RedwoodBank

Annual report and accounts

For the year ended 31 December 2024

Company number: 09872265

Bank information

Directors	Mark Winlow [Chairman] Gary Wilkinson [Chief Executive Officer] Robert Endersby – resigned on 30 September 2024 Rajesh Khosla Tina Kokkinos – appointed on 1 November 2024 John Lowe Jerry Loy Ashraf Piranie – resigned on 31 March 2025[1] Maria Elizabeth Walker
Company secretary	Eleanor Kenny
Registered number	09872265
Registered office	Suite 101 The Nexus Building Broadway Letchworth Garden City England SG6 3TA
Independent auditor	Forvis Mazars LLP 30 Old Bailey London England EC4M 7AU

[1] Sergio Soares Cruz was appointed as CFO on 1 April 2025 (subject to regulatory approval).

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Key highlights

Redwood Bank has delivered a steady performance in a challenging environment.

18.1%
increase in loan book during the year

Since its launch in 2017, the Bank has lent over
£760m
in total to support SME businesses

Profit before tax of
£2.7m

Total assets **increased** by
£36m to £635m

Deposit base increased by
£53m to £553m

Lending portfolio increased by
£78m to £492m

Chairman's report

Overview

2024 was characterised by slow economic growth and the curbing of inflationary pressures, with the Bank of England ("BoE") Base Rate reducing from its peak levels of 5.25% to 4.75% during the second half of the year. As a result, Redwood Bank (the "Bank") has delivered a steady performance in a challenging environment, and against a backdrop of continued economic uncertainty, both for our small and medium-sized enterprises ("SME") customer base and the financial services sector as a whole.

While the net interest income of Redwood Bank has reduced, mainly as a result of falling interest rates and strong competition in the deposits market, a slightly improved economic outlook from the previous year has contributed to a reduction in impairment charges in the year. We continued to grow our balance sheet, expanding our lending portfolio to £492m (2023: £414m) and our deposit base to £553m (2023: £500m). We delivered a significant improvement in lending performance, with an 18.1% increase in the loan book during the year.

We have demonstrated a depth of experience in property lending, and have enhanced further our savings franchise, with a focus on SMEs, clubs, charities and associations. We have a well-established, positive culture, where customers come first, and it is with pride that I can again report that the energy and commitment of our colleagues across the business continues to be reflected in high customer satisfaction and advocacy scores.

Our capital position remained stable in 2024 and we have invested carefully in building a robust infrastructure and a dedicated team to prepare for the next phase of growth upon the anticipated completion of capital-raising initiatives.

The Board is cognisant of the ongoing regulatory changes that UK banks will be required to interpret and, where relevant, implement over the next 24 months. We are reviewing and assessing the new capital requirements under Basel 3.1 rules and the Small Domestic Deposit Takers Regime which will be implemented on 1 January 2027.

We recognise the importance of adopting a clear environmental, social and governance ("ESG") strategy, including climate change risk, which is incorporated into the Bank's business strategy and risk appetite. As part of our commitment to managing climate change risk, we continued to promote our Green Reward mortgage that supports and incentivises landlords to have more energy-efficient properties.

Future strategy

Redwood remains committed to serving the needs of all its customers, building relationships with its business owners and property investor customers, principally through a broker network, manually underwriting all lending, investing in technology to improve our processes, and delivering an excellent customer experience. The delivery of an enhanced customer journey for lending customers, including a new broker portal, is high on our priorities list for 2025. Following its completion, the Bank will then upgrade the on-boarding and account management processes for deposit customers.

To date our growth has been limited by available regulatory capital, which means that the Bank can, with additional capital, grow the balance sheet significantly without proportionately increasing costs, and thereby deliver enhanced shareholder and other stakeholder value. We continued to engage in capital fundraising activities throughout the year. During the year, the Bank, its parent company, Redwood Financial Partners Limited ("RFPL") and R8 Capital Investments PLC, agreed to discontinue the proposed reverse takeover transaction referred to in the 2023 annual report and accounts. I am pleased to announce that the Bank's parent company has been presented with an indicative, non-binding offer to buy out its majority private shareholders and associates by a new investor and invest further capital into the Group and ultimately into the Bank. The offer from the new investor will require a change in control ("CIC") application to be submitted to the Prudential Regulatory Authority ("PRA") and is unanimously supported by the Bank's Board of directors.

Our senior team

After three years Robert Endersby retired from the Board in September 2024, having made a major impact, particularly in strengthening our risk management. I give my thanks to Robert and we wish him a happy retirement. Tina Kokkinos has been appointed to succeed him as an independent Non-Executive Director and Chair of the Board Risk Committee ("BRC"). Tina brings a wealth of expertise to the role through her multi-sector experience in risk and governance, strategy development, and transformation and ESG, together with a strong focus on people and culture.

After overseeing the reporting of the highest profits in the Bank's history for the past two years, Ashraf Piranie retired as Chief Financial Officer in March 2025. Over his two-year tenure, he developed a strong and multitalented finance team that will support the next phase of the Bank's growth. I would like to thank him for his dedication and commitment to the Bank and the Board. Sergio Cruz, who has held senior roles in Risk, Strategy, Treasury and Finance at the Bank in the last seven years, has been appointed as Chief Financial Officer to succeed Ashraf, subject to regulatory approval. I look forward to working closely with Sergio as we continue to shape and deliver the strategic direction of the Bank.

Summary

The economic and market challenges are expected to remain during 2025 and have been exacerbated by the recent change in the US import tariffs policy. Nonetheless, we have built a strong and resilient customer-focused operating model. We are well positioned to take advantage of new capital-raising initiatives that will enable the Bank to develop and grow scale at a faster pace and optimise the delivery of enhanced value for its shareholders and other stakeholders. I would like to pay tribute to the continued support of our existing shareholders over the Bank's journey so far, and say a big thank you for the hard work, dedication and commitment of all our Redwood colleagues.

Mark Winlow
Chairman

> We have a well-established, positive culture, where customers come first, and it is with pride that I can again report that the energy and commitment of our colleagues across the business continues to be reflected in high customer satisfaction and advocacy scores.
>
> MARK WINLOW

CEO's report

Overview

We offer our SME customers straightforward loans and savings accounts, backed by tailored service and efficient technology. Our commitment to serving the needs of our customers remains at the heart of everything we do and will continue to underpin our strategic plans into the future. We have continued with a consistent market presence, providing competitive savings rates for new and existing customers and surety of service for lending customers in a challenging interest rate environment.

Our lending focuses on secured commercial and residential buy-to-let ("BTL") mortgages. These are funded through deposit (savings) notice accounts and bonds, offered to businesses, charities, clubs and associations, directly and indirectly, through cash management services, with varying notice or maturity periods between 35 days and five years.

During 2024, we have focused on delivering a strong balance sheet and customer base growth, with a profit before tax excluding a material, non-recurring impairment[1] of £3.7m (2023: £5.5m) and a profit before tax of £2.7m (2023: £5.5m). By the end of 2024, our franchise had grown to over 7,400 customers with deposit balances of £553m (2023: £500m) and lending balances of £492m (£414m). Since our launch in 2017, we have lent over £760m in total to support SMEs with their borrowing needs.

2024 performance summary

Profit before tax and a material, non-recurring impairment was £3.7m and profit before tax was £2.7m in 2024, reducing from £5.5m in 2023, which is our fourth consecutive annual profit since our launch in 2017. The reduction in profit was driven mainly by a decrease in net interest income by £2.6m and an increase in administrative costs by £1.2m, partially offset by lower impairment charges by £1.0m.

The contraction in net interest income resulted in a reduction in net interest margin ("NIM") to 4.00% (2023: 4.79%). This was mainly driven by a decrease in the average lending rate due to the Bank's focus on residential buy-to-let lending and a decrease in the Bank of England Base Rate, remaining high at 5.25% during the first half of 2024 before reducing to 4.75% at year-end, impacting our variable rate lending and treasury asset books. It was also the result of an increase in the average interest rate paid on deposits in a very competitive market.

Our Common Equity Tier 1 ("CET1") capital, as at the 31 December 2024, was £48.4m (2023: £46.8m), representing a ratio of 15.1% (2023: 16.0%), which exceeded the regulatory minimum required. The Bank's net asset value was £49.4m (2023: £47.6m). We have achieved financial resiliency, having delivered profits in the past four consecutive years, despite tough economic conditions, and have now recovered all pre-launch start-up costs and post-launch early year losses, thereby resulting in positive retained earnings at the end of 2024.

The loan book increased by £78m (2023: £11m) to £492m, and the impairment charge in 2024 reduced to 0.4% of

[1] A material, non-recurring impairment of £1.0m relates to an impairment charge made in full against a debt arising from professional fees paid by the Bank on behalf of the counterparty to the discontinued reverse takeover transaction. See Note 18.

the gross lending book (2023: 0.7%) at the end of 2024, with impairment provisions providing coverage of 1.0% of lending (2023: 1.6%). We delivered new lending of £136m, almost doubling the 2023 performance (£75m), mainly attributable to the growth of fixed rate residential mortgages, which were launched in 2023. There were numerous product enhancements including, most notably, the embedding of our Green Reward mortgage proposition and alternative fee products, all of which supported the performance uplift.

Total customer deposits increased by £53.0m (2023: £52.8m) to £553m (2023: £500m), with the Bank continuing to demonstrate an ability to generate liquidity quickly when necessary. The use of cash management services as an alternative source of deposits continued to be an ancillary part of our funding strategy.

At the end of 2024, we held total unencumbered High-Quality Liquid Assets of £106m (2023: £136m) and had a Liquidity Coverage Ratio ("LCR") of 284% (2023: 481%). During the year, a total amount of £19.4m of the Term Funding Scheme with additional incentives for SMEs ("TFSME") was redeemed early, with a remaining balance at the end of 2024 of £18.7m. In December 2024, the Bank of England approved Redwood's pool of loans as eligible collateral to the Bank of England Sterling Lending Facilities. The Bank plans to pledge eligible loans as collateral for more strategic and efficient liquidity planning and as a viable contingency option under liquidity stresses.

Proven operating model

We have built a solid business and operating model, with our technology platform, housed entirely in the cloud, providing the backbone for scalable franchise growth. During 2024, to provide ongoing improvements in customer service, we continued to invest in our core IT set-up and infrastructure, in particular in our core banking platform. Investment in IT equipment, security and other aspects continued to improve performance and enhance resilience. We are committed to providing secure and scalable infrastructure to protect our customers' money and to continue to offer the high levels of customer satisfaction that we have delivered to date.

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GARY WILKINSON

In order to support our growing fixed rate lending proposition we have also executed interest rate swap trades for the first time during the year as part of a strategy to hedge interest rate risk.

Customer experience

We provide a bespoke service for lending customers, alongside quick, easy and efficient account opening and servicing for savings customers, making it straightforward and easy to do business with us. Every customer can talk to a person exclusively based in the UK.

During 2024, we continued to support our existing customers who were experiencing financial difficulty through our dedicated relationship management team.

We measure and monitor our customer satisfaction and advocacy. During the year, 93% of customers surveyed were satisfied with the service they received, and we scored +52 on the Net Promoter Score question on whether they would recommend the services provided by the Bank.

The Bank was the recipient of a banking industry award during the year (Business MoneyFacts Awards: Best Business Variable Rate Deposit Account Provider 2024 for the sixth year in succession). We were also a finalist for the Business MoneyFacts Awards: Best Business Fixed Account Provider and Best Service from a Commercial Mortgage Provider. Furthermore, we were nominated at the National Association of Commercial Finance Brokers ("NACFB") Lender Awards 2024 for Specialist Lender of the Year and Innovation of the Year. A member of the Product team received a highly commended Rising Star award at the NACFB Lender Awards 2024.

In response to Consumer Duty requirements, we have continued to embed the requirements across the business and have an independent Non-Executive Director as our Consumer Duty Champion. We continue to focus on the relentless support of our customers, striving for good customer outcomes at all touch points with the Bank.

Stable funding base

We have established a savings customer base of over 6,400 customers, with £553m (2023: £500m) of deposit balances, and have the ability to scale up quickly. Notice periods and maturities of between 35 days and five years provide the Bank with stable and predictable funding and liquidity risk profiles.

Our people

We are committed to strengthening our diverse, equitable and inclusive culture that enables our colleagues to grow, and which creates an environment that allows talented people from all backgrounds to feel comfortable coming to work, enabling them to thrive and to share skills, learnings and perspectives openly with colleagues and stakeholders. This can only be achieved by providing a workplace culture characterised by inclusivity, building on a foundation of respect and appreciation of diversity.

As part of our aspiration to have an appropriately gender-balanced and diverse workforce, we are fully committed to having more females in senior positions. The female representation at Senior Management Level ("SML"), this being defined as members of the Board, Executive Committee and Business Leadership Group and Heads of Departments, increased to 39% at the end of December 2024 (2023: 31%). We promote the fact that we are a signatory to the Women in Finance Charter and we have achieved our Charter target of having at least 30% female representation at SML. The Bank is committed to maintaining its Charter target of 30% and we see this as a minimum threshold.

We have an established Culture Club that is run and chaired by colleagues representing all areas of the Bank, with feedback being provided to the Executive Committee and the Board on a regular basis. In addition, a Diversity, Equity and Inclusion ("DE&I") group further supports the active initiatives and policies already in place and ensures that the Bank provides equal opportunities to all.

The Bank has continued to operate successfully under a hybrid staff working model, giving colleagues a choice to work at home and in the office, regardless of seniority or role. We have promoted wellbeing by raising mental health awareness and offering health assessments to all employees.

In January 2024, we conducted an Employee Engagement survey through an external provider, People Insight and an 86% engagement score was achieved, this score being calculated by referring to how committed to and satisfied with the Bank employees are. This placed the Bank in the upper quartile of all organisations surveyed by People Insight. A follow-up pulse survey was conducted in October 2024, which saw an 87% engagement score.

Overall, these survey results were extremely positive, particularly around engagement and leadership. When asked to note the best thing about working for the Bank, the top five keywords used by our people were 'people', 'work', 'culture', 'team' and 'caring'. We also assigned an independent Non-Executive Director representative to engage with the workforce to further ensure their voices are heard by the Board.

Environmental, social and governance

We are strongly committed to support the environment, our local community and sustainability, underpinned by well-established governance structures and active Board oversight. Building on the success of our Green Reward mortgage proposition launched in 2023, we have developed a longer-term ESG strategy, setting a strategic ambition timeline for several ESG pillars within the Bank.

We have employed robust risk management practices, including scenario analysis and stress testing, and we track our performance through key metrics, such as carbon footprint reduction (scope 1, 2 and 3 emissions). Looking ahead, we will continue to enhance our climate risk modelling capabilities, collaborate with industry peers and explore innovative climate solutions. We will also remain deeply committed to our community, actively supporting local charities and participating in local outreach programmes.

Current economic environment

The current economic climate of high but falling interest rates and low economic growth remains challenging for the Bank and customers alike. There is an expectation for interest rates to continue to reduce during 2025, with inflationary pressures subsiding. The pace of these reductions may accelerate if the prospect of a global recession materialises as a consequence of the change in the US import tariffs policy. The Bank employs prudent affordability assessments and a bespoke approach to lending. This considers our customers' circumstances and is at the heart of our decision-making process. We remain committed to supporting our existing customers by offering tailored support schemes to those customers in financial difficulties.

Looking ahead

While we have made good progress over the past few years and delivered a steady financial performance in 2024, the capital raising opportunity currently being explored and referred to in the Chairman's report, provides an opportunity to accelerate the Bank's growth and to enhance the value that it delivers to all stakeholders. Supporting the successful completion of this capital-raising initiative is currently an area of key focus for the Board and the Executive team.

I would like to take the opportunity to thank all our colleagues across the business for their continued laser focus on keeping our customers at the heart of everything we do. I also would like to thank our partners, which include brokers, professional firms and IT service providers, for working with us to help us deliver our strategic objectives.

Gary Wilkinson
Chief Executive Officer

Business model and strategy

The Bank was established in 2017 to support UK businesses, providing a real alternative for small- and medium-sized organisations looking to make sure that their properties and cash work harder for them. Through its core values and tireless focus on the customer, the Bank aims to build sustainable relationships with borrowers, brokers and depositors, emphasising the Bank's expertise in its chosen markets.

Its mission is:

"To become the UK's best, go-to, specialist business bank, working tirelessly to provide our SME customers with simple, clear products and fast decisions that allow their businesses to grow."

Relentless customer focus

The Bank's core purpose remains as follows:

1. To build sustainable relationships with borrowers, brokers and depositors to retain and attract the customers the Bank seeks;
2. To provide savings products that will be attractive to the Bank's customers and develop a satisfied and well-serviced depositor base;
3. To provide loans to SMEs, through engagement of a highly experienced team;
4. To put the Bank's customers and colleagues at the heart of everything the Bank does and help its local communities grow;
5. To be the Bank synonymous with a culture that cares about staff and customers;
6. To achieve growth utilising chosen suppliers through the Bank's desired distribution channels; and
7. To create jobs and contribute to the development of the local economies where the Bank's offices are based.

Keeping the customer at the heart of decisions and generating positive customer outcomes are central to the Bank's culture and, therefore, are essential to its success as a lender and deposit taker. The Bank's products, processes and communications are developed and assessed with these positive customer outcomes in mind, with a strong commitment to the Consumer Duty regulation and the Bank's values.

Values and culture

The Bank maintains a strong people and customer culture that has been developed over the past seven years and its core values remain relevant as the organisation evolves. The values guide the Bank's behaviours internally among staff and externally for its customers. Those values are:

Integrity – treating people how you would like to be treated;

Certainty – reassurance that you are in the right place;

Tireless – it's about a genuine passion for our customers' success; and

Simplicity – it's about not hiding behind the asterisk.

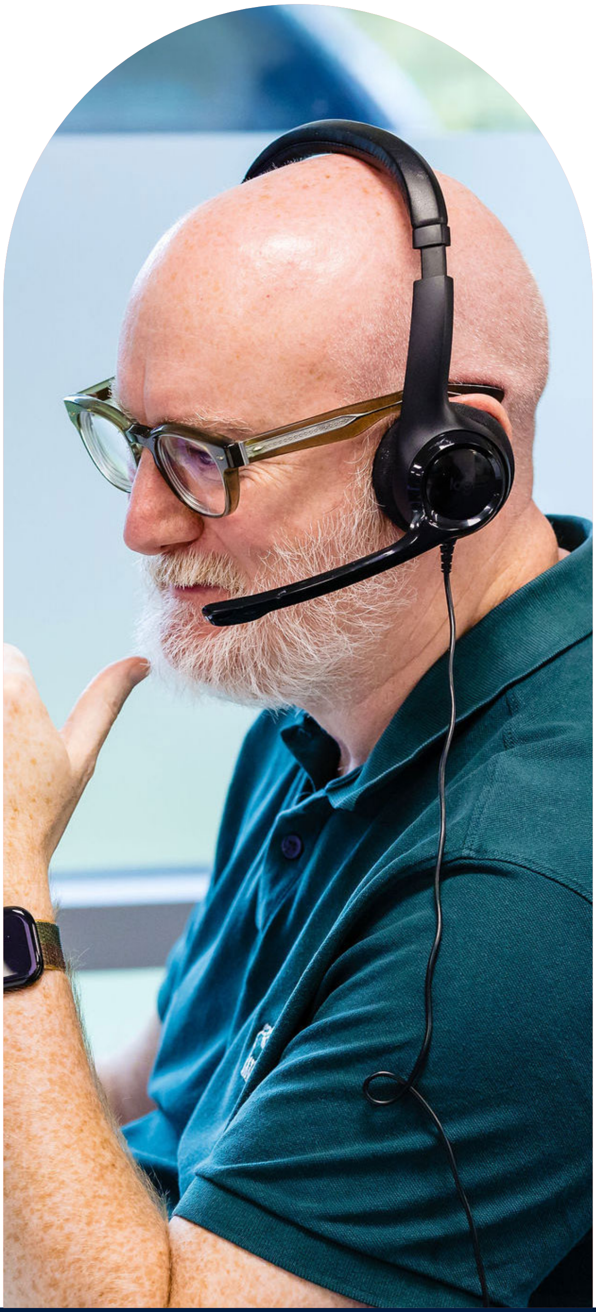
Strategy

The Bank believes additional capital will provide the impetus and capability to unlock the Bank's true potential. Its key priorities are:

1. Capital – secure new capital that will support the Bank's growth aspirations and improve the value delivered to all stakeholders;
2. Core lending growth – deliver lending customer journey improvements, with the target of being the first choice for specialist lending;
3. Consider alternative asset growth – including reducing reliance on existing core lending and diversifying asset classes;
4. Funding growth – diversify funding sources to support future growth;
5. People and culture – ensure optimal resource allocation and maximise the potential of its people;
6. Core infrastructure – further develop a scalable and resilient infrastructure to enable future growth; and
7. Regulation and compliance – continue to ensure the Bank meets all regulatory, legal and compliance obligations.

The Bank is continually assessing its overall strategy to ensure it remains relevant, effective and capable of delivering value to all stakeholders. The Bank expects the core of its lending to continue to be property-backed mortgages to SMEs, including professional landlords, who are commercial and residential property investors.

Assessments of all risks to the strategy are carried out regularly, including in respect of net interest margin, impairment and external market influences, such as Base Rate changes, the impact of rising inflation, changes to property prices and other cost-of-living pressures. The Bank also remains alert to developments in the broader macro-economic environment, both domestically and globally. Recent UK economic policy changes and global tensions caused, in particular, by the continued conflicts in the Middle East and Ukraine, and the potential for significant implications of the change in US presidency and new tariffs imposed by the US government, will continue to impact on UK economic stability. The prospect of global recession has recently increased following the introduction of US import tariffs. However, the situation continues to evolve as a consequence of further diplomatic and trade negotiations across the globe. The Bank continues to assess its capital and liquidity plans to ensure adequacy, prudence and regulatory compliance. See key risks on pages 24 to 25 for further assessment of risks regarding capital and liquidity.



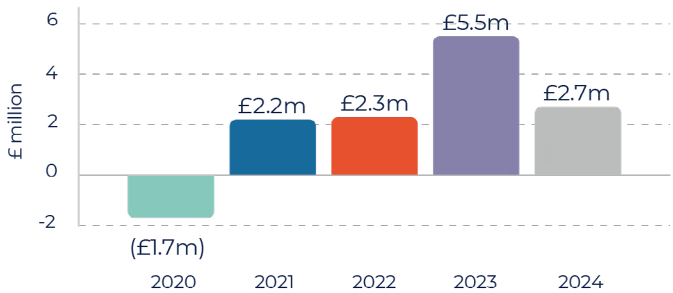
Performance review
Profit and loss

Summary profit and loss statement (£)	2024	2023
Interest receivable	49,521,006	46,123,616
Interest payable	(23,269,459)	(17,294,646)
Net interest income	**26,251,547**	**28,828,970**
Fair value losses on financial instruments	(8,932)	-
Total income	**26,242,615**	**28,828,970**
Administrative expenses	(21,675,255)	(20,509,671)
Impairment charge on loans and advances to customers	(1,869,546)	(2,782,364)
Profit before tax	**2,697,814**	**5,536,935**
Tax charge	(869,726)	(1,332,686)
Profit for the year	**1,828,088**	**4,204,249**

Profit before tax

In a year seeing the first reductions in interest rates since 2020, reduced inflation and slowing economic growth, the Bank made a profit for the fourth consecutive year in its seven-year history. It reported a profit before tax of £2.7m and a profit before tax and material, non-recurring impairment of £3.7m (2023: £5.5m)(see page below), mainly due to a decrease in net interest income by £2.6m and an increase in administrative costs by £1.2m, partially offset by an increase in impairment loss charge by £1.0m. Operating profit before impairment charge reduced to £4.6m (2023: £8.3m), driven mostly by the reducing BoE Base Rates, resulting in a reduction in net interest income, despite growth in total assets.

Profit before tax

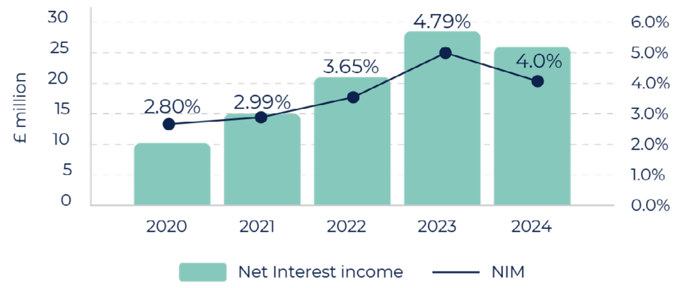


> In a year seeing the first reductions in interest rates since 2020, reduced inflation and slowing economic growth, the Bank made a profit for the fourth consecutive year in its seven-year history.

Net interest income and net interest margin

The Bank delivered a net interest margin of 4.00% (2023: 4.79%) during the year. The average lending interest rate achieved during the year was 8.93% (2023: 9.26%), with the decrease mainly due to product mix changing heavily towards fixed rate lending, combined with a greater focus on residential lending. The average interest rate paid for the year on deposits was 4.30% (2023: 3.48%) driven by increases in market deposit rates following rises in the BoE Base Rate during 2023.

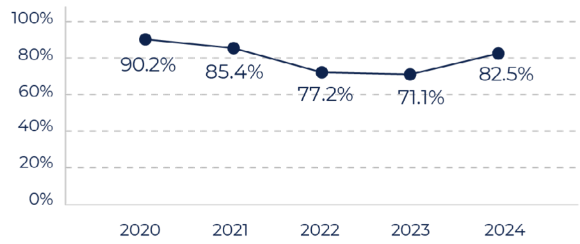
Net interest income and net interest margin



Cost-to-income ratio

The Board has taken the decision that while net interest income has decreased the Bank has continued to invest in its people and infrastructure to ensure the business is well placed to take advantage of the anticipated capital raise. Therefore while the cost to income ratio has increased this is not considered to be reflective of underlying inefficiency, and the business is projected to grow without a proportionate increase in costs.

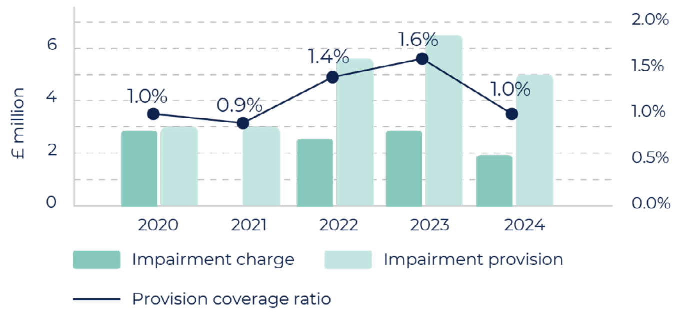
Cost-to-income ratio



Impairment

The Bank experienced increases in arrears levels in 2023, but this reduced in 2024 (explained in Note 12), reflecting the reduction in Base Rate and inflation, and the Bank's proactive management of arrears cases. The Bank reviewed its lending portfolio extensively during 2024, including stressing the value of collateral and reassessing the probability of anticipated losses. The Bank created appropriate levels of impairment provisions to capture the risks associated with its lending portfolio. The impairment charge on lending products reduced from £2.8m to £1.9m during the year. The Bank concluded a number of defaulted cases and crystalised losses totalling £3.6m (of which £1.0m related to a material, non-recurring impairment). As a result, impairment provisions decreased from £6.6m to £5.0m, representing 1.0% (2023: 1.6%) of total lending as at 31 December 2024. The impairment charge of £1.9m includes a material, non-recurring impairment of £1.0m that represents an impairment charge made in full against a debt arising from professional fees paid by the Bank on behalf of the counterparty to the discontinued reverse takeover transaction.

Impairment charge and provision and provision coverage ratio



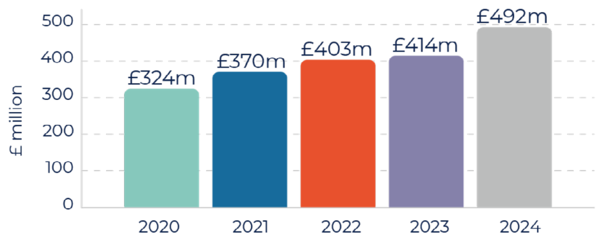
Balance sheet

Summary balance sheet (£)	2024	2023
Assets		
Liquid assets	140,428,038	182,744,876
Other assets and prepayments	2,728,608	2,327,188
Loans and advances to customers	492,244,170	413,983,306
Total assets	**635,400,816**	**599,055,370**
Liabilities		
Amounts due to banks	18,726,182	38,067,988
Customer deposits	552,995,571	499,967,473
Tax liability	303,938	222,250
Other liabilities and accruals	4,994,868	4,245,490
Subordinated debt	9,000,000	9,000,000
Total liabilities	**586,020,559**	**551,503,201**
Total equity	**49,380,257**	**47,552,169**
Total equity and liabilities	**635,400,816**	**599,055,370**

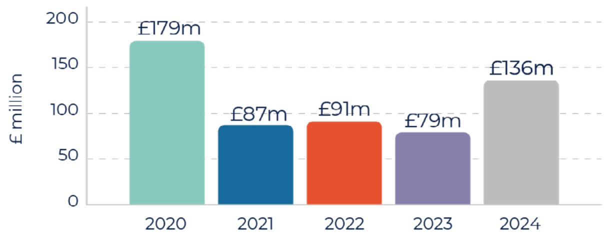
Lending

The Bank's total lending book increased by £78m (2023: £11m) during the period, to £492m (2023: £414m), driven by new lending drawdowns of £136m (2023: £79m). The lending book (gross) increased by 18.1% to £498m (2023: £422m). This is mainly due to growth in our fixed rate residential BTL mortgage book resulting principally from demand for fixed rate mortgages to support business customers through the current high Base Rate environment. The focus remains on supporting all customers through their lending experience with the Bank, with a clear focus on customer retention, as well as refining the overall service proposition to drive new business opportunities.

Lending balances



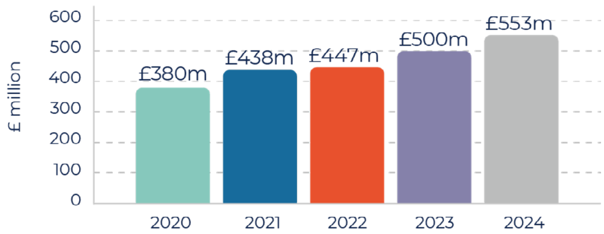
Lending drawdowns



Deposits

Total deposits held by the Bank increased by £53.0m (10.6%) (2023: £52.8m) during the year to £553m (2023: £500m). Term deposits (1-year, 2-year and 5-year bonds) increased by 33.0% to £223.3m (2023: £168.0m). The amount drawn under the Bank of England's Term Funding Scheme with additional incentives for SMEs ("TFSME") was reduced to £18.7m (2023: £38.1m) at the 2024 year end as the Bank early repaid £19.4m during the year.

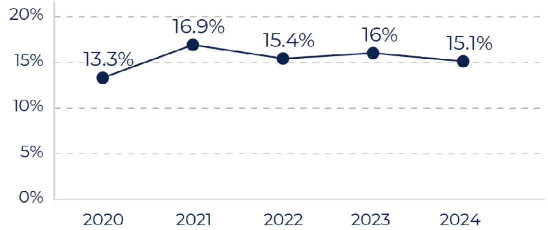
Deposits



Common equity tier 1 ratio

CET1 capital, as at 31 December 2024, was £48.4m (2023: £46.8m) and this exceeded the regulatory minimum required. The CET1 ratio was 15.1% (2023: 16.0%).

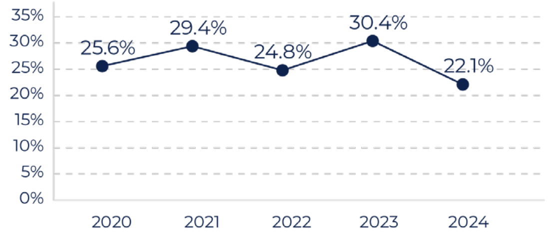
Common equity tier 1 ratio



Liquid assets as % of total assets

The Bank held £140m (2023: £183m) in liquid assets at the year end, comprising cash at bank, deposits at the Bank of England, and UK gilts and Treasury bills. Total liquidity held is sufficient for the Bank's lending needs and exceeds amounts required to meet the Bank's regulatory requirements. Liquid assets comprised 22.1% of the Bank's total assets at the 2024 year end (2023: 30.4%).

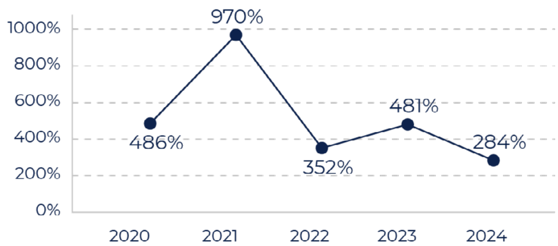
Liquid assets as % of total assets



Liquidity coverage ratio

The Bank's liquidity coverage ratio of 284% as at 31 December 2024 (2023: 481%) exceeded the regulatory minimum of 100% set by the PRA. The Bank held a total value of unencumbered high-quality liquid assets of £106m (2023: £136m).

Liquidity coverage ratio



Non-financial metrics

Customer satisfaction and advocacy

The Bank continued to measure its customer satisfaction and advocacy during 2024. Results showed that 93% of customers were satisfied with the service they received from the Bank.[1] Customers graded the Bank as +52 using the Net Promoter Score question for recommending the Bank's services.[2]

Customer feedback

The Bank treated all customer complaints very seriously through investigation and communication back to the customer, and as an opportunity to learn from the feedback to improve future customer service. It received 165 complaints in 2024, of which just over half were upheld by the Bank. Five complaints were referred to the Financial Ombudsman Service for independent review, of which four were upheld in the Bank's favour, and the fifth's review decision is still pending. The Bank received 409 customer compliments during the year.

Staff engagement

In an external Employee Engagement survey undertaken by People Insights in January 2024, an 84% response rate and an 86% engagement score were achieved – this score being calculated by referring to how committed to and satisfied with the Bank employees are. When asked to note the best thing about working for the Bank, the top five keywords used by its employees were 'people', 'work', 'culture', 'team' and 'caring'. A follow-up pulse survey was conducted in October 2024, which saw a 79% response rate and an 87% engagement score.

[1] Based on the customer satisfaction survey conducted during the year

[2] Net Promoter Score is measured from an 11-point scale question, through an equation to produce a recommendation score lying between -100 (very low recommendation) and +100 (very high recommendation)

Directors' statement of compliance with Section 172 of the Companies Act 2006

The Directors have acted in good faith and in a manner to promote the success of the Bank for the benefit of its members as a whole. Consideration of the specific relationships is provided in the next section.

Stakeholder engagement

The Board of Directors consider that they have acted in good faith and in the way they consider that would be most likely to promote the success of the Bank for the benefit of its shareholders as a whole and, in doing so, have regard to a number of matters set out in Section 172(1) (a) to (f) of the Companies Act 2006. The Bank recognises that it has six key stakeholder groups, as set out in the table below alongside the Bank's engagement with each stakeholder:

Stakeholder	Description	Engagement
Shareholders	The Bank is a wholly owned subsidiary of Redwood Financial Partners Limited	The Bank maintains close relations with its shareholders and has a stringent governance regime to protect its shareholders' investments. One of the Bank's key strategic objectives is to deliver strong shareholder returns. Its strategic plan forecasts continued profitability over the next five years.

Continued

Stakeholder	Description	Engagement
Customers	The Bank has in excess of 7,400 customers across depositors and borrowers	Good customer outcomes are central to the Bank's culture and therefore essential to its success as a lender and deposit taker. The Bank's products, processes and communications are developed and assessed with these positive customer outcomes in mind, with a strong awareness of regulation and the Bank's values. The Bank's customer feedback framework and customer satisfaction programmes have, and will continue to, evolve and improve, with regular Management Information ("MI") on customer satisfaction, customer advocacy and verbatim customer feedback from four distinct sets of customers at different stages of the customer journey or lifecycle: • New deposit customers; • Existing deposit customers; • New lending customers; and • Existing lending customers. In addition, the Bank receives regular feedback from its broker network. "Treating customers fairly" and "achieving good customer outcomes" are incorporated into all staff personal objectives and reviews. Key Customer Outcome indicators are included in the regular Conduct Risk MI reported to the Conduct, Compliance and Operational Risk Committee and Board Risk Committee. Customer outcomes are detailed within the Bank's approved conduct risk, managing feedback from dissatisfied customers and vulnerable customer policies. The Bank has embedded Consumer Duty across the business and it continues to focus on its relentless support for its customers, striving for good customer outcomes at all touch points with the Bank.

Continued >

<table>
<tr><th>Stakeholder</th><th>Description</th><th>Engagement</th></tr>
<tr><td>Employees</td><td>The Bank employs 149 employees who are based mainly in offices in Letchworth Garden City and Warrington</td><td>
The Bank seeks to recruit and retain high calibre employees. Staff satisfaction, engagement, compensation and welfare are critical elements in ensuring retention, and are ongoing areas of focus for the Bank, along with ensuring diversity and inclusion.
The Bank's aim is to build a business bank whose customers are at the heart of everything it does. To help achieve this, it needs to continue developing a shared understanding of how to behave, both with customers and colleagues.
Following on from the development of its core values, the Bank identified a set of behaviours that are desired, along with what attitudes should be demonstrated by all employees to support the delivery of the Bank's business plan. These behaviours translate values into tangible, observable and measurable elements that can be implemented, assessed and improved, and form a central part of its working culture and people management processes.
The behaviours underpin a values and behaviour-based approach to the recruitment and management of staff, which enables the Bank to effectively recruit people who fit with the Bank's culture, and who will therefore focus on good outcomes for customers. This approach is needed to:

Continuously improve performance;
Enhance professional development;
Recruit and retain talented people; and
Encourage a 'one team' work ethic.

These behaviours, combined with individual and corporate performance against objectives, inform the variable components of the Bank's remuneration package, which includes a Long-Term Incentive Plan ("LTIP") and annual cash settled bonus detailed in Notes 2.15, 9 and 10. In setting its Remuneration Policy, the Bank has given consideration to the principles and provisions relating to remuneration in the FCA's Remuneration Code and the Remuneration Part of the PRA's Rulebook.
Directors and employee statistics as at end of December 2024 and December 2023 were as follows:
<table>
<tr><th></th><th colspan="3">2024</th><th colspan="3">2023</th></tr>
<tr><th></th><th>Male</th><th>Female</th><th>Total</th><th>Male</th><th>Female</th><th>Total</th></tr>
<tr><td>Directors of the Bank</td><td>6</td><td>2</td><td>8</td><td>6</td><td>1</td><td>7</td></tr>
<tr><td>Employees in Senior Management Team</td><td>13</td><td>10</td><td>23</td><td>13</td><td>8</td><td>21</td></tr>
<tr><td>Other employees</td><td>61</td><td>57</td><td>118</td><td>50</td><td>52</td><td>102</td></tr>
<tr><td>Total</td><td>80</td><td>69</td><td>149</td><td>70</td><td>61</td><td>131</td></tr>
</table>
</td></tr>
</table>

Continued >

Stakeholder	Description	Engagement
Regulators	The Bank is regulated by the PRA and FCA	The Bank maintains close and constructive relations with its regulators and responds to any requests in a timely manner. The Bank ensures that all relevant metrics are maintained within the regulatory framework provided, and regularly submits reports to the regulators to that effect. The Bank continued the strengthening of its second line of defence, governance, operational risk framework, underwriting processes and management information, to address the challenges arising from the evolving needs of the Bank's customers and to continue to maintain compliance with the expectations of the regulators.
Community	The communities local to where the Bank has offices, employees and customers	The Bank continues to fulfil charity and community engagements at both local and national levels. Details are set out in the Sustainability report on pages 27 and 28.
Third party suppliers	The businesses and individuals who provide goods and services that the Bank uses to enable it to service its customers	The Bank continues to operate an "outsourced service provider model". As a result, third party suppliers are identified as key stakeholders of the Bank. During 2024 the Bank completed a full review of its Procurement Policy and supporting procedures that detail the supplier selection process and ongoing monitoring cadences. Additionally, the Bank joined the Hellios Financial Supplier Qualification System ("FSQS") community to enhance oversight, both at onboarding and during the contract lifecycle. FSQS enables the Bank to standardise and manage requests for compliance and assurance data, while minimising duplication for suppliers who are engaged with other Hellios community members. A full review was also completed of the Bank's suppliers and their materiality to the Bank and its operations. As such, the Bank has identified a small number of business-critical suppliers that are subject to annual reviews, as well as regular monthly or quarterly performance meetings where service performance, management information, business updates and external market changes are monitored and reviewed. A supplier forum was established in 2024 which provides a dedicated space for discussion on all aspects of supplier management, and, where required, acts as a conduit for review and oversight at the appropriate management committee.

> "The Bank's aim is to build a business bank whose customers are at the heart of everything it does. To help achieve this, it needs to continue developing a shared understanding of how to behave, both with customers and colleagues.

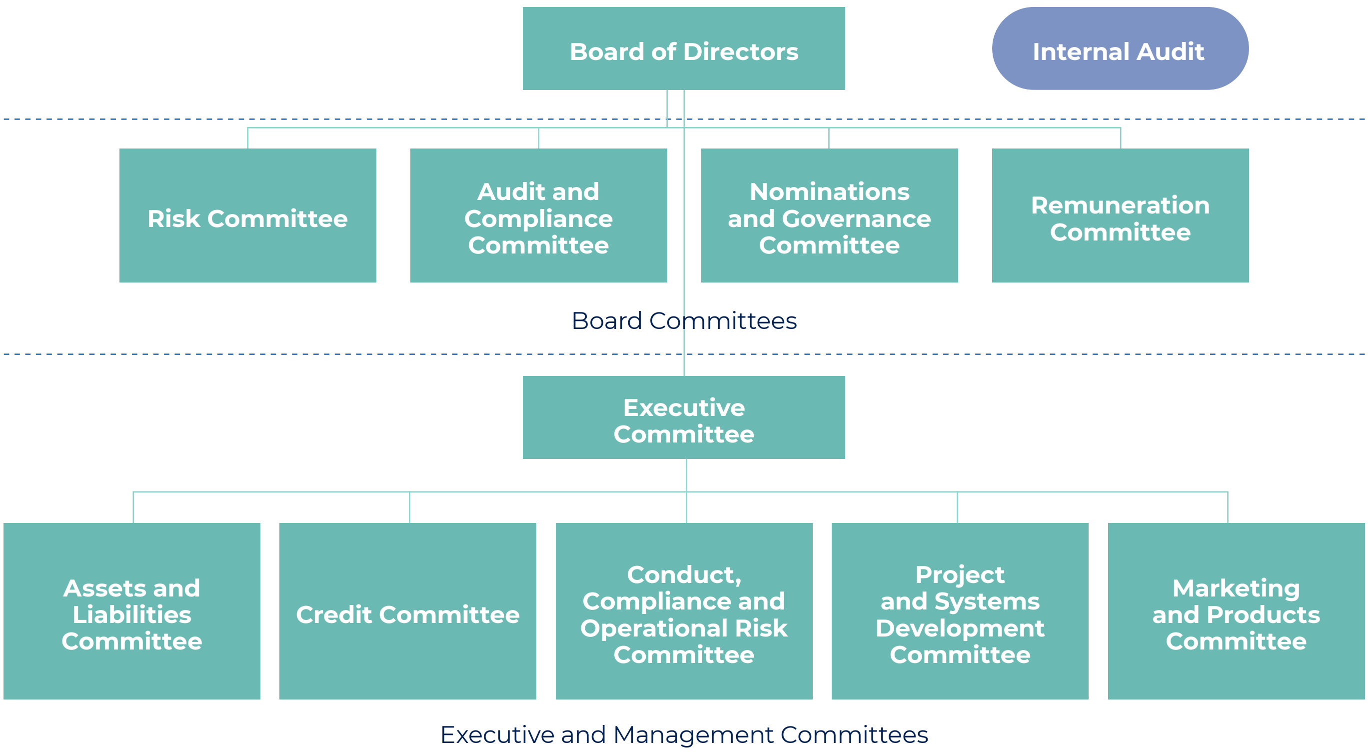
Governance and risk management

Governance structure

The Bank is committed to achieving and delivering consistently high corporate standards that are part of a robust governance structure with clear and transparent individual lines of responsibility. This is supported by relevant committee oversight and individual statements of responsibilities that comply with the Senior Managers and Certification Regime.

Following a positive external board effectiveness review undertaken in 2022, which concluded that the set-up of the Board is a strength of the organisation, Company Secretariat followed up by undertaking an internal performance review of the Board and its Committees in 2023 and 2024. The internal effectiveness reviews concluded that the Board continues to be effective in its duties, ensuring matters such as Board composition, succession planning and training were all given appropriate priority.

The Bank is governed by a Board of Directors, and various Board and management committees as set out in the diagram below:



The Board comprises Executive and independent Non-Executive Directors, with a majority of the Board Directors being independent. Board Committees comprise Non-Executive Directors only, but are regularly attended by Executives and other senior management as deemed appropriate. Executive and Management Committees comprise Executive members and senior management, although may be attended by other Bank staff as required.

Within this framework the Bank operates a typical banking "Three Lines of Defence" risk structure, as follows:

First Line of Defence ("FLOD")

The FLOD comprises the Bank's client-facing origination units (e.g. secured residential BTL and commercial mortgage lending) plus Underwriting, Finance and Treasury, IT, Relationship Management, Products and Marketing, Operations, General Counsel and People. All members of such areas play a key role in the Bank's risk management processes and are required to understand and comply with the Bank's risk policies and procedures relevant to the activities they undertake.

The following specific responsibilities are allocated to the FLOD:

- ownership of the risks it introduces to the Bank;
- delivery of new initiatives and risk assessments;
- primary responsibility for the day-to-day management of the Bank's exposure to risks arising from the activities undertaken;
- development and maintenance of an effective control environment that includes appropriate preventative and detective controls to ensure that risks, both existing and potential, remain within the Bank's Risk Appetite; and
- production of Management Information in a form and at a frequency commensurate with the underlying risk and activities undertaken.

Second Line of Defence ("SLOD")

The SLOD comprises the Bank's oversight and risk management functions. For the Bank, this comprises the Bank's Risk and Compliance teams, alongside outsourced compliance monitoring provided by RSM LLP.

The SLOD is responsible for:

- ownership and oversight of the Bank's Risk Management Framework;
- ownership and oversight of the Bank's Risk Appetite Framework and Statement;
- development, management and, where appropriate, ownership of the Bank's risk and compliance policies and frameworks as they pertain to the Bank's risks, and for oversight of ongoing adherence to their provisions;
- provision of tools and techniques that enable risk and compliance to be managed in the first line;
- monitoring and oversight of the Bank's risks (see below);
- risk assessment and approval processes;
- ensuring that risks identified are rated, and that appropriate action plans are in place to mitigate them, or that they are accepted;
- oversight and challenge of the FLOD control environment, including risk monitoring;
- enterprise risk management;
- regulatory horizon scanning;
- emerging risk identification and awareness; and
- provision of risk Management Information to the Board and senior committees of the Bank.

Third Line of Defence ("TLOD")

The TLOD comprises the Bank's Internal Audit function. To ensure effective coverage of its activities and risk universe, the Bank has elected to fully outsource its internal audit requirements. The Bank's TLOD is currently outsourced to Deloitte LLP.

The TLOD is responsible for providing independent assurance on the effectiveness of the design and implementation of the Bank's control environment for the management of risk, considering the Bank's exposures to risks, its strategy and its risk appetite.

TLOD responsibilities are contained within an Internal Audit Charter, which is subject to the independent oversight of the Board Audit and Compliance Committee. In addition, Deloitte LLP produces an annual conclusions report to provide the Board Audit and Compliance Committee with an over-arching assessment of the Bank's risk and control framework, encompassing governance, the risk management framework, and anything else considered to be relevant. They also produce an audit strategy document that evidences their activities in line with the Bank's strategy and focus areas.

Key risks

The Bank identifies six Level 1 risk categories:

Business and strategy risk: The Bank is exposed to business and strategy risks, such as a failure to meet its performance targets or capital adequacy requirements, and to headwinds from the macro-economic and business environment.

From a capital adequacy perspective, there are risks which could threaten the Bank, including credit risk losses from loans, operational risk losses from service interruptions, error or fraud, and mismanagement of the business resulting in inadequate margins, excessive costs or capital loss.

The Bank aims to ensure that enough capital is held to remain solvent should it suffer losses arising from a range of severe but plausible scenarios. It has prepared base case and sensitised forecasts, which consider capital requirements and liquidity, for a period of five years from the date of reporting of these financial statements. The Bank and its Directors anticipate that the Bank will require additional capital from investors to fulfil its potential and meet future business plans of increased growth, and achieve improved, sustainable profitability, and are actively progressing with capital-raising initiatives as described in the CEO report that, if successful, will increase the Bank's available regulatory capital.

Credit and concentration risk: Represents the risk of loss from a business customer or wholesale counterparty either defaulting on their debt or failing to make timely repayments on a loan. It also covers the risk to the Bank from having concentrations of lending to borrowers or groups of borrowers with similar risk characteristics, or heightened exposures in a geographic area, industry, or product type.

The Bank aims to maintain its lending profile within its stated credit risk appetite and credit risk framework. It will continue to carefully monitor the performance of its lending portfolio and will consider adjusting it as required in response to changes in the lending market and in the economy. For instance, the Bank launched fixed rate products focusing on residential buy-to-let lending to meet customer demand. This reduced the likelihood of customers being negatively impacted by increases in the Bank of England base rate, and also optimises the Bank's capital utilisation. At all times, it will seek to ensure that it maintains an acceptable profile in terms of Loan to Value ("LTV") and Debt Service Coverage Ratio ("DSCR") for new lending.

Liquidity and funding risk: The Bank is funded primarily with deposits from specialist markets, such as small and medium-sized businesses, clubs, associations and charities. Maintaining the confidence of those depositors is of paramount importance. The Bank has continued to observe a high retention rate on its fixed term bonds, which evidences the building of a trusted, long-term relationship with the Bank's existing deposit customers. To date, the Bank has built a deposit base consisting of maturity profiles that allow it early sight of depositor withdrawals, or adverse depositor behaviour, and therefore allows management to manage these in advance of any risks crystallising.

Operational risk: In order to facilitate its business aims, the Bank faces a range of operational risks arising from its activities and processes. It ensures that it maintains appropriate frameworks, policies and methodologies to identify, assess, manage and monitor these. This includes maintaining resilience within its technology and operational processes to threats arising from cyber-attacks, malicious employee conduct, disruptions to its important business services, management of material third-party arrangements and appropriate physical security arrangements.

The Bank has implemented a forward-looking operational resilience approach to ensure it can both withstand and recover from disruptions. This includes undertaking regular business impact analyses to identify key Bank activities, dependencies, and vulnerabilities, supported by an annual programme of testing to identify improvements and validate recovery assumptions. This approach meets the regulatory requirement to safeguard customers and ensure the continuity of important business services. In accordance with the PRA and FCA operational resilience requirements (per SS1/21 and SYSC 15A), the Board attested to the Bank's operational resilience in February 2025, ahead of the March 2025 regulatory deadline.

The Bank holds adequate levels of regulatory capital to absorb losses arising from a range of severe but plausible scenarios that may arise from operational risks crystallising, and it reassesses the level of capital required to offset potential operational risk losses as part of its internal capital adequacy assessment process ("ICAAP").

Compliance and regulatory risk: Reflects the risk arising to the Bank from it not meeting its regulatory and legal requirements, and also from creating poor customer outcomes or a negative perception of the Bank that could adversely affect the Bank's ability to deliver its strategic plan. The Bank maintains an open and transparent relationship with its regulators, alongside maintaining a robust horizon-scanning process that allows the Bank to understand, adopt and comply legal and regulatory requirements as they arise.

Conduct risk: Represents the risk that the Bank's behaviours, culture, or approach lead to poor outcomes for customers, reputational damage to the Bank, or that these may harm the broader market in which it operates. The Bank seeks to mitigate this risk by ensuring that appropriate focus is provided on the customer within all stages of the customer journey and operational processes, and that its staff are appropriately trained and skilled in the areas in which they operate.

Good customer outcomes are central to the Bank's culture, with products, processes and communications developed, assessed and tracked to ensure appropriate consideration is given to its customers. In addition, the Bank ensures that staff adhere to its corporate values through assessment of behaviours in its individual performance evaluation process.

Risks and uncertainties

UK economic headwinds

The UK economy growth rate for 2024 was weaker than expected, particularly in the second half of 2024, with gross domestic product ("GDP") flat in Q3 2024 and a 0.1% growth in Q4 2024. In the recent projection from the HM Treasury, the economy is forecast to grow by 1.0% in 2025 and by 1.3% in 2026[1] . A low growth environment in the UK is expected to persist in the medium term.

The Bank of England Base Rate has decreased from 5.25%, which was a 15-year high, to 4.75% during the year. Market consensus expects that interest rates will continue to fall over 2025 and 2026 but with varying views on the extent and timings of those reductions. It is notable that while the Consumer Price Index ("CPI") for the UK continued to fall throughout 2024, it continued to be above the Bank of England's 2% target (2.5% in Q4 2024). Inflation is forecast to moderately increase in the second half of the year (3.7% in Q3 2025) which may further impact the pace and quantum of any future interest rate reductions.

The slower-than-anticipated fall in interest rates and continued above-target inflationary environment means customer loan affordability is likely to remain strained in the short to medium term. The Bank continues to perform detailed analyses of potential credit losses and holds impairment provisions in line with IAS 39, based upon its loan book performance to date. Regular Management Information is provided to senior management and the Board Risk Committee on the credit performance of the Bank's portfolio. As part of the Bank's underwriting processes, a detailed assessment is undertaken to assess the borrower's ability to service the proposed debt, including under stressed repayment conditions. The Bank has also transitioned a significant part of its book from variable rate to fixed rate lending throughout 2023 and 2024, which provides greater certainty of repayments for customers in the event of interest rate changes.

The Bank also recognises the challenges presented by the broader geo-political environment and, in particular, the impact of the Russia/Ukraine war, as well as continued tension in the Middle East, on the global economy, and how these conflicts have the potential to continue to exacerbate some of the headwinds mentioned above, with specific regard to the implications on energy costs and overall inflation levels. Following the recent change in the US presidency, the increases in trade tariffs between major global economies may increase the risk of a global recession and add further pressures to the domestic markets in which Redwood operates. As such, the Bank will remain wary of the impact of any contagion of global events on the UK economy.

Cyber risk

Cyber security risk has become and remains one of the industry's largest concerns in recent years. The continuous volume of changes in cyber attacks, making use of ever more sophisticated methods, pose ongoing risks given the Bank's reliance upon technology infrastructure and the performance of third-party technology, in common with most UK financial services firms. The Bank recognises the potential for cyber attacks to have a severe impact on its reputation, its staff and its customers, in the short and longer term, from the potential inability to deliver services and secure data, to lost future income and other impacts arising from reputational damage.

The Bank maintains systems, training and controls designed to reduce the probability of a successful cyber threat, while retaining response capabilities that allow

[1] Forecasts for the UK economy, HM Treasury, March 2025

the Bank to limit the impacts and restore services in a prompt manner in the event of a successful cyber security breach. The Bank continues to assess these capabilities internally and using external technology specialists, and the Bank's cyber-security processes, tools and governance arrangements are subject to ongoing assessment, enhancement and review.

Artificial intelligence ("AI")

The breadth and extent of the use of artificial intelligence across financial services, and industry more generally, continues to increase at pace. While this presents an opportunity, the Bank also remains cognisant of the risks posed from uncontrolled use and misapplication of AI, and its potential to exacerbate data loss and enable fraudulent activity.

To address this, the Bank has introduced a specific AI policy, while the Bank's AI processes, tools and governance arrangements will be subject to continual enhancement and review to ensure they remain relevant to an area of fast-paced development across the sector.

Regulatory change

The Bank is cognisant of the ongoing and upcoming regulatory changes that small UK banks are required to interpret and, where relevant, implement. The continuing roll-out of the Small Domestic Deposit Takers regime alongside Basel 3.1 is likely to have significant implications for the Bank and the industry collectively, in terms of future capital requirements. Furthermore, the recent delay to the implementation of Basel 3.1 and lack of clarity on approach to implementing some elements of the regime for smaller UK banks creates additional regulatory uncertainty over the next 12 to 24 months. The Bank is closely monitoring regulatory development, in particular in light of the new UK government's policy to support SME finance and growth without harming international competitiveness, and the potential for moderating the current regulatory framework in an attempt to boost economic growth.

The Bank maintains a robust and forward-looking process of regulatory horizon scanning for identifying and interpreting upcoming regulatory change at the earliest possible stage, allowing appropriate allocation of resource and, where relevant, identification of any skills gaps that need to be addressed. The Bank will continue to maintain this process and proportionately address relevant regulatory change as it arises. It has also ensured, as part of its budgeting, forecasting and capital processes, that it understands the potential impacts of changes to prudential requirements to the extent possible, based on information available to the industry.

Operational resilience

The Bank is dedicated to achieving and maintaining operational resilience, a critical aspect of its commitment to safeguard its customers and ensure the continuity of its critical services. In accordance with the PRA and FCA operational resilience requirements in SS1/21 and SYSC 15A, the Bank has identified its Important Business Services, set Impact Tolerances and obtained Board approval for its 2024 self-assessment. Ahead of the regulatory March 2025 deadline, the Board attested to the Bank's resilience, underscoring its adherence to regulatory requirements and its proactive stance on operational resilience.

The Bank's operational resilience strategy is centred around several key focus areas, including the establishment of a rigorous testing schedule designed to demonstrate its capability to operate within the regulatory frameworks. These tests are comprehensive, covering various scenarios to ensure the Bank can effectively respond to and recover from potential disruptions within the Impact Tolerances for the critical customer-facing services.

In addition to internal measures, the Bank places significant emphasis on the resilience of its supply chain. In line with SS2/21, the Bank has implemented robust controls for its outsourced and material third-party providers, ensuring that they adhere to the same high standards of operational resilience. This includes regular reviews to verify their ability to support resilience objectives. By integrating these rigorous practices throughout the Bank's operations and supply chain, the Bank can confidently attest to its overall operational resilience.

This comprehensive, proactive approach not only meets regulatory requirements, but also strengthens the Bank's overall stability, enhancing customer trust and ensuring the reliability of our services. For 2025, the Bank will continue to evolve its operational resilience landscape and embed its 'resilient by design' approach into the Bank's change processes, ensuring the ongoing future protection of its customers and the Bank itself.

Consumer Duty

In response to Consumer Duty, the Bank continues to embed its requirements across the business and has assigned an independent Non-Executive Director as Consumer Duty Champion. The product development and governance procedures ensure that all products are assessed against customer outcomes, as part of the design, development and approval process. The Bank's customer feedback framework ensures that customer feedback is collected consistently and is carefully considered, ensuring that the Executive Committee and Board have clear visibility of customer views.

Remuneration

Background

The Bank offers competitive remuneration that is determined by business needs and market rates and levels, and aims to attract and retain a diverse workforce with the ability, experience and skills to deliver on the Bank's strategy in an inclusive and equal work environment. All remuneration (variable and fixed) is based on the foundation of equal pay for equal work or work of equal value, across all genders, ethnicities and backgrounds.

The overarching principles of the Bank's Remuneration Policy are to:

- provide a remuneration framework that considers conduct and promotes good outcomes for customers;
- promote the long-term success of the Bank;
- attract, motivate and retain high-performing employees;
- adhere and respond to the regulatory framework for the financial services sector;
- be consistent with the Bank's risk policies and systems to guard against inappropriate risk-taking; and
- ensure alignment with the business strategy, objectives, values and long-term interests of the Bank.

Governance and risk management

The Bank's Remuneration Committee ensures that its Remuneration Policy is consistent with and promotes sound and effective risk management. The Policy does not encourage risk-taking that exceeds the level of tolerated risk of the Bank as expressed in its Risk Appetite Statement, is updated periodically, and is approved by the Board.

In setting its Remuneration Policy, the Bank has given consideration to the principles and provisions relating to remuneration in the FCA's Remuneration Code and the Remuneration Part of the PRA Rulebook.

Remuneration components

Remuneration consists of two elements, fixed remuneration and variable remuneration.

1. Fixed remuneration
   The Bank aims to provide all employees with fair and competitive remuneration to facilitate long-term commitment of employees at all levels to grow and sustain the Bank's business. Base salaries are set according to market-related salary ranges that reflect the size, skill, level, or responsibilities attached to each role. The Remuneration Committee is provided with appropriate information to enable it to assess the appropriateness of the Bank's fixed remuneration.
2. Variable remuneration
   The required behaviours set by the Bank, combined with individual and corporate performance against objectives, inform the variable components of the Bank's remuneration package. The variable pay structure includes annual cash settled bonuses, and additionally, for key senior management, includes a Long-Term Incentive Plan ("LTIP").

Further information on remuneration is detailed in Notes 2.15, 9 and 10 to the accounts.

Sustainability

Environmental, social and governance key pillars

During 2024, we have considered the management of ESG issues in line with the Task Force on Climate-Related Financial Disclosures (TCFD) key pillars: governance, strategy, risk management, and metrics and targets. The Bank is also conscious of the International Sustainability Standards Board ("ISSB") Standards (the "Standards") IFRS S1 and S2 (general requirements and climate-related disclosures). The UK is expected to adopt the Standards in 2025, creating the UK Sustainability Reporting Standards ("UK SRS"), and the Bank is monitoring how S1/S2 will affect its reporting in future periods.

Governance

The Bank has demonstrated a strong commitment to governance around ESG matters, establishing clear structures and processes to oversee its ESG strategy and performance. The Board of Directors plays a crucial role, receiving regular reports from the ESG Manager and championing a strong ESG culture within the organisation. Furthermore, the enhancement of key governance forums, such as the climate change and ESG working groups, underscores the Bank's dedication to robust accountability and oversight. These groups regularly evaluate and document sustainability, ESG and climate-related risks and opportunities. Sustainability and climate-related matters are also discussed at each Executive Committee meeting.

The Board emphasises the importance of fostering a strong ESG culture within the organisation. This involves embedding ESG considerations into the Bank's values, promoting responsible business practices across all levels of the organisation, and ensuring that ESG considerations are integrated into the decision-making processes of the Bank.

Climate-risk training is also scheduled for delivery to the Board in 2025, further highlighting the Bank's commitment to ensuring its leadership is well-equipped to address these complex issues. In addition to this, our proactive engagement with industry peers, working groups and regulators will support us in staying informed about evolving best practices and regulatory expectations, which is essential for maintaining robust ESG governance.

Strategy

The Bank has deeply integrated ESG considerations into its strategic planning. As part of this and recognising the significant and interconnected nature of environmental, social and broader sustainability challenges, the Bank has developed a comprehensive ESG strategy and ambition timeline that will aid in supporting business decisions and operations.

In 2024, the Bank produced a longer-term 'ESG Strategic Horizon Action Plan' out to April 2026, endorsed by the Board, to formally set a timeline for environmental, social and governance pillars within the Bank. This plan was developed alongside a comprehensive gap analysis completed against the Bank's current state and leading global sustainability disclosure standards, thereby setting its timeline in conjunction with best practice.

Risk management

The Bank employs a robust and comprehensive approach to managing climate-related risks. This includes conducting scenario analysis and stress testing, and incorporating a climate change stress test within its ICAAP. The Bank considers the potential financial impacts of various climate-related scenarios, including extreme weather events, policy changes, and market disruptions. The Bank continuously assesses its exposure to climate-related risks, such as the potential impact of changing regulatory requirements; for example, regarding Energy Performance Certificate standards for rental properties.

Climate-related risk factors are also integrated into the Bank's overall risk management framework and risk appetite statement. This ensures that climate risks are appropriately considered alongside other key risks, such as credit risk, market risk and operational risk, in the Bank's decision-making processes. The Bank also considers transition risks, such as the potential for policy shifts and market disruptions as the global economy transitions to a low-carbon model.

Beyond climate-related risks, the Bank recognises the importance of managing broader sustainability and ESG-related risks, identifying and including supply chain disruptions, social unrest, or governance failures.

Metrics and targets

The Bank is committed to measuring and tracking its ESG performance to ensure accountability and continuous improvement. Key metrics and targets that are under development consider:

- Carbon footprint reduction: The Bank actively seeks to reduce its carbon footprint through initiatives such as energy efficiency measures in its offices, the promotion of sustainable transport for employees and the reduction of paper consumption.
- Green mortgage growth: The Bank closely monitors the uptake of its green mortgage proposition, the Green Reward. The Bank has set ambitious targets for the growth of its green mortgage portfolio, aiming to significantly increase the number of energy-efficient properties financed through its lending activities.
- Community impact: The Bank actively engages in community outreach programmes and supports local charities. The Bank tracks its community impact through metrics such as the number of volunteer hours contributed by employees, the level of charitable donations made and the positive social and environmental outcomes of its community engagement initiatives.

Looking ahead

The Bank recognises the dynamic nature of climate-related risks and the evolving ESG landscape. The Bank remains committed to integrating ESG considerations into all aspects of its business and contributing to a more sustainable future, including an aim to transition to net zero while also supporting customers, colleagues and the wider community.

> Good customer outcomes are central to the Bank's culture, with products, processes and communications developed, assessed and tracked to ensure appropriate consideration is given to its customers. In addition, the Bank ensures that staff adhere to its corporate values through assessment of behaviours in its individual performance evaluation process.

Colleagues

The Bank has a positive culture where customers come first, as reflected in high satisfaction and likelihood to recommend scores. This is supported by a strong leadership team and Board, with significant experience of growing challenger banks. The Bank has continued to operate successfully under a hybrid staff working model, regardless of seniority or role, during the year. It has actively monitored staff engagement and has promoted well-being by raising mental health awareness and offering health assessments to all employees.

An 84% response rate and an 86% engagement score were achieved in the Employee Engagement survey conducted through People Insight in January 2024. The high scores in relation to how committed to and satisfied with the Bank employees are placed the Bank in the upper quartile of all the organisations surveyed. This recognises the effort, investment and value the Bank puts into employee engagement. When asked to note the best thing about working for the Bank, the top five keywords used by our people were 'people', 'work', 'culture', 'team' and 'caring'. The Bank also assigned an independent Non-Executive Director representative to engage with the workforce to further ensure their voices are heard by the Board. A follow-up pulse survey was conducted in October 2024 which saw a response rate of 79% and 87% engagement score. Overall, the survey results were extremely positive particularly around engagement and leadership.

The Bank recognises the benefits that diversity, equity and inclusion ("DE&I") bring to the business and colleagues. The Bank continued to make strides in expanding its employees' awareness of DE&I efforts and their role in it.

In 2024, the Bank introduced a women's networking forum and as part of this initiative joined Women in Banking and Finance ("WIBF"), which provides a variety of benefits to its members such as development programmes and networking events. The Bank also renewed its mentoring programme for all staff, regardless of age and seniority, which includes training for mentors and mentees. In addition, the Bank appointed two menopause champions who are trained on menopause signs and symptoms to guide colleagues.

The Bank operates a Culture Club that is run and chaired by colleagues representing all areas of the Bank, with feedback being provided to the Executive Committee and Board on a regular basis. In addition, an internal DE&I group further supports the active initiatives and policies already in place and ensures that the Bank provides equal opportunities to all. The Bank is looking to amalgamate the two groups into one colleague forum. This combined approach will create a more integrated and effective platform for enhancing workplace culture, driving employee engagement and supporting the People Team in meeting its diversity and inclusion objectives.

The Bank continues to address diversity within the senior leadership population and takes a holistic approach to addressing diversity, inclusion and welfare throughout the organisation.

This report was approved by the Board on 7 May 2025 and signed on its behalf.

Gary Wilkinson
Chief Executive Officer

Directors' report

For the year ended 31 December 2024

Directors' report
for the year ended 31 December 2024

The Directors present their report and the financial statements for the year ended 31 December 2024.

Results and dividends

The profit for the year, before taxation, amounted to £2,697,814 (2023: £5,536,935).

The Directors do not recommend the payment of a dividend for the year ended 31 December 2024 (2023: £nil).

Directors

The Directors who served during the year were:

Mark Winlow [Chairman]

Gary Wilkinson [Chief Executive Officer]

Robert Endersby
resigned on 30 September 2024

Rajesh Khosla

Tina Kokkinos
appointed on 1 November 2024

John Lowe

Jerry Loy

Ashraf Piranie – resigned on 31 March 2025[1]

Maria Elizabeth Walker

Political and charitable contributions

The Bank made no political donations during the year.

The Bank made charitable donations totalling £34k (2023: £22k) in the year.

Key risks

Information regarding key risks and emerging risks is contained within the Strategic Report on pages 24 to 26 and Note 12.

Future developments and prospects

The Bank has remained profitable, despite the significant headwinds faced over the past few years and will continue to build on the strong foundations that have been put in place.

It is committed to delivering simple and transparent financial products in a timely fashion to businesses, and any new products launched will be designed to meet the financial needs of customers.

Through continued investment in its people and infrastructure, the Bank will continue to deliver excellent levels of customer service for businesses and their owners, as it enters the next phase of its growth, which will be supported by the successful completion of the Bank's capital-raising initiatives.

Directors' indemnities

The Board of Directors has in place a directors' and officers' liability insurance policy to indemnify the Directors and officers of the Company against loss arising from any claim made against them jointly or severally for any failure of duty of care in their capacity as Director or Officer of the Company.

[1] Sergio Soares Cruz was appointed as CFO on 1 April 2025 (subject to regulatory approval).

Going concern

The financial statements are prepared on a going concern basis, as the Directors believe that the Bank has sufficient resources to continue its activities for a period of at least 12 months from the date of approval of the financial statements (the going concern period).

For the year ended 31 December 2024, the Bank recognised a profit before tax of £2.7m. The Bank's total assets as at 31 December 2024 were £635.4m. The Bank has £140.4m of liquidity resources, of which £25.0m are encumbered as collateral for its TFSME borrowings. The liquidity resources comprise cash and cash equivalents, and other highly liquid assets, as at 31 December 2024.

The Directors have prepared base case and sensitised forecasts, which consider both capital requirements and liquidity, for a period of at least 12 months from the date of approval of these financial statements. The base case and sensitised forecasts do not assume any further capital injections from shareholders. In preparing those forecasts, the Directors have considered the current economic uncertainty, high interest rates and the inflationary environment.

The Directors have considered severe but plausible downside scenarios, including stress tests aligned to the Bank's Recovery Plan and the effects of management actions taken as a result. These stress scenarios are aligned to the Bank of England's prescribed stress tests. The Board has concluded that both capital and liquidity forecasts, after management actions, met minimum regulatory requirements over the going concern period.

Therefore, the Directors have concluded that it is appropriate to prepare the accounts on a going concern basis.

Disclosure of information to the auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Directors are aware, there is no relevant audit information of which the Bank's auditor is unaware; and
- the Directors have taken all the steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

Post year-end events

There have been no significant or reportable events following the year end.

Auditor

The Audit and Compliance Committee considered the Financial Reporting Council Audit Quality Inspection and Supervision Report 2024 of Forvis Mazars LLP and the auditor's audit plan to be satisfactory to improve audit quality as a result of the findings of the report.

The auditor, Forvis Mazars LLP, has indicated their willingness to continue as the Bank's auditor. A decision to reappoint will be undertaken by the Bank in due course.

This report was approved by the Board on 7 May 2025 and signed on its behalf.

Gary Wilkinson
Chief Executive Officer

Suite 101
The Nexus Building Broadway
Letchworth Garden City
England
SG6 3TA

Directors' responsibilities statement

For the year ended
31 December 2024

Directors' responsibilities statement

The Directors are responsible for preparing the strategic report, the Directors' report, and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of 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;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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. They 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.

Independent auditor's report

For the year ended 31 December 2024

Independent auditor's report

To the members of Redwood Bank Limited

Opinion

We have audited the financial statements of Redwood Bank Limited (the 'Bank') for the year ended 31 December 2024 which comprise the Statement of Profit and Loss and Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2024 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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.

In addition to those matters set out in the "Key audit matters" section below, we identified going concern of the Bank as a key audit matter.

The financial statements explain how the Directors have formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Bank's financial statements. *Refer to significant accounting policy (Note 2.2) of the financial statements.*

Management's judgement is based on an evaluation of the inherent risks to the Bank's business model, such as interest rate, liquidity and credit risk and how those risks may affect the Bank's financial resources or ability to continue in operation for at least 12 months from the date of approval of the financial statements. The Bank has been self-sustainable after achieving profitability for four consecutive years. Increases in base rates have contributed to improved profitability, however, rates have since decreased from the recent peak. Losses to date have been low on the lending book, however there is a risk that losses will increase due to ongoing macroeconomic uncertainty. The impact of each of these risks individually, or in combination, may cast doubt about the Bank's ability to continue as a going concern and therefore require significant focus in the audit.

Our audit procedures to evaluate the directors' assessment of the Bank's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Bank's future financial performance;

- With the assistance of our regulatory reporting experts, assessing the sufficiency of the Bank's capital and liquidity and reasonableness of the Bank's recovery plan. We considered the Bank's most recent Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP'), evaluated the results of management stress testing, and performed independent stress testing;
- Challenging the appropriateness of the directors' key assumptions in the cash flow forecasts, as described in Note 12, by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the directors' consideration of severe but plausible scenarios. This included assessing the viability of mitigating actions within the directors' control;
- Assessing the historical accuracy of the forecasts prepared by the directors;
- Considering the consistency of the directors' forecasts with other areas of the annual accounts and our audit;
- Testing the accuracy and functionality of the model used by the directors to prepare their forecasts;
- Reading regulatory correspondence and minutes of meetings of the Risk Committee, the Audit and Compliance Committee and the Board of Directors;
- Considering whether there were events subsequent to the balance sheet date that could have a bearing on the going concern conclusion. This included reviewing an impact assessment of US tariffs on the Bank's borrowers, and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

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.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) we identified, 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 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.

We summarise below the key audit matters in forming our opinion above, together with an overview of the principal audit procedures performed to address each matter and our key observations arising from those procedures. The matters set out below are in addition to going concern which, as set out in the "Conclusions relating to going concern" section above, was also identified as a key audit matter.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key Audit Matter	How our scope addressed this matter
Impairment of loans and advances to customers **£5,000,944 (2023: £6,646,678)** *Refer to note 2.6 (accounting policies), note 3 (accounting estimates and judgements) and note 18 of the financial statements.* As at 31st December 2024, the Bank had a collective impairment provision of £1.1m (2023: £1.1m) and individual provision of £3.9m (2023: £5.5m) and has a loan portfolio of £492m (2023: £414m). Credit risk is an inherently judgmental area due to the use of subjective assumptions and a high degree of estimation in arriving at the year-end provision. The Bank uses an incurred loss model to calculate an impairment provision. This is comprised of: • An individual provision which is recognised for loans where there is an observable loss event; and • A collective provision which is recorded to recognise credit events that have occurred but have not yet been identified. The individual provision includes loans that have breached arrears thresholds determined by the Bank, and loans considered unlikely to repay for other reasons. Estimating the collective provision requires judgement in deriving the assumptions to be applied. The collective provision model applies assumptions based on a combination of the Bank's experience and external data. Key assumptions in the collective provision include forced sale discount adjustments to property valuations and probability of possession at default. Furthermore, management determines the Probabilities of Default (PDs) using an internal scorecard which has been developed based on judgement to capture relative risk across the lending book.	**Our audit procedures included, but were not limited to:** • Assessing the appropriateness of the impairment methodology used by management and methodology compliance with IAS 39; • Assessing the design and implementation, and testing the operating effectiveness, of key controls over the valuation of security, account monitoring, arrears monitoring and in the determination of impairment model assumptions; • Reviewing the soundness and performance of the internal scorecard and PD curve with assistance from our Quantitative Solutions specialists; • Challenging the appropriateness and reasonableness of external data used in the collective provision based on our understanding of the Bank's portfolio; • Agreeing key data elements within the collective provision model on a sample basis to the underlying sources; • Independently performing the collective provision model data inputs and model calculations. This included reperforming back testing used by management to inform model assumptions; • Testing the reasonableness of key assumptions used in the provisioning methodology and developing independent positions. These key assumptions included forced sale discount adjustments to property valuations and probability of possession at default; • Performing an independent recovery assessment on a sample of defaulted exposures with the assistance of in-house Real Estate experts in reviewing property collateral valuations; • Reviewing the completeness of the individual provision by assessing the reasonableness of default and watchlist criteria and reperforming the application of that criteria; and • Assessing the appropriateness of impairment provision disclosures in the financial statements. **Our observations** Based on the audit procedures performed, we found the resulting estimate of the loan impairment provision to be reasonable and in compliance with IAS 39.

<table>
<tr><th>Key Audit Matter</th><th>How our scope addressed this matter</th></tr>
<tr><td>

Risk of fraud in revenue recognition due to manual adjustments to revenue (EIR) and judgements applied in determining estimated economic life of the loans

£1,098,388 (2023: £1,392,003)

Refer to note 2.3 (accounting policies), note 3 (accounting estimates and judgements) and note 17 of the financial statements.

Upfront fees and early redemption charges (ERCs) are recognised using the EIR method. Management is required to apply a degree of judgement and modelling, particularly when determining the future cash flows and behavioural life of loans.

The most significant area requiring judgement is the estimated economic life over which revenue is spread. Judgment is also required in the recognition of ERCs given the inherent uncertainty around future redemptions.

Estimated economic lives and ERCs are modelled based on an analysis of historical redemption behaviour.

Management has built a model in the current year to calculate the EIR on a loan-by-loan basis.

The modelling process relies on manual interventions. There is a risk of fraud in the adjustment of model input data and model calculations. The complex nature of the EIR model increases the likelihood of manual error.

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Our audit procedures included, but were not limited to:

- Assessing the appropriateness of the EIR methodology used by management and compliance with IAS 39;
- Assessing the design and implementation, and testing the operating effectiveness, of key controls over fees and commission income recognised on the EIR basis. These included controls around loan origination and approval of model assumptions;
- Reviewing model coding with the assistance of our Quantitative Solutions specialists.
- Agreeing key data elements within the behavioural life assessment and EIR model on a sample basis to the underlying sources;
- Independently performing the data inputs and calculations used in the behavioural life assessment and EIR model;
- Critically challenging the reasonableness of the behavioural life and early redemption charge estimates with the assistance of our economist experts; and,
- Assessing the appropriateness of EIR disclosures in the financial statements

Our observations

Based on the audit procedures performed, we found the resulting estimate of the EIR method of recognising interest income for the year ended 31 December 2024 to be reasonable.

</td></tr>
</table>

Our application of materiality and an overview of the scope of our audit

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 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 materiality	£493,000 (2023: £455,000)
How we determined it	1% of net assets (2023: 1% of net assets)
Rationale for benchmark applied	We have used net assets as our benchmark as the net assets of the business remains the key focus of users of the financial statements and most closely aligns to the key stakeholder focus of capital.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. We set performance materiality at £246,000 (2023: £228,000), which represents 50% (2023: 50%) of overall materiality. In determining the performance materiality, we considered several factors, including the public interest entity nature of the Bank.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £14,000 (2023: £14,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements, such as assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the Bank, its environment, controls, and critical business processes, to consider qualitative factors to ensure that we obtained sufficient coverage across all financial statement line items.

Other information

The other information comprises the information included in the Annual Report and Accounts other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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.

Based on our understanding of the Bank and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: the regulatory and supervisory requirements of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA), Anti Money Laundering regulations (AML) and General Data Protection Regulation (GDPR).

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the Bank and the industry in which it operates, and considering the risk of acts by the Bank which were contrary to the applicable laws and regulations, including fraud;

- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the Bank is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with relevant licensing or regulatory authorities including primarily the PRA and the FCA;
- Holding a bilateral meeting with the PRA to enhance our understanding of the regulator's focus and potential concerns related to the Bank;
- Reviewing minutes of directors' meetings in the year and up until the date of approval of the financial statements; and
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as tax legislation and the Companies Act 2006.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to data input and model calculations based on the effective interest rate method , and significant one-off or unusual transactions.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing;
- Being sceptical to the potential of management bias through judgements and assumptions in significant accounting estimates, in particular in relation to data input and model calculations based on the effective interest rate method.

The primary responsibility for the prevention and detection of irregularities, including fraud, rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the Audit and Compliance Committee, we were appointed by the Directors on 7 September 2022 to audit the financial statements for the year ending 31 December 2022 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ending 31 December 2022 to 31 December 2024.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the Bank in conducting our audit.

Our audit opinion is consistent with our additional report to the Audit and Compliance Committee.

Use of the audit report

This report is made solely to the Bank's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body for our audit work, for this report, or for the opinions we have formed.

Forvis Mazars LLP

Forvis Mazars LLP (May 7, 2025 18:25 GMT+1)

Martin Orme (Senior Statutory Auditor)
for and on behalf of Forvis Mazars LLP

Chartered Accountants and Statutory Auditor
30 Old Bailey
London
EC4M 7AU
7 May 2025

Financial Statements

For the year ended 31 December 2024

Statement of profit and loss and comprehensive income

	Note	2024	2023
		£	£
Interest receivable	4	49,521,006	46,123,616
Interest payable	5	(23,269,459)	(17,294,646)
Net interest income		**26,251,547**	**28,828,970**
Fair value losses on financial instruments	6	(8,932)	-
Total income		**26,242,615**	**28,828,970**
Administrative expenses	7	(21,675,255)	(20,509,671)
Operating profit before impairment charge		**4,567,360**	**8,319,299**
Impairment charge on loans and advances to customers	18	(1,869,546)	(2,782,364)
Profit before tax		**2,697,814**	**5,536,935**
Tax charge	11	(869,726)	(1,332,686)
Profit for the year		**1,828,088**	**4,204,249**
Other comprehensive income:			
Movement in available-for-sale investments		-	21,961
Other comprehensive income for the year, net of tax		**-**	**21,961**
Total comprehensive income		**1,828,088**	**4,226,210**

There were no recognised gains and losses for 2024 or 2023, other than those included in the statement of profit and loss and comprehensive income. The results for the current and preceding years relate entirely to continuing operations.

The accompanying notes form part of these financial statements.

Statement of financial position

	Note	2024	2023
		£	£
Assets			
Cash and balances at central banks	13	115,416,225	109,250,259
Treasury bills and gilts	14	25,011,813	73,494,617
Other assets and prepayments	16	1,231,228	1,037,196
Loans and advances to customers	17	492,244,170	413,983,306
Fair value adjustments on hedged assets	20	(407,884)	-
Derivative assets	19	435,343	-
Tangible fixed assets	21	151,269	174,182
Intangible fixed assets	22	1,011,135	783,820
Deferred tax assets	11	307,517	331,990
Total assets		**635,400,816**	**599,055,370**
Liabilities			
Amounts due to banks	23	18,726,182	38,067,988
Customer deposits	24	552,995,571	499,967,473
Tax liabilities		303,938	222,250
Other liabilities and accruals	25	4,994,868	4,245,490
Subordinated debt	26	9,000,000	9,000,000
Total liabilities		**586,020,559**	**551,503,201**
Issued capital and reserves:			
Called up share capital	27	111	111
Share premium reserve	28	47,922,405	47,922,405
Retained earnings	28	1,457,741	(370,347)
Total equity		**49,380,257**	**47,552,169**
Total equity and liabilities		**635,400,816**	**599,055,370**

The accompanying notes form part of these financial statements. The financial statements including the notes on pages 44 to 79 were approved and authorised for issue by the Board of Directors on 7 May 2025 and were signed on its behalf by:

Gary Wilkinson
Chief Executive Officer
Company registered number: 09872265

Statement of changes in equity

	Share Capital	Share Premium	Available-for-sale reserve	Retained earnings	Total equity
	£	£	£	£	£
At 1 January 2023	111	47,922,405	(21,961)	(4,574,596)	43,325,959
Profit for the year	-	-	-	4,204,249	4,204,249
Other comprehensive income for the year	-	-	21,961	-	21,961
Total comprehensive income for the year	-	-	21,961	4,204,249	4,226,210
At 31 December 2023	**111**	**47,922,405**	**-**	**(370,347)**	**47,552,169**
At 1 January 2024	111	47,922,405	-	(370,347)	47,552,169
Profit for the year	-	-	-	1,828,088	1,828,088
Total comprehensive income for the year	-	-	-	1,828,088	1,828,088
At 31 December 2024	**111**	**47,922,405**	-	**1,457,741**	**49,380,257**

The accompanying notes form part of these financial statements.

Statement of cash flows

	Note	2024	2023
		£	£
Cash flows from operating activities			
Profit for the year		1,828,088	4,204,249
Adjustments for			
Amortisation of intangibles	22	336,289	216,413
Depreciation of tangible assets	21	92,566	96,581
Impairment charge on loans and advances to customers	18	1,869,546	2,782,364
Increase in customer deposits		53,028,098	52,794,173
Increase in other liabilities		749,378	1,346,720
Increase in other assets		(194,032)	(183,415)
Redemption of TFSME		(19,100,000)	-
(Decrease)/increase in interest payable on TFSME		(241,806)	205,532
Net increase in derivatives and hedged items		(27,459)	-
Net increase in loans to customers		(80,130,410)	(13,393,698)
Finance cost for subordinated debt		586,603	585,000
Fair value change of treasury bills and gilts		-	21,961
Income tax	11	106,161	1,332,686
Cash (utilised)/generated from operating activities		**(41,096,978)**	**50,008,566**
Interest paid for subordinated debt		(586,603)	(585,000)
Net cash (used)/generated from operating activities		**(41,683,581)**	**49,423,566**
Cash flows from investing activities			
Purchases of tangible fixed assets	21	(69,653)	(104,556)
Purchases of intangible assets	22	(563,604)	(551,237)
Acquisition of treasury bills and gilts	14	(5,053,587)	(44,402,384)
Proceeds on sale/maturity of treasury bills and gilts	14	53,536,391	20,866,125
Net cash generated/(used) in investing activities		**47,849,547**	**(24,192,052)**
Net cash increase in cash and cash equivalents		**6,165,966**	**25,231,514**
Cash and cash equivalents at the beginning of year		109,250,259	84,018,745
Cash and cash equivalents at the end of the year		**115,416,225**	**109,250,259**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2024

Notes to the financial statements

1. General information

The Bank is a limited company incorporated in the UK. The Bank's registered office is at Suite 101 The Nexus Building, Broadway, Letchworth Garden City, Hertfordshire SG6 3TA. The Bank's principal activity is in providing lending and deposit products for small and medium-sized enterprises.

2. Accounting policies

2.1 Basis of preparation of financial statements

These annual accounts have been prepared in accordance with the Companies Act 2006 and Financial Reporting Standard 102 applicable in the UK and Republic of Ireland ("FRS 102") in conjunction with IAS 39 'Financial Instruments: Recognition and Measurement' (via the option in FRS 102 para 11.2 (b)).

The presentation currency of these financial statements is pound sterling. All amounts in the annual accounts have been rounded to the nearest £.

The financial statements have been prepared under the historical cost basis unless otherwise specified in the accounting policies.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the annual accounts and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

2.2 Going concern

The financial statements are prepared on a going concern basis, as the Directors believe that the Bank has sufficient resources to continue its activities for a period of at least 12 months from the date of approval of the financial statements (the going concern period).

For the year ended 31 December 2024, the Bank recognised a profit before tax of £2.7m. The Bank's total assets as at 31 December 2024 were £635.4m. The Bank has £140.4m of liquidity resources, of which £25.0m are encumbered as at 31 December 2024. The liquidity resources comprise cash and cash equivalents, and other highly liquid assets.

The Directors have prepared base case and sensitised forecasts, which consider capital requirements and liquidity, for a period of at least 12 months from the date of approval of these financial statements. The base case and sensitised forecasts do not assume any further capital injections from shareholders. In preparing those forecasts, the Directors have considered the current economic uncertainty, high interest rates and current and expected inflationary environment.

The Directors have considered severe but plausible downside scenarios, including stress tests aligned to the Bank's ICAAP and ILAAP and the effects of management actions taken as a result. These stress scenarios are aligned to the Bank of England's prescribed stress tests. The Board concluded that capital and liquidity forecasts remained within present regulatory requirements, including use of capital buffers, assessed before and after management actions, over the going concern period. Therefore, the Directors have concluded that it is appropriate to prepare the accounts on a going concern basis.

2.3 Interest income and interest expense

Interest income and expense are recognised in the statement of profit and loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. Fees that have been charged but not yet recognised in the statement of profit and loss are recognised as deferred fee income and offset against the lending balances in the statement of financial position.

The calculation of the effective interest rate includes those transaction costs and fees paid or received which are deemed to be an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on available-for-sale investment securities calculated on an effective interest rate basis.

2.4 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the Bank; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost. After recognition, under the historical cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses. The Bank does not capitalise internal costs, and cloud-based computing costs are expensed.

Amortisation is provided to write down the intangible assets on a straight-line basis over their expected useful economic lives. It is provided at the following range:

• Computer software	3-5 years
• Website development	3-5 years

2.5 Tangible fixed assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Bank.

Depreciation is provided on all other items of property, plant and equipment to write off their carrying value over their expected useful economic lives. It is provided at the following range:

• Office equipment	3-5 years
• Computer equipment	3 years
• Office fittings	6 years

2.6 Financial instruments

Recognition

The Bank initially recognises loans and advances, deposits, debt securities, subordinated debt and derivative instruments on the date on which they are originated. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

<u>Financial assets</u>

The Bank classifies its financial assets into one of the following categories:

Loans and advances to customers

'Loans and advances to customers' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method (see Note 3). Initial measurement at fair value is usually equivalent to the transaction price.

Where exposures are hedged by derivatives, designated and qualifying as fair value hedges, the fair value adjustment for the hedged risk to the carrying value of the hedged loans and advances is reported in fair value adjustments for hedged assets.

Undrawn commitments

Undrawn commitments relating to loans that have been approved and not been drawn, terms of which can be withdrawn at the discretion of the Bank, are considered to be outside the scope of IAS 39.

Treasury bills and gilts

Treasury bills and gilts intended to be held on a continuing basis, other than those designated at fair value, are classified as available for sale, or held to maturity. They are recognised on the trade date the Bank enters contractual arrangements to purchase those instruments and are normally de-recognised when either the securities are sold or when the Bank no longer has contractual right to the cash flows associated with the Treasury bill or gilt.

'Available-for-sale financial assets' are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income until the assets are either sold or become impaired. When available-for- sale financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the statement of profit and loss.

'Held-to-maturity' investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank positively intends, and is able, to hold to maturity. Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost, less any impairment losses. Interest is recognised at the effective interest rate to the maturity of the asset in the statement of profit and loss.

Other fair value changes, other than impairment losses, are recognised in 'Other comprehensive income' and presented in the available for sale reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit and loss.

Financial liabilities

'Trade creditors' are initially measured at transaction price plus attributable transaction costs and are subsequently measured at amortised cost.

'Subordinated debt' is initially measured at transaction price plus attributable transaction costs, and is subsequently measured at amortised cost, using the effective interest rate method.

'Bank loans' comprise funding from the TFSME and are initially measured at transaction price plus attributable transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method.

Measurement

Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties, in an arm's length transaction.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised through the statement of profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is wholly supported by observable market data, or the transaction is closed out.

Identification and measurement of impairment

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Bank considers evidence of impairment for loans and advances at both a specific asset and a collective level. All loans and advances are assessed for individual impairment. If there is evidence of impairment then an impairment loss is immediately recognised in the profit and loss account. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

The Bank also assesses its "held-to-maturity" and "available-for-sale-assets" annually for objective evidence of impairment. The Bank's "held-to-maturity" and "available-for-sale-assets" are comprised of UK gilts and Treasury bills. Objective evidence of impairment would include factors such as the UK Government failing to meet interest or debt payments or the disappearance of an active market for the securities. The Bank tests its ability to liquidate gilts and Treasury bills at least annually.

2.7 Derivative financial instruments

The Bank uses derivative financial instruments (interest rate swaps) to manage its exposure to interest rate risk. The Bank does not hold or issue derivative financial instruments for proprietary trading.

2.8 Hedge accounting

The Bank has chosen to apply the hedge accounting requirements of IAS 39 for fair value hedges of interest rate exposures of portfolios of financial assets.

On initial designation of a hedge, the Bank formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. Management makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value of the respective hedged item during the period for which the hedge is designated.

Fair value hedges

Where a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, the change in fair value of the hedged item attributable to the hedged risk is also recognised in profit or loss. If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to profit or loss by adjusting the effective interest rate of the hedged item from the date on which amortisation begins. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss when the item is derecognised.

2.9 Foreign currency translation

Functional and presentational currency

The Bank's functional and presentational currency is GBP. All amounts have been rounded to the nearest pound, unless otherwise indicated.

Transactions and balances

Foreign currency transactions, should they occur, are translated into the functional currency using the spot exchange rates at the dates of the transactions.

The Bank does not currently have any foreign currency exposures.

2.10 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash. These are initially measured at fair value and subsequently recorded at amortised cost.

2.11 Customer deposits

Deposits are initially measured at transaction value and are subsequently measured at amortised cost, including accrued interest, using the effective interest rate method.

2.12 Share capital and equity

Issued financial instruments are classified as equity instruments where the contractual arrangement with the holder does not result in the Bank having a present obligation to deliver cash, another financial asset or a variable number of equity instruments. Where the Bank does have a present obligation, the instrument is classified as a financial liability.

The proceeds of the issuance of equity instruments are included in equity. Costs incurred that are incremental and directly attributable to the issuance are deducted from the proceeds (net of applicable tax).

Distributions to holders of equity instruments are recognised when they become irrevocable and are deducted from the general reserve. Own equity instruments that are reacquired, referred to as treasury shares, are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium.

2.13 Operating leases: the Bank as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. The Bank has no finance leases. All other leases are classified as operating leases.

Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease, unless the payments to the lessor are structured to increase in line with expected general inflation in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in the statement of profit and loss over the term of the lease as an integral part of the total lease expense.

2.14 Pensions

The Bank operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. Once the contributions have been paid the Bank has no further payment obligations.

Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the Bank in independently administered funds.

Contributions to defined contribution pension schemes are charged to the statement of profit and loss in the year to which they relate.

2.15 Long Term Incentive Plan

The Bank has introduced LTIPs for key senior staff. Current LTIPs vest in December 2024 (payable May 2025) and December 2025 (payable April 2026), both of which will be settled in cash, subject to the achievement of the scheme underpins. The initial award is based on personal performance, which is adjusted proportionately for increases or decreases in net asset value ("NAV") from grant to vesting. Employees leaving the Bank before the vesting date will forfeit their LTIPs unless they are deemed good leavers by the Remuneration Committee. The cost of the LTIPs is recognised on a straight-line basis over the life of the Plans, with adjustments made annually for increases or decreases in NAV and membership. The vesting of the LTIPs will be at the discretion of the Remuneration Committee and the Board, and will also take into consideration other criteria, including minimum individual performance and behaviours over the vesting period and the Bank's capital adequacy forecasts.

2.16 Taxation

Tax comprises current tax and deferred tax. Tax is recognised in the statement of profit and loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply on the reversal of the timing difference.

3. Accounting estimates and judgements

The preparation of financial statements in conformity with FRS 102 requires management, from time to time, to make judgements and estimates that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

These estimates are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Effective interest rate

FRS 102 requires interest earned from loans and advances to be measured under the Effective Interest Rate Method ("EIRM"). Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it.

The key assumption applied by management in the EIR methodology is the behavioural life of the assets. For example, the expected life assumption can be subject to changes in internal and external factors and may result in adjustments to the carrying value of loans which must be recognised in the statement of profit and loss and comprehensive income.

Management has limited historical experience of the Bank's customer behaviours due to the relative immaturity of the portfolios and therefore models expected behaviour based on market trends and experience. The actual behaviour of the portfolios is compared to the modelled behaviour on a bi-annual basis and the modelled behaviours are adjusted if the modelled behaviour materially deviates from actual behaviour, with adjustments recognised in the statement of profit and loss and comprehensive income.

A 10% decrease in expected life of loans results in an increase in income of £474k (2023: £427k) and an increase in expected life of 10% would result in an increase in income of £964k (2023: £340k decrease).

Impairment of financial assets

The Bank's accounting policy for impairment of loans and advances to customers is set out in Note 2 and consists of:

- individual assessments of impairment of all mortgage loans that are in default or where other objective evidence exists that all cash flows will not be received; and
- collective assessments of impairment of mortgage loans that are not subject to individual impairment provisions, where there is objective evidence that credit losses have been incurred but not identified at the reporting date.

On an on-going basis the Bank assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence of impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers, or economic conditions that correlate with defaults on assets in the portfolio. Assumptions based on historical loss experience for assets with similar credit risk characteristics and external data are used to assess impairment. The methodology and assumptions used for estimating the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Individual impairments

The recoverable amount is typically dependent on the sale of the collateral. The amount recoverable is determined with reference to:

- the property valuation;
- any haircut arising from a forced sale discount and/or any deterioration in property value;
- the probability of repossession occurring;
- the time taken to realise the sale proceeds; and
- the legal and marketing costs associated with taking possession and selling the property.

A sensitivity analysis was carried out on the following key estimates used to calculate the recoverable amount and therefore the impairment provision required for individual cases:

- if the property valuation haircut increased by 5%, impairments would increase by £967k (2023: £814k); and
- if the time to realise the sale proceeds is increased by three months, impairments would increase by £390k (2023: £207k).

Collective impairment

The Bank has built a model to assess the level of collective impairment provision required. The model uses a number of the key assumptions used similar to the individual assessment as well as a probability of default (PD), which is also modelled. The Bank uses a credit grading model to estimate the PD of its lending. The credit grading model scorecard uses weighted qualitative and quantitative criteria including debt service coverage ratio, loan-to-value and borrower experience, among other factors, to determine a credit score. The score is mapped to an internally generated curve based on the Bank's historic default data to determine the loan-specific PD. The loan-specific PD is recalculated periodically based on changes in the borrower's circumstances and with uplifts applied to accounts in arrears and on the Bank's watchlist.

A sensitivity analysis was carried out on the following key estimates used to calculate the recoverable amount and therefore the impairment provision required for individual cases:

- if the property valuation haircut increased by 5%, impairments would increase by £375k (2023: £350k);
- if the time to realise the sale proceeds is increased by three months, impairments would increase by £101k (2023: £85k);
- if the property marketing and legal costs increased by 1% of sale costs, impairments would increase by £57k (2023: £55k);
- if the probability of repossession given default increased by 10%, impairments would increase by £213k (2023: £112k); and
- if the probability of default increased by 1%, impairment would increase by £175k (2023: £184k).

Details of provisions for impairment losses are shown in Note 18.

4. Interest receivable

The following is an analysis of the Bank's revenue for the year from continuing operations:

	2024	2023
	£	£
Interest income	46,381,484	43,069,689
Fees receivable	1,881,796	2,173,751
Income from treasury assets amortisation and interest	919,093	880,176
Net income on derivative financial instruments	338,633	-
	49,521,006	46,123,616
Analysis of revenue by country		
United Kingdom	49,521,006	46,123,616
	49,521,006	46,123,616

5. Interest payable

	2024	2023
	£	£
Interest payable		
35 Day notice accounts	4,475,209	4,124,187
95 Day notice accounts	7,643,161	6,573,471
1 Year bond	7,116,333	3,550,799
2 Year bond	1,878,276	726,160
5 Year bond	23,084	-
Subordinated debt	586,603	585,000
TFSME	1,546,793	1,735,029
	23,269,459	17,294,646

6. Fair value (losses)/gains on financial instruments

The following is an analysis of the Bank's fair value adjustments on financial instruments:

	2024	2023
	£	£
Fair value changes in hedged items	407,884	-
Fair value changes in hedged instruments	(387,156)	-
Net fair value changes	20,728	-
Accumulated fair value adjustments on de-designation of hedge relationships	(30,750)	-
Ineffective portion of hedges	(10,022)	-
Amortisation of de-designation of hedge relationships	1,090	-
Total	(8,932)	-

Derivative financial instruments (interest rate swaps) were executed in 2024 to manage the Bank's exposure to interest rate risk.

7. Administrative costs

	2024	2023
	£	£
Staff costs (including Directors)	14,485,925	13,971,050
IT costs	2,449,798	2,041,016
Legal and professional fees	1,788,102	1,982,327
Depreciation and amortisation	428,855	312,995
Other costs	2,522,575	2,202,283
	21,675,255	20,509,671

8. Auditor's remuneration

	2024	2023
	£	£
Fees payable to the Bank's auditor (excluding VAT):		
Statutory audit	434,000	322,000
Other assurance service	40,000	25,000
	474,000	347,000

9. Staff costs

	2024	2023
	£	£
Staff costs (including Directors) comprise:		
Fixed remuneration		
Wages and salaries	11,128,487	9,860,521
National insurance	1,467,116	1,637,488
Defined contribution pension cost	905,733	807,084
Variable remuneration		
Cash bonus	544,509	1,075,392
Long Term Incentive Plan	440,080	590,565
	14,485,925	13,971,050

Performance-related annual cash-based bonus schemes for all staff are calculated based on seniority and performance in the grant year. In 2024 the Bank recognised a cost and liability of £544,509 (2023: £1,075,392) in respect of the cash-based bonuses.

The Bank also has cash-based Long Term Incentive Plans for key senior staff with the objective of promoting staff retention and aligning staff and shareholder objectives of achieving sustainable growth. Those staff included are awarded a grant as a percentage of annual salary, which is calculated based on seniority and performance in the grant year. The grants vest in December 2024 (payable in May 2025) and December 2025 (payable in April 2026) and are to be cash-settled with proportional adjustments for changes in the net asset value of the Bank. In 2024 the Bank recognised a cost of £440,080 (2023: £590,565) in respect of the cash-based Long Term Incentive Plans. The Bank carries a liability of £1,481,838 (2023: £981,007) for Long Term Incentive Plans. See Note 2.15 for further details.

The average monthly number of employees, excluding Non-Executive Directors, during the year was as follows:

	2024	2023
Full time	127	114
Part time	12	12
Employees	139	126

10. Directors' remuneration

	2024	2023
	£	£
Directors' salaries	971,350	907,278
Directors' variable remuneration		
Cash bonus [1]	-	203,556
LTIP [2]	214,313	246,222
Directors' fees	474,927	483,007
Directors' defined contribution pension costs	94,885	88,464
Directors' private health insurance	10,571	5,515
	1,766,046	1,934,042

During the year retirement benefits were accruing to three Directors (2023: three Directors) in respect of defined contribution pension schemes.

The highest paid director received total remuneration of £606,373 (2023: £660,844), including £111,735 (2023: £103,282) subject to deferral with respect to LTIP.

The value of the Bank's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £43,990 (2023: £41,800) and the Bank's contributions paid for private health insurance for the highest paid director amounted to £3,248 (2023: £3,213), both included in total remuneration above.

[1] Recognising the current capital resources level of the Bank, the Remuneration Committee took the decision not to award a cash bonus to those senior members of staff, including the Executive Directors, who would receive a payment from the vesting of the first LTIP, which vested at 31 December 2024 and is payable in May 2025.

[2] Vesting in 2024 (payable in May 2025) and 2025 (payable in April 2026)

11. Taxation

The Bank recognised a tax charge of £869,726 through the statement of profit and loss in 2024 (2023: £1,332,686).

At 31 December 2024 the Bank has unused tax losses of £nil (2023: £nil) available for offset against future taxable profits. The Bank has recognised a deferred tax charge in respect of the temporary differences in the year. For the temporary differences, the Bank has evidence, that on an on-going basis, it has the ability to generate profits against which it can be offset in the future.

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to losses for the year are as follows:

	2024	2023
	£	£
Analysis of tax charge for the period		
Current tax		
UK corporation tax at 25% (PY: 23.5%)	847,938	222,250
Adjustments in respect of prior periods	(2,685)	-
UK corporation tax at 25% (PY: 23.5%)	845,253	222,250
Deferred tax		
Origination and reversal of timing differences	24,473	1,110,436
Total deferred tax charge	24,473	1,110,436
Tax charge on profit on ordinary activities	869,726	1,332,686
Profit for the year	2,697,814	5,536,935
Profit before income taxes	**2,697,814**	**5,536,935**
Tax using Bank's domestic tax rate of 25.0% (2023: 23.5%)	674,453	1,302,318
Non-deductible expenses	229,698	87,888
Group relief claimed	(31,405)	(137,332)
Deferred tax adjustment in respect of prior period	(335)	15,000
Fixed asset movements	-	(14)
Adjustments to tax charge in respect of previous periods	(2,685)	-
Change resulting from change in enacted tax rate to 25%	-	64,826
Total tax charge through profit or loss	**869,726**	**1,332,686**
Fixed asset timing differences	(19,297)	(22,383)
Short term timing differences	326,814	354,373
Total deferred tax assets	**307,517**	**331,990**

12. Risk management

The main areas of financial risk that the Bank is exposed to are:

- credit risk;
- liquidity risk;
- interest rate risk;
- operational risk; and
- capital adequacy risk.

Credit risk

Credit risk is the risk of suffering financial loss should borrowers or counterparties default on their contractual obligations to the Bank. The Bank currently only lends against fixed property at a maximum LTV of 75.0% (76.5% including fees). All loans are manually underwritten taking into consideration the specific circumstances of each borrower and the proposed security. Borrowers are required to have a minimum net debt service cover ratio of 125% at approval. Credit risks are managed by the Credit Committee and overseen by the Board Risk Committee.

Credit exposure

The Bank's maximum exposure to credit risk is the carrying value of its financial assets, without taking account of any underlying collateral, and contractual commitments, which represent agreements entered into but not advanced, as at 31 December 2024.

	2024	2023
	£	£
Assets		
Cash and balances at central banks	115,416,225	109,250,259
Loans and advances to customers	492,244,170	413,983,306
Treasury bills and gilts	25,011,813	73,494,617
Maximum exposure to credit risk	632,672,208	596,728,182

The table on the next page provides further information on balances and collateral held in respect of the mortgage portfolio in arrears by impairment status. The Bank's collateral only recognises for each individual mortgage and does not recognise cross collateralisation.

The Bank has recognised 13 loans (2023: 17) as impaired, with a total exposure of £18,348,860 (2023: £23,868,967). The Bank has further loans totalling £26,789,634 (2023: £21,410,656) that are in arrears but not impaired.

The Bank acknowledges that there are circumstances where the borrower is in financial difficulty but it is not in the best interests of either the Bank or the borrower to take default action. Accordingly, where the circumstances suggest that the better customer outcome is for the Bank to permit a modification or concession that will over a period of time have the potential to improve the customer outcome, and where the Bank in consequence is not taking a materially increased risk in so doing, the Bank will be prepared to offer forbearance.

Loans where payment holidays and tailored support have been granted total £7,471,460 as at end of December 2024 (2023: £9,739,221).

	2024 Loan balance £	2024 Value of collateral £	2023 Loan balance £	2023 Value of collateral £
Impaired:				
Past due and impaired	18,348,860	19,213,234	21,629,410	21,147,863
Not past due and impaired	-	-	2,239,557	2,575,000
Total	18,348,860	19,213,234	23,868,967	23,722,863
Not impaired:				
Past due up to 3 months	11,810,534	20,119,495	10,771,859	18,400,217
Past due 3 to 6 months	3,921,234	5,844,737	8,102,366	15,714,028
Past due 6 to 12 months	6,504,970	8,953,419	2,536,431	5,874,813
Past due over 12 months	4,552,896	8,004,442	-	-
Past due but not impaired	26,789,634	42,922,093	21,410,656	39,989,058
Forborne:				
Past due and forborne	4,914,952	8,629,594	-	-
Not past due and forborne	2,556,508	3,284,728	9,739,221	14,513,025
Total	7,471,460	11,914,322	9,739,221	14,513,025

At 31 December 2024, the Bank had an approved but not drawn credit pipeline of £47.5m (2023: £39.3m).

Credit risk management

The Bank specialises in providing lending to small and medium-sized enterprises. It lends to owner-occupied businesses to invest in their own commercial premises, as well as to experienced commercial and residential property investors.

Loans are secured on properties solely located in Great Britain, and concentration risks are monitored and credit exposures spread across industry sector and geographic location.

Concentration of credit risk

The Bank measures concentration risk by product type, geographic location and loan size.

	2024	2023
	%	%
Lending by product type (value)		
Commercial real estate lending	38	49
Residential real estate lending	62	51
Total	100	100
Lending by geographical location (value)		
North East	8	8
Warrington and North West	21	25
West Midlands	8	10
Greater London and South East	30	16
Yorkshire and Humberside	10	14
East Midlands	5	6
South West	6	5
Hertfordshire, Bedfordshire, Buckinghamshire and East Anglia	5	7
Scotland	4	5
Wales	3	4
Total	100	100
Lending by loan size (value)		
0 - £250K	16	17
£251K - £500K	20	18
£501K - £1,000K	23	25
£1,001K - £2,000K	20	16
£2,001K - £3,000K	9	9
£3,001K - £4,000K	4	7
> £4,000K	8	8
Total	100	100

Credit risk security

All loan agreements with customers are secured by property.

The table below details credit exposures from mortgage loans and advances to customers by loan-to-value ratios using, where available, the most recent indexed valuations. LTV is calculated as the ratio of the gross amount of the loan to the value of the asset provided as collateral.

For non-defaulted loans, the collateral value is the valuation of the property at drawdown (or more recently) indexed to present value using established residential and commercial property price market indices unadjusted for any costs related to taking possession of the asset, selling the asset and any impairment allowance. However, collateral for defaulted loans in excess of £1m, which are not currently in administration or receivership, has been revalued by a registered valuer, before the relevant sales discount, costs of taking possession and selling the asset and valuation stress rates applied. Those impaired loans in administration or receivership have been attributed their current marketing value.

Loans with LTVs greater than 76.5%, the maximum LTV within policy for residential property, are mainly as a result of the indexation of loans using established residential and commercial property price market indices.

	2024	2023
	£	£
Lending by LTV ratio (value)		
Less than 50%	72,833,241	56,833,414
50 – 75%	345,480,489	261,608,193
75 – 100%	72,112,271	90,129,910
More than 100%	7,917,501	13,450,470
Total loans and advances to customers (excluding provisions for losses and deferred fees)	498,343,502	422,021,987

Credit risk – Treasury

Credit risk exists in the form of the counterparty risk of Treasury-related assets where the Bank has acquired securities or placed cash deposits with other financial institutions. No assets are held for speculative purposes or are actively traded. Treasury bills and gilts are held as part of the Bank's liquidity buffer.

The table below sets out the credit quality of the Bank's on-balance sheet Treasury assets:

	2024	2023
	£	£
Deposits by counterparty credit rating		
Deposits at central banks – Rated AA-*	109,225,704	106,359,808
Deposits at other banks – Rated A+*	6,190,521	2,890,451
UK gilts and Treasury bills – Rated AA-*	25,011,813	73,494,617
Total	140,428,038	182,744,876

* Ratings based on Fitch long-term credit rating.

Treasury asset credit risk is managed through various policies and procedures. These include the placement of excess cash with highly rated financial institutions, (the credit risk of which is controlled through limits as set out in the counterparty placements policy), and gilts and Treasury bills being held as part of the liquidity buffer, although these attract sovereign risk.

Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its current and future financial obligations as they fall due or is only able to do so at excessive cost. The Bank's liquidity is managed on a daily basis by the Bank's Treasury Team with periodic oversight by the Assets and Liabilities Committee. Further periodic oversight is provided by the Board Risk Committee.

The Bank has developed comprehensive funding and liquidity policies to ensure that it maintains sufficient liquid assets to be able to meet all of its financial obligations and maintain depositor and market confidence.

Liquidity stress testing is conducted under a variety of scenarios, covering normal and more severe market conditions.

The Bank's LCR at 31 December 2024 was 284% [unaudited] (2023: 481%), above the regulatory requirement of 100%, and the deposit to loans ratio was 111% [unaudited] (2023: 119%).

The table below analyses the Bank's contractual cash flows of its financial assets and liabilities.

	Carrying amount	Less than 3 month	3 months to a year	Greater than 1 year but no more than 5 years	Greater than 5 years
2024	£	£	£	£	£
Assets					
Cash and balances at central banks	115,416,225	115,416,225	-	-	-
Treasury bills and gilts	25,011,813	12,500	5,187,500	20,012,500	-
Loans and advances to customers	498,343,502	12,557,178	4,078,700	29,479,562	456,580,131
Total assets	**638,771,540**	**127,985,903**	**9,266,200**	**49,492,062**	**456,580,131**
Liabilities					
Customer deposits	552,995,571	185,996,612	359,626,786	16,837,964	-
Subordinated debt	9,000,000	291,699	440,753	2,341,603	9,602,630
Amounts due to banks	18,726,182	228,589	18,922,360	-	-
Total liabilities	**580,721,753**	**186,516,900**	**378,989,899**	**19,179,567**	**9,602,630**
2023					
Assets					
Cash and balances at central banks	109,250,259	109,250,259	-	-	-
Treasury bills and gilts	73,494,617	29,024,375	20,187,500	25,212,500	-
Loans and advances to customers	422,021,987	10,902,587	6,023,159	31,369,472	379,491,906
Total assets	**604,766,863**	**149,177,221**	**26,210,659**	**56,581,972**	**379,491,906**
Liabilities					
Customer deposits	499,967,473	186,173,570	291,266,259	29,979,904	-
Subordinated debt	9,000,000	293,301	440,753	2,341,603	10,187,630
Amounts due to banks	38,067,988	496,641	20,737,670	19,214,288	-
Total liabilities	**547,035,461**	**186,963,512**	**312,444,682**	**51,535,795**	**10,187,630**

Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in market interest rates. Interest rate risk arises from the mismatch in the repricing profile of the loans and savings products that the Bank offers. This risk is managed within established risk limits.

The Bank's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed in line with PRA guidance. The following table summarises the re-pricing periods for the Bank's assets and liabilities. Items are allocated to time periods by reference to the earlier of the next contractual change in interest rates and the maturity date. As part of the calculation of the interest rate risk exposure, the Bank employs capital allocation techniques. The interest rate sensitivity exposure of the Bank at 31 December 2024 was:

	Within 3 months	More than 3 months but less than 6 months	More than 6 months but less than a year	More 1 year but less than 5 years	More than 5 years	Non interest bearing
2024	£	£	£	£	£	£
Assets						
Cash and balances at non-central banks	2,255,000	-	-	-	-	3,935,521
Cash and balances at central banks	109,225,704	-	-	-	-	-
Loans and advances to customers	250,972,976	7,587,624	28,787,144	209,046,063	-	-
Treasury bills and gilts	-	-	5,000,000	20,000,000	-	-
Derivative contracts	57,000,000	-	-	-	-	-
Other assets	-	-	-	-	-	4,883,034
Total assets	**419,453,680**	**7,587,624**	**33,787,144**	**229,046,063**	**-**	**8,818,555**
Liabilities						
Amounts due to banks	(18,500,000)	-	-	-	-	(226,182)
Subordinated debt	-	-	-	-	(9,000,000)	-
Other liabilities	-	-	-	-	-	(11,476,196)
Customer deposits	(186,202,782)	(207,449,532)	(138,047,650)	(14,990,333)	-	(6,379,750)
Derivative contracts	-	-	-	(57,000,000)	-	-
Total equity	-	-	-	-	-	(49,380,257)
Total liabilities	**(204,702,782)**	**(207,449,532)**	**(138,047,650)**	**(71,990,333)**	**(9,000,000)**	**(67,462,385)**
Net interest rate risk gap	**214,750,898**	**(199,861,908)**	**(104,260,506)**	**157,055,730**	**(9,000,000)**	**(58,643,830)**

The interest rate sensitivity exposure of the Bank at 31 December 2023 was:

2023	Within 3 months £	More than 3 months but less than 6 months £	More than 6 months but less than a year £	More 1 year but less than 5 years £	More than 5 years £	Non interest bearing £
Assets						
Cash and balances at non-central banks	-	-	-	-	-	3,525,395
Cash and balances at central banks	106,359,808	-	-	-	-	-
Loans and advances to customers	334,032,094	26,052	381,531	85,734,144	-	-
Treasury bills and gilts	29,000,000	20,000,000	-	25,000,000	-	-
Other assets	-	-	-	-	-	2,332,535
Total assets	**469,391,902**	**20,026,052**	**381,531**	**110,734,144**	**-**	**5,857,930**
Liabilities						
Amounts due to banks	(37,600,000)	-	-	-	-	(467,988)
Subordinated debt	-	-	-	-	(9,000,000)	-
Other liabilities	-	-	-	-	-	(11,791,675)
Customer deposits	(184,054,196)	(194,449,192)	(87,610,455)	(29,615,249)	-	(4,250,635)
Total equity	-	-	-	-	-	(47,552,169)
Total liabilities	**(221,654,196)**	**(194,449,192)**	**(87,610,455)**	**(29,615,249)**	**(9,000,000)**	**(64,062,467)**
Net interest rate risk gap	**247,737,706**	**(174,423,140)**	**(87,228,924)**	**81,118,895**	**(9,000,000)**	**(58,204,537)**

Interest rate sensitivity analysis

The Bank considers a parallel 200 basis points ("bps") movement to be appropriate for scenario testing, given the current economic outlook and industry expectations.

The Bank estimates that a +/- 200 bps movement in interest rates paid/received would have impacted the economic value of equity at 31 December 2024 as follows:

- +200 bps – £1,800k negative (2023: £474k negative)
- -200 bps – £2,038k positive (2023: £554k positive)

The calculation assumes that the change occurred at the balance sheet date and has been applied per the product terms and conditions and to the effective rate at that date.

Hedging programme

When the Bank originates fixed rate lending assets it becomes exposed to interest rate risk, as the fair value of these fixed rate lending assets may change over time driven by the fluctuations of the overnight index swap (OIS) curve. Therefore, the Bank enters into interest rate swaps, paying fixed rates and receiving sterling overnight index average (SONIA) benchmark.

The Bank believes that there is a clear direct economic relationship between the hedged item and the hedging instrument, as the critical terms of the hedged item and the hedging instrument are very close in their terms: (a) the notional amount of the hedging instrument equals the notional amount of the hedged item; (b) the benchmark interest reference for both the hedged item and the hedging instruments are the same (SONIA), and observed on similar dates, although paid both on the same, or in some cases, different dates; and (c) the maturity date of the hedging instrument is usually only marginally beyond the maturity of the hedged Item.

A hedging ratio of 1:1 is set by comparing the notional of the derivatives with the principal amount of the hedged items. Potential sources of hedge accounting ineffectiveness may include: (a) credit risk of both counterparties under the swap (bilateral credit value adjustment), which is mitigated by collateralisation; (b) change in the timing of the occurrence of the cash flows being hedged; and (c) the hedged transactions being no longer highly probable (for instance if repaid prior to maturity), hence the notional of the hedging instrument being larger than the actual expected exposure. Refer to Note 20.

Operational risk

Operational risk is the risk of loss arising from a failure of controls emanating from the Bank's processes, personnel, technology or infrastructure, or from external factors other than credit, market and liquidity risks, including those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from all the Bank's activities, be it from revenue generating areas, or its support and control functions.

The Bank's objective is to ensure that it can fulfil its strategic intentions and financial goals, while managing the operational risks inherent in its business model. In doing so, it aims to balance the avoidance of financial losses and damage to the Bank's reputation, with the requirement to adhere and comply with all applicable legal, regulatory and financial statutory requirements.

The Board of Directors has delegated oversight responsibility for operational risk to its Risk Committee. The Conduct, Compliance and Operational Risk Committee is the management committee responsible for the development and management of controls to address operational risk.

Compliance with standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are presented to and discussed in the Audit & Compliance Committee.

Capital risk management

The Bank's objective in managing its capital is to maintain appropriate levels of capital to support its business strategy and financial goals, and meet regulatory requirements.

The Bank's total capital requirements ("TCR") are comprised of a minimum of 75% Tier 1 and a maximum of 25% Tier 2 regulatory capital (any Tier 2 in excess of 25% of TCR is considered ineligible for regulatory capital purposes). The Bank's regulatory capital buffers are satisfied entirely by CET1 capital. The total capital ratio sits at 18.3% [unaudited] (2023: 19.4%) and the Bank's regulatory capital requirements for CET1 and total capital requirements were met throughout the year.

The PRA and the Bank interact through the Capital Supervisory Review and Evaluation Process ("C-SREP") process to determine the capital requirements that the Bank should hold for its risk profile. The regulator sets the total capital requirement for each bank in excess of the minimum Pillar 1 resource requirement of 8%, taking into account the Bank's own regulatory Pillar 2A assessment. A key input to the TCR setting process is the Bank's ICAAP.

The Bank manages its capital under the revised Capital Requirements Regulation and Directive, as implemented by the UK ("CRR II"). The PRA monitors the Bank's capital position through the quarterly Common Reporting ("COREP") process. The PRA's approach to the measurement of capital adequacy is primarily based on monitoring the relationship of the available capital resources to the capital resources requirement.

The Bank's policy is to maintain a strong capital base to maintain investor and market confidence, and to sustain the future growth and development of the business, as well as to insulate itself from periods of stress.

The Bank has elected to use the standardised approach for credit risk. Under CRR II, the Bank must set aside 8% of total risk weighted assets to cover its Pillar 1 capital requirements. The Bank must also set aside additional Pillar 2 capital to provide for additional risks. This is calculated by multiplying the total risk exposures by the agreed TCR ratio. The TCR ratio is based on the various risks which the Bank faces and is agreed by the PRA. The Bank's capital base was in excess of the minimum required under the TCR throughout the year.

As at 31 December 2024, the Bank's capital base was made up of £58.4m of Tier 1 and Tier 2 capital (2023: £56.9m). The Bank had ineligible Tier 2 capital of £1.1m (2023: £1.6m) [unaudited]. The Bank's regulatory capital consists of the following:

	2024	2023
	£	£
Own funds		
Ordinary share capital and share premium	47,922,516	47,922,516
Retained earnings	1,457,741	(370,347)
Deductions: intangible assets	(1,011,135)	(783,820)
Ineligible Tier 1 capital	(3,874)	(3,874)
Total Tier 1 capital	**48,365,248**	**46,764,475**
Collective loan loss provision	1,066,643	1,124,076
Subordinated debt	9,000,000	9,000,000
Total Tier 2 capital	**10,066,643**	**10,124,076**
Own funds	**58,431,891**	**56,888,551**
Capital reconciliation		
Equity as per statement of financial position	49,380,257	47,552,169
Regulatory adjustments:		
Intangible assets	(1,011,135)	(783,820)
Collective loan loss provision	1,066,643	1,124,076
Subordinated debt	9,000,000	9,000,000
Ineligible Tier 1 capital	(3,874)	(3,874)
Own funds	**58,431,891**	**56,888,551**

13. Cash and balances at central banks

	2024	2023
	£	£
Cash at banks other than central banks	6,190,521	2,890,451
Cash at central banks	109,225,704	106,359,808
	115,416,225	109,250,259

The balances at banks other than central banks include £2,255,000 (2023: £nil) held as collateral under interest rate swap contracts with the Bank's counterparty (NatWest Markets PLC).

14. Treasury bills and gilts

	2024	2023
	£	£
Held to maturity financial assets at amortised cost	25,011,813	73,494,617
	25,011,813	73,494,617

The Bank has a pool of financial assets, consisting of gilts, that are held to maturity as an economic hedge against the interest rate risk created by the fixed interest rate associated with the subordinated debt and 1, 2 and 5-year bonds.

The Bank has encumbered £25.0m (2023: £42.0m) of its gilts as collateral against the TFSME drawn (see Note 23).

15. Fair value

The fair value of financial assets and liabilities that are measured at fair value are based on quoted market prices. If the market is not active the Bank establishes a fair value by using appropriate valuation techniques.

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly; and
- Level 3: valuation techniques using observable or unobservable market data.

The Bank holds available-for-sale UK Treasury bills and gilts at fair value. The Bank does not hold any financial liabilities at fair value.

The Bank holds derivative financial instruments (interest rate swaps) to manage its exposure to interest rate risk as part of a hedging strategy.

The fair value of the Bank's UK Treasury bills and gilts and derivative financial instruments is based on bid prices in active markets and is thus classified as Level 1 financial assets.

There have been no transfers between classifications in 2024 or 2023.

16. Other assets and prepayments

	2024	2023
	£	£
Prepayments and other assets	1,046,182	761,970
Accrued income	185,046	275,226
	1,231,228	1,037,196

17. Loans and advances to customers

	2024	2023
	£	£
Customer loans		
Secured loans including interest accruals	498,343,502	422,021,987
Less: deferred fee income and EIR assets	(1,098,388)	(1,392,003)
Less: provision for impairment losses on loans (see Note 18)	(5,000,944)	(6,646,678)
	492,244,170	413,983,306

Loans to customers are repayable from the reporting date as follows:

	2024	2023
	£	£
Maturity analysis		
Less than one year	4,043,638	2,184,041
One to five years	1,523,061	5,350,791
More than five years	492,776,803	414,487,155
	498,343,502	422,021,987
Deferred fee income	(1,098,388)	(1,392,003)
Less: provision for impairment losses on loans (see Note 18)	(5,000,944)	(6,646,678)
	492,244,170	413,983,306

The above analysis is based on contractual maturity and may not reflect actual experience of repayments, since many mortgage loans may be repaid early.

18. Loan loss provisions

	2024	2023
	£	£
Collective loan provision:		
Balance at beginning of the year	1,124,076	889,925
(Credit)/charge for the year	(57,433)	234,151
Closing balance at the end of the year	1,066,643	1,124,076
Individual loan provision:		
Balance at beginning of the year	5,522,602	4,745,925
Write backs in the year	(573,592)	(123,937)
Charge for the year[1]	2,602,822	2,674,509
Provisions utilised during the year[2]	(3,617,531)	(1,773,895)
Closing balance at the end of the year	3,934,301	5,522,602
Collective loan provision	1,066,643	1,124,076
Individual loan provision	3,934,301	5,522,602
Total loan loss provisions	5,000,944	6,646,678
At 1 January	6,646,678	5,635,850
Charge for the year	1,869,546	2,782,364
Recovery	102,251	2,359
Provision utilised during the year	(3,617,531)	(1,773,895)
At 31 December	5,000,944	6,646,678

19. Derivative assets

	2024	2023
	£	£
Fair value adjustments on hedged assets	387,156	-
Net interest receivable from interest rate swap contracts	48,187	-
	435,343	-

[1 and 2] Of which £1m related to a material, non-recurring impairment.

20. Hedge accounting

The Bank holds overnight index swaps where a fixed rate is either paid or received against a floating rate indexed to SONIA to protect the fair value of the assets (fixed rate residential lending classified under 'loans and advances to customers'). These swaps are designated as fair value hedges of interest rate exposures of portfolios of financial assets, and changes in their fair value are included in the income statement, at the same time as an adjustment to the hedged item to reflect their hedging nature. The amount of cumulative change in fair value of the hedged item due to the hedged risk is assessed by using a hypothetical derivative method.

Hedges with a total notional value of £10m were deemed ineffective during the year and discounted prospectively. The accumulated fair value adjustment at the time of hedge ineffectiveness is being amortised to profit or loss over the remaining life of the hedge item. £23k (2023: nil) of balances were held on the balance sheet at 31 December 2024 in this regard.

As at 31 December 2024 the outstanding nominal and fair values of the overnight index swaps designated as fair value hedges, excluding net accrued interest amounting to £48k (2023: nil), were as follows:

Hedging instruments	Notional amount	Fair value	Ineffective portion of hedge
	£	£	£
Interest rates swaps	57,000,000	(387,156)	(10,022)

Hedged instruments	Carrying amount	Fair value adjustment	Ineffective portion of hedge
	£	£	£
Loans and advances: Fixed rate mortgages	57,000,000	407,884	10,022

There were no swaps held and no hedge accounting applied as at 31 December 2023.

Timing of nominal amount and rates of hedging instruments

The below table shows a profile of the timing of the nominal amount of the hedging instrument and the average rate of the hedging instrument.

	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years
	£	£	£	£
Interest rate swaps paying fixed	-	-	57,000,000	-

21. Tangible fixed assets

	Office equipment	Computer equipment	Other property, plant and equipment	Total
	£	£	£	£
Cost				
At 1 January 2023	48,688	224,057	440,256	713,001
Additions	-	104,556	-	104,556
At 31 December 2023	48,688	328,613	440,256	817,557
Additions	-	69,653	-	69,653
At 31 December 2024	48,688	398,266	440,256	887,210
Accumulated depreciation and impairment				
At 1 January 2023	27,155	163,910	355,729	546,794
Charge for the year	4,663	50,372	41,546	96,581
At 31 December 2023	31,818	214,282	397,275	643,375
Charge for the year	4,522	67,822	20,222	92,566
At 31 December 2024	36,340	282,104	417,497	735,941
Net book value				
At 1 January 2023	21,533	60,147	84,527	166,207
At 31 December 2023	16,870	114,331	42,981	174,182
At 31 December 2024	12,348	116,162	22,759	151,269

22. Intangible fixed assets

	Website development	Computer software	Total
	£	£	£
Cost			
At 1 January 2023	141,522	702,178	843,700
Additions	40,051	511,186	551,237
At 31 December 2023	181,573	1,213,364	1,394,937
Additions	-	563,604	563,604
At 31 December 2024	181,573	1,776,968	1,958,541
Accumulated amortisation and impairment			
At 1 January 2023	70,339	324,365	394,704
Charge for the year	37,801	178,612	216,413
At 31 December 2023	108,140	502,977	611,117
Charge for the year	39,613	296,676	336,289
At 31 December 2024	147,753	799,653	947,406
Net book value			
At 1 January 2023	71,183	377,813	448,996
At 31 December 2023	73,433	710,387	783,820
At 31 December 2024	33,820	977,315	1,011,135

23. Amount due to banks

	2024	2023
	£	£
TFSME	18,726,182	38,067,988
	18,726,182	38,067,988

During 2020 and 2021 the Bank gained access to and drew down against the TFSME. The principal is repayable four years from drawdown. £19.4m of the TFSME facility was redeemed during the year (2023: £nil). Total interest paid during the year in relation to the debt was £1,546,793 (2023: £1,735,029).

24. Customer deposits

	2024	2023
	£	£
35-day notice deposits	126,639,982	137,634,281
95-day notice deposits	202,810,716	194,125,965
1 year Bond	177,182,168	132,847,474
2 year Bond	41,036,845	35,138,883
5 year Bond	5,130,473	-
Instant access	185,387	151,500
Other deposits	10,000	69,370
	552,995,571	499,967,473

25. Other liabilities and accruals

	2024	2023
	£	£
Trade creditors	1,649,480	384,836
Other creditors	805,846	716,489
Accruals	2,539,542	3,144,165
	4,994,868	4,245,490

26. Subordinated debt

	2024	2023
	£	£
Subordinated debt	9,000,000	9,000,000
	9,000,000	9,000,000

During 2020, the Bank issued £9.0m of subordinated debt, drawn down in three tranches. The debt is repayable in 10 years from issue and currently bears a fixed interest rate of 6.5% p.a. – payable quarterly. Total interest paid during the year in relation to the debt was £586,603 (2023: £585,000). The debt is considered eligible as Tier 2 capital.

27. Share capital

	2024 Number	2024 £	2023 Number	2023 £
Ordinary shares at £0.001 each				
As at 1 January	100,010	100	100,010	100
Shares issued	-	-	-	-
As at 31 December	100,010	100	100,010	100
Ordinary B shares at £0.001 each				
As at 1 January	7,525	8	7,525	8
As at 31 December	7,525	8	7,525	8
Ordinary C shares at £0.001 each				
As at 1 January	3,235	3	3,235	3
As at 31 December	3,235	3	3,235	3
	110,770	111	110,770	111

Holders of ordinary shares are entitled to receive notice of, to attend, to speak and to vote at any general meeting and to receive or vote on, and otherwise constitute an eligible member for the purposes of, proposed written resolutions. Rights as to dividends are as described in the Bank's articles of association ("articles"). The ordinary shares shall entitle the holders of them to participate in a return of capital as described in the articles. The ordinary shares are non-redeemable. The holders of ordinary shares are entitled to one vote per share at meetings of the Bank.

Holders of B shares are not entitled to receive notice of, to attend, to speak or to vote at any general meeting nor to receive or vote on, or otherwise constitute an eligible member for the purposes of, proposed written resolutions. Rights as to dividends are as described in the Bank's articles. The B shares shall entitle the holders to participate in a return of capital as described in the articles. The B shares are non-redeemable.

Holders of C shares are not entitled to receive notice of, to attend, to speak or to vote at any general meeting nor to receive or vote on, or otherwise constitute an eligible member for the purposes of, proposed written resolutions. Rights as to dividends are as described in the Bank's articles. The C shares shall entitle the holders of them to participate in a return of capital as described in the articles. The C shares are non-redeemable.

28. Reserves

	2024 £	2023 £
Share premium	47,922,405	47,922,405
Called up share capital	111	111
Retained earnings	1,457,741	(370,347)
	49,380,257	47,552,169

29. Analysis of changes in net debt

	At 1 Jan 2024	Cash flows	Acquired	Non-cash changes	At 31 Dec 2024
	£	£	£	£	£
Cash and balances at central banks	109,250,259	6,165,966	-	-	115,416,225
Subordinated debt	(9,000,000)	-	-	-	(9,000,000)
At 31 December 2024	100,250,259	6,165,966	-	-	106,416,225

	At 1 Jan 2023	Cash flows	Acquired	Non-cash changes	At 31 Dec 2023
	£	£	£	£	£
Cash and balances at central banks	84,018,745	25,231,514	-	-	109,250,259
Subordinated debt	(9,000,000)	-	-	-	(9,000,000)
At 31 December 2023	75,018,745	25,231,514	-	-	100,250,259

30. Country by Country Reporting

The Capital Requirements (Country by Country Reporting) Regulation 2013 places certain reporting obligations on financial institutions that are within the scope of Capital Requirements Directive ("CRD IV").

The objective of the Country by Country Reporting requirements is to provide increased transparency regarding the source of the financial institution's income and the locations of its operations. The Bank is a UK-registered entity.

The Bank is a deposit taker and lender and operates only in the United Kingdom.

	2024	2023
	£	£
Turnover	26,251,547	28,828,970
Profit before tax	2,697,814	5,536,935
Corporation tax charge	869,726	1,332,686
Average number of employees	139	126

Turnover is defined as total interest income less interest expense.

31. Undrawn commitments and contingent liabilities

The Bank had undrawn commitments of £47.5m (2023: £39.3m) and no contingent liabilities at 31 December 2024 or 31 December 2023.

32. Pensions

The Bank operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Bank in an independently administered fund. The pension cost charge represents contributions payable by the Bank to the fund and amounted to £905,733 (2023: £807,084) during the year. The amount of pension contribution payable is £111,146 as at 31 December 2024 (2023: £92,960).

33. Commitments under non-cancellable operating leases

The Bank leases its head office in Letchworth Garden City, as well as its regional office in Warrington, under operating leases. The Bank signed new leases in 2019 for the Letchworth offices, which run for periods of 10 years, ending in 2029, with an option to break the lease after five years. The Bank elected not to exercise this break clause in 2024. A new lease was also signed in 2022 for the Warrington office for a period of three years, ending in 2025.

At 31 December 2024 the Bank had future minimum lease payments under non-cancellable operating leases as follows:

	2024	2023
	£	£
Not later than 1 year	157,798	166,011
Later than 1 year and not later than 5 years	435,681	34,680
	593,479	200,691

During the year £190,361 (2023: £193,605) was recognised as an expense in the statement of profit and loss in respect of operating leases.

34. Other financial commitments

The Bank has commitments under contracts, with key suppliers, to purchase intangible assets relating to computer software to the value of £342k (2023: £387k).

The Bank's lending pipeline commitments are disclosed in Note 12.

The Bank's operating lease commitments are disclosed in Note 33.

35. Transactions with Directors

The key personnel of the Bank comprised the Executive and Non-Executive Directors of the Bank. The compensation of key personnel is shown in Note 10.

There were no deposits for companies controlled by Directors of the Bank or companies/associations where Directors of the Bank have influence and no loans outstanding to any Director at 31 December 2024 (2023: £nil).

36. Related party transactions

As at 31 December 2024, the Bank held no deposits for companies under common control (2023: £nil).

The Bank leases its Warrington office from Warrington Borough Council, a significant shareholder of the Bank's parent company, RFPL. The lease is at market rates on an arm's length basis. Rent paid on this property for the year was £83,232 (2023: £83,232).

The Bank has issued subordinated debt to Warrington Borough Council and Thurrock Borough Council, both of which are shareholders in the Bank's parent company, RFPL. The total subordinated debt issued is £9.0m (2023: £9.0m) and interest paid totalled £586,603 (2023: £585,000).

Details of transactions with Directors is disclosed in Note 35.

37. Events after the reporting date

There have been no significant or reportable events following the year end.

38. Controlling party

The Directors regard Redwood Financial Partners Limited, a company registered in the United Kingdom, as the Bank's controlling party and ultimate parent undertaking. The registered office of the holding company is 43 Harwood Road, London, United Kingdom SW6 4QP.

RedwoodBank