT's)		
1	On-balance sheet items (excluding derivatives, SFT's and fiduciary assets, but including collateral)	259,622,357	139,044,928
2	Asset amounts deducted in determining Tier 1 capital		
3	Total on-balance sheet exposures (excluding derivatives, SFT's and fiduciary assets)	259,622,357	139,044,928
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)		
5	Add-on amounts of PFE associated with all derivatives transactions (mark-to-market method)		
11	Total derivatives exposures		
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	28,584,883	27,142,865
18	(Adjustments for conversion to credit equivalent amounts)	-	-22,937,242
		23,581,053	

Redwood Bank Pillar 3 Disclosures for the year ended 31 December 2019

19	Other off-balance sheet exposures	5,003,830	4,205,623
	Capital and total exposures		
20	Tier 1 capital	25,830,817	15,202,746
21	Leverage ratio total exposure measure (sum of lines 3, 11, 19)	264,626,187	143,250,300
	Leverage ratio		
22	Leverage ratio – transitional definition of Tier 1 capital	9.76%	10.51%
23	Leverage ratio – fully phased-in definition of Tier 1 capital	9.76%	10.51%
EU-23	Choice on transitional arrangements for the definition of the capital Measure	Fully phased in	Fully phased in

Split-up of on balance sheet exposures (excluding derivatives and SFTs)

		2019 CRR leverage Ratio Exposure £	2018 CRR leverage Ratio Exposure £
EU-1	Total on-balance sheet exposures (excluding derivatives and SFTs)	259,622,357	139,044,928
EU-2	Trading book exposures		
EU-3	Banking book exposures of which:		
EU-5	Exposures treated as sovereigns	84,588,128	56,310,126
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns		
EU-7	Institutions	2,125,997	1,674,954
EU-8	Secured by mortgages of immovable properties	172,123,491	80,336,794
EU-9	Retail exposures		
EU-10	Corporate		
EU-11	Exposures in default		
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligations)	784,739	723,054

The Bank's Leverage Ratio is comfortably above Regulatory minimum of 3.25% and the Bank monitors a forward-looking view on its Leverage Ratio as part of the Capital forecast. The Bank will maintain a Leverage Ratio well in excess of the regulatory minimum for the foreseeable future.

The Bank's leverage ratio as at the 31st December 2019 was 9.76% (2018: 10.51)