



RedwoodBank
IT'S ABOUT TIME

Pillar 3 disclosures

For the year ended 31 December 2023

Contents

List of tables	2
1. Overview	3
1.1. Basis	
1.2. Verification	
1.3. Frequency	
1.4. Regulatory updates	
2. Summary of key metrics	5
3. Strategic risk management framework	6
3.1. Background	
3.2. Risk ownership	
3.3. Responsibilities of the Board, Board committees and management committees	
3.4. Risk management objectives	
3.5. Risk identification	
3.6. Risk categorisation	
3.7. Stress testing	
3.8. Internal control framework	
3.9. Compliance	
3.10. Internal audit	
4. Risk governance and risk management approach	13
4.1. Risk governance	
4.2. Risk management approach	
5. Capital	16
6. Capital requirements	17
6.1. Capital requirements framework	
6.2. Pillar 1 capital requirements	
7. Remuneration	21

List of tables	
Table 1: Key metrics	5
Table 2: Board committees	8
Table 3: Executive Committee and its sub-committees	9
Table 4: Risk categories	11
Table 5: Own funds	16
Table 6: Capital requirements	18
Table 7: Pillar 1 capital requirements	20
Table 8: Remuneration awarded for the financial year	23
Table 9: Information on remuneration of MRT	23

1. Overview

This document sets out the Pillar 3 disclosures of Redwood Bank Limited (the Bank) as at 31 December 2023. The disclosures have been prepared in accordance with the Disclosure (CRR) Part of the PRA Rulebook. This sets out the revised disclosure requirements, which came to effect from 1 January 2022, following the UK's implementation of the remaining provision of Capital Requirements Regulation II (CRR II).

The Basel framework consists of the following three pillars of regulation:

- Pillar 1 defines minimum capital requirements for certain risks, including credit, market and operational risks;
- Pillar 2 sets out the supervisory review process and additional capital required to support the business' operations; and
- Pillar 3 specifies disclosure requirements, which allow market participants to assess key pieces of information relating to the firm's capital, governance, risk exposures and risk management processes.

The Bank has established internal controls and procedures to be applied in producing the disclosure document. Pillar 3 disclosures are prepared and updated on an annual basis, or more frequently if there is a material change to the previously disclosed data or information. The Pillar 3 document should be read in conjunction with the Bank's annual report and accounts for the year ending 31 December 2023 filed at Companies House, which is also available on the Bank's website www.redwoodbank.co.uk.

Throughout 2023, the Bank met all its regulatory requirements for capital and liquidity.

In producing this document, the Bank has considered the overarching objectives of Pillar 3 disclosures, which are to promote market discipline and improve comparability and consistency of disclosures across market participants. These objectives help to encourage banks and other stakeholders to assess risk, maintain adequate capital resources and develop and maintain sound risk management systems and practices.

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

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

1.1. Basis

The Bank meets the criteria of a 'small and non-complex institution' as defined in Article 4(1)(145) of CRR as contained in the PRA Rulebook. As such, disclosures in this Pillar 3 document comply with the requirements of Disclosures by Small and Non-Complex Institutions as per Article 433b CRR.

1.2. Verification

These disclosures are not subject to external audit but have been reviewed by a specialist sub-set of the Executive Committee, and at Board level by the Risk Committee and approved by the Board. Both the Executive and Risk Committees recommended to the Board that the disclosures are made available on the Bank's website.

Certain information has been extracted from the Bank's audited annual report and accounts for the year ended 31 December 2023.

1.3. Frequency

These disclosures are updated at least annually and in line with the publication of the financial statements, or more frequently if significant changes are made to the risk profile or governance structure within the Bank.

1.4. Regulatory updates

During 2023, a regulatory change came into effect, such that the UK countercyclical capital buffer increased from 1% to 2%, effective from 5 July 2023.

The following future regulatory changes are applicable to the Bank:

- In September 2023, the PRA announced the postponement of the implementation date for Basel 3.1 by six months to 1 July 2025. A Policy Statement (17/23), published in December, sets out near-final rules for market risk, credit valuation adjustment risk, counterparty credit risk and operational risk under the Basel 3.1 regime. The PRA has introduced the Interim Capital Regime (ICR) rules and provides firms that meet the Small Domestic Deposit Taker (SDDT) criteria an alternative to implementing the Basel 3.1 standards until the new Strong and Simple capital regime for SDDTs is implemented.
- In December 2023, the PRA published a Policy Statement (PS15/23) and accompanying updated Supervisory Statement (SS24/15), following the Consultation Paper (CP5/22) on the implementation of a new regulatory framework for smaller firms, published in April 2022. The Bank would meet the criteria of the proposed definition of a SDDT. The policy statement specifies the finalised SDDT criteria and prudential regulations for non-capital requirements. More details on the capital requirements are expected to be published in the coming year, and the full implementation of the new regime is set after Basel 3.1.

2. Summary of key metrics

Table 1: Key metrics

		2023 £	2022 £
Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	46,764,475	41,430,663
2	Tier 1	46,764,475	41,430,663
3	Total capital	56,888,551	51,320,588
Risk-weighted exposure amounts			
4	Total risk-weighted assets (RWA)	294,050,082	269,415,717
Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	16.0%	15.4%
6	Tier 1 ratio (%)	16.0%	15.4%
7	Total regulatory capital ratio (%)	19.4%	19.0%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
UK 7a	Additional CET1 SREP requirements (%)	3.59%	3.88%
UK7d	Total SREP own funds requirements (%)	11.59%	11.88%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer requirement (%)	2.5%	2.5%
9	Countercyclical buffer requirement (%)	2.0%	1.0%
11	Total of Bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	4.5%	3.5%
UK 11a	Overall capital requirements (%)	16.09%	15.38%
12	CET1 available after meeting the total SREP own funds requirements (%)	7.21%	6.47%
Leverage ratio			
13	Total exposure measure excluding claims on central banks	505,085,850	472,748,850
14	Leverage ratio excluding claims on central banks (%)	9.3%	8.8%
Liquidity Coverage Ratio*			
15	Total high-quality liquid assets (HQLA) (weighted value -average)	119,485,890	111,134,353
UK 16a	Cash outflows - total weighted value	31,080,764	33,822,803
UK 16b	Cash inflows - total weighted value	7,395,149	5,606,270
16	Total net cash outflows (adjusted value)	23,685,615	28,216,533
17	Liquidity coverage ratio (%)	504%	394%
Net Stable Funding Ratio**			
18	Total available stable funding	521,345,972	475,506,474
19	Total required stable funding	351,654,764	331,042,832
20	Net stable funding ratio (%)	148%	144%

* Average of preceding 12 months

** Average of preceding four quarters

3. Strategic risk management framework

3.1. Background

The Bank's strategy is to lend funds to small and medium-sized enterprises (SMEs), financed primarily by deposits from specialist market sectors such as SMEs, charities, clubs and associations.

The Bank had three lending products as at 31 December 2023:

- (i) SME owner/occupier mortgages – mainstream commercial mortgages to business owners, secured on commercial property. This product covers general industrial and distribution businesses, retail premises, offices, leisure, small hotels, guesthouses, bed and breakfast and other trading businesses.
- (ii) SME property investment mortgages – secured mainstream commercial or residential buy-to-let mortgages to experienced professional property investors.
- (iii) SME property refurbishment – an initial refurbishment loan, coupled with a long-term investment mortgage as above.

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

The Bank's deposit product offering at 31 December 2023 consisted of business notice accounts, with 35-day notice and 95-day notice products and one- and two-year fixed term bonds. These accounts are competitively priced for the Bank's targeted markets of SMEs, charities, clubs and associations. A relatively small portion of funds is sourced through the Bank's cash management partners.

As the governing body of the Bank, it is the responsibility of the Board to understand the risks the Bank faces in the pursuit of its strategic objectives. Therefore, the Bank has established a risk governance and risk appetite framework to identify, measure and manage each risk within agreed risk tolerances.

3.2. Risk ownership

The Bank is governed by a Board of Directors; a Board Risk Committee; a Board Audit and Compliance Committee (A&CCo); a Board Nominations and Governance Committee (NomCo); and a Board Remuneration Committee (RemCo). Management committees comprise an Executive Committee (ExCo); an Assets and Liabilities Committee (ALCo); a Credit Committee (CreditCo); a Conduct, Compliance and Operational Risk Committee (CCORCo); a Projects and Systems Development Committee (PSysCo); and a Marketing and Products Committee (MaPCo).

The Bank maintains a risk management framework that defines the Bank's approach to managing the key risks it is exposed to as part of its operations. The framework sets out the Bank's risk governance, how it maintains a risk aware culture, the Bank's risk taxonomy, its approach to identifying, measuring and monitoring the risks to which it is exposed and how it reports against those risks. Within this framework the Bank operates a typical "three lines of defence" risk governance structure, which is set out as follows:

3.2.1 First Line of Defence (FLOD)

The FLOD comprises the Bank's customer- and client-facing origination units (e.g. secured residential and commercial mortgage lending) plus underwriting, finance and treasury, IT, relationship management, products and marketing, operations, legal 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;
- preparation of risk assessments (including risk ratings where appropriate);
- 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 must include preventative and detective controls to ensure that both emerging and existing risks 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.

3.2.2 Second Line of Defence (SLOD)

The SLOD comprises the Bank's oversight and risk management functions, and includes co-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 and 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 Level 1 risks (see below);
- risk assessment and approval processes;
- 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-related management information to the Board and senior committees (defined as committees of the Board and sub-committees of the ExCo) of the Bank.

3.2.3 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.

3.3. Responsibilities of the Board, Board committees and management committees

Board

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

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

Figure 1: Board composition as at 31 December 2023

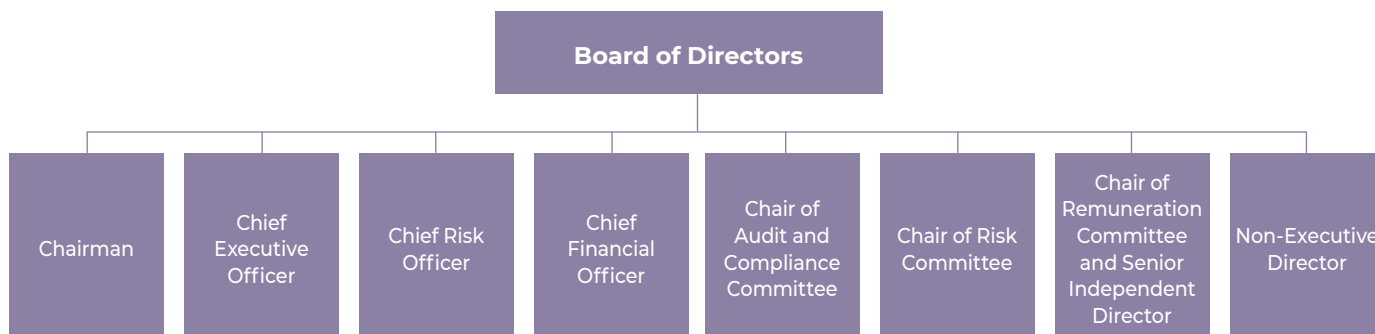


Table 2: Board committees

Committee	Main objectives and responsibilities
Risk Committee	On behalf of the Board, the Risk Committee has been established to provide oversight that risk management structures are operating effectively, and ensure that the Bank operates within the overall risk appetite approved by the Board, to achieve its business/corporate objectives. The Committee reviews the Bank's Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), Recovery Plan, Solvent Wind Down Plan and Pillar 3 documents, and recommends these to the Board for approval. The Committee is also responsible for reviewing risk appetite and recommending risk appetite limits and metrics for approval by the Board. Additionally, the Committee reviews and challenges risk management information and risk assessments, to ensure that all risks are well understood and managed.
Audit and Compliance Committee	On behalf of the Board, the Committee is responsible for reviewing the work of the compliance, internal audit and external audit functions, including the establishment of programmes of work, the review of all reports produced, and the assessment of the effectiveness of these functions. The Committee is responsible for making recommendations to the Board in respect of the appointment of the internal and external auditors and their terms of engagement.
Nominations and Governance Committee	On behalf of the Board, the Committee is responsible for considering and making recommendations to the Board in respect of appointments to the Board, membership and chairmanship of Board committees, regulatory and strategic developments in corporate governance, monitoring the governance arrangements of the Bank and the consideration of succession planning and development programmes, and the composition of the Board.
Remuneration Committee	On behalf of the Board, the Committee is responsible for overseeing the remuneration and other benefits of all Executive Directors, senior management function holders and material risk takers (MRT). The Committee makes recommendations as appropriate to the Board concerning such matters, including the implementation of any variable remuneration schemes.

Executive Committee and its sub-committees

The Executive Committee (ExCo) is a committee established by the Board to manage the activities of the Bank within the framework of the Business Plan and subject to the overall control of the Board. The ExCo has five sub-committees which have delegated authority from the ExCo.

Table 3: Executive Committee and its sub-committees

Committee	Main objectives and responsibilities
Executive Committee	The Executive Committee is a committee established by the Board to manage the activities of the Bank within the framework of the business plan and subject to the overall control of the Board. The ExCo is responsible for approving the terms of reference and responsibilities of all executive committees, and reviews the minutes from these committees.
Assets and Liabilities Committee	The Assets and Liabilities Committee (ALCo) is a sub-committee of ExCo established to monitor the liquidity, capital, financial and interest rate risk management, funding profile and net interest margin of the Bank within the framework of the business plan, and the Bank's policies.
Credit Committee	The Credit Committee is a sub-committee of ExCo to manage and monitor the lending activities of the Bank, within the framework of the business plan and the policies ultimately approved by the Board. The Credit Committee regularly reviews and opines on specific lending requests from customers and in addition meets monthly to undertake wider responsibilities, in particular to review the Bank's lending portfolio and the risk exposures thereof.
Conduct, Compliance and Operational Risk Committee	The Conduct, Compliance and Operational Risk Committee (CCORCo) is a sub-committee of ExCo as part of the Bank's conduct risk, operational risk and compliance risk governance arrangements.
Project and Systems Development Committee	The Project and Systems Development Committee (PSysCo) is a sub-committee of ExCo to determine the IT requirements and major projects of the Bank and to ensure these are delivered on an on-going basis. The committee is responsible for making recommendations to ExCo in respect of the IT requirements of the Bank, including the development of change activities and related projects in accordance with the business plan and budget.
Marketing and Products Committee	The Marketing and Products Committee (MaPCo) is a sub-committee of ExCo to develop new and existing products and undertake marketing activity to support the Bank's business plan. The Committee is responsible for making recommendations to ExCo in respect of new and existing products, marketing activities and materials, and brand development for the Bank. The committee is responsible for considering the customer journey and conduct risk related to these activities, focusing on ensuring that the Bank's customers receive good outcomes through their engagement with the Bank.

Figure 2: Governance structure



3.4. Risk management objectives

The risk management objectives of the Bank are to:

- adhere to the risk appetite of the Bank;
- protect the interests of all stakeholders in the Bank;
- identify and evaluate the major risks facing the Bank;
- take action to mitigate the impact of these risks where appropriate;
- formally accept risks where regarded appropriate;
- report identified risks and actions to the Risk Committee;
- continuously integrate risk management into the culture of the Bank;
- fully document major threats and weaknesses;
- implement cost-effective actions to reduce risk exposures;
- maintain, update and revise a register of risks and their controls;
- record and report losses and “near miss” events; and
- maintain a record of breaches of the Risk Management Policy and controls.

3.5. Risk identification

Identification of risks is the first stage of the risk management process. The Bank has a variety of tools and identification methodologies at its disposal for use:

- risk assessment;
- risk event reporting;
- business impact analysis;
- process risk analysis;
- scenario analysis (stress testing);
- internal audit reports;
- external reviews; and
- external event monitoring.

The outcome of these tools and methodologies are used to populate the Bank's Risk Register Report, which acts as a tool for the identification and logging of its risks. The Bank Risk Register Report, alongside subject matter expertise, is then utilised to inform the scope of the Bank's risk taxonomy. The Bank's risk appetite is approved by the Bank's Board, then documented and disseminated within the Bank's risk appetite framework and statement which is communicated by risk category (as per section 3.6).

It is the responsibility of each risk owner to ensure that the Bank's Risk Register Report completely and accurately represents all the risks inherent to the activities undertaken by their respective business units, including their likelihood and impact, and to specify how these risks will be controlled and where possible, their consequences reduced.

Oversight of the completeness and accuracy of the Bank's Risk Report, including verification of the ratings assigned, is the responsibility of the Second Line of Defence. Within the Bank, this occurs through:

- CCORCo and Risk Committee reviewing the Bank's Risk Register Report quarterly to ensure that the risk register includes all current and emerging risks facing the Bank;
- Internal audit, external audit and other relevant external reports being assessed for risks that may need to be included in the Bank's Risk Report;
- all staff members being encouraged to bring to the attention of risk and compliance any new and/or potential emerging risk;
- the Bank having a regulatory horizon scanning process which seeks to capture and understand upcoming regulatory and legal publications relevant to the Bank; and
- the Bank having a whistleblowing policy which encourages staff to report issues of concern to independent staff within the Bank.

3.6. Risk categorisation

The risk management framework identifies six different risk categories into which all identified risks are allocated as per below. To support understanding and in-depth review of these risk categories, each of these is split into further sub-risks which focus on a risk in more granular detail.

Table 4: Risk categories

Level 1 Risk	Definition
Business and strategy risk	The risk that the Bank may not be able to deliver its strategic objectives due to changes in the external business environment or inadequate capital resource.
Credit and concentration risk	The risk of loss either from a business customer or wholesale counterparty either defaulting on their debt or failing to make timely repayments of a loan. The risk to the Bank from having concentrations of lending to several individuals or groups with similar risk characteristics, e.g. geographic area, sector, customer or product type etc.
Financial (liquidity, funding and interest rate risk in the banking book) risk	The financial risk posed to the Bank from movements in interest rates, liquidity risk and funding risk.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
Compliance and regulatory risk	The risk arising from customers, counterparties, shareholders, investors or regulators having a negative perception or taking action towards the Bank that could adversely affect the Bank's ability to achieve its strategic plan or even lead to the Bank becoming unviable.
Conduct risk	The risk that the Bank's behaviours, culture and approach lead to poor outcomes for customers, damage the integrity of or trust in the Bank, or harm market integrity or fair competition.

3.7. Stress testing

Stress testing is a process by which the Bank's business plans are subjected to severe but plausible adverse scenarios to assess the potential impact on the business, including, but not limited to, projected capital and liquidity positions on a regular basis. The results of stress testing, along with proposed actions, are reported to ALCo, ExCo, Risk Committee, and to the Board, including the Bank's performance against Board-approved risk appetite measures under stress scenarios. Key stress tests are captured in the ILAAP and in the ICAAP and are used to support the setting and calibration of limits as early warning indicators within the Bank's Recovery Plan and Solvent Wind Down Plan.

3.8. Internal control framework

The Risk Committee and the Audit and Compliance Committee are Board committees whose members comprise Non-Executive Directors, with the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Risk Officer (CRO), General Counsel and other members of ExCo also attending the committees. The risk and compliance department is the independent Second Line of Defence, with the CRO reporting directly to the CEO, but also having access directly to the Chair of the A&CCo and the Chair of Risk Committee. Compliance monitoring is supported by a third party that carries out independent reviews on behalf of the risk and compliance department. The reviews are scheduled using risk-based prioritisation and are reassessed at least annually.

3.9. Compliance

The Head of Compliance has accountability and responsibility for the compliance function within the Bank. The responsibility within the First Line of Defence remains with the front-line business and operating departments. The compliance function forms part of the Second Line of Defence, and has responsibility for providing compliance advice and expertise, independent oversight, carrying out monitoring and review of new products/customer documentation. The Bank's compliance monitoring activities were supported by a third party, RSM LLP, during 2023.

3.10. Internal audit

Internal audit comprises the Third Line of Defence. The internal audit function (but not ultimate accountability that resides with the Audit and Compliance Committee) is outsourced to Deloitte LLP. The Bank and its internal audit partner continuously develop and refine an annual Internal Audit Plan, which is presented to, and approved by, the Audit and Compliance Committee. Regular meetings are held with Deloitte LLP on a regular basis to review the Audit Plan and ensure the internal auditors complete the audits as per the agreed plan.

4. Risk governance and risk management approach

4.1. Risk governance

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

The Bank has established a formalised approach to risk governance, ensuring an effective level of alignment between oversight and management responsibility for risk. The risk governance structure has clearly defined roles and responsibilities for Board and management committees, control functions and the accountable executives (as per section 3.3). The risk-based roles and responsibilities are organised in adherence to the Three Lines of Defence principle to ensure appropriate levels of segregation.

4.2. Risk management approach

The Bank's risk profile is managed in accordance with the Board-approved risk management framework.

Credit and concentration risk

The Bank's primary aim is to lend to small and medium-sized enterprises. The Bank had three main lending products as at 31 December 2023: i) SME owner/occupier mortgages, ii) SME property investment mortgages and iii) SME property refurbishment as defined in Section 3.1.

The Bank monitors the geographical and sectoral concentration of its loan book against its risk appetite limits, alongside a suite of further portfolio and lending measures designed to allow a dynamic assessment of the Bank's risk exposures.

The Bank has a low tolerance for credit losses, but acknowledges that losses can result from undertaking lending activities. At 31 December 2023 the Bank classified 17 (2022: 8) loans as impaired, with outstanding balances of £23,869k (2022: £11,957k).

As at 31 December 2023, the Bank had a material counterparty exposure to one wholesale counterparty in the UK, rated A+ by Fitch. The Bank had no derivatives transactions outstanding as at 31 December 2023. The Bank also had exposure to the UK Government in respect of its holdings of UK gilts and Treasury bills, as well as balances in its reserve account with the Bank of England.

Financial – liquidity and funding risk

The Bank has a prudent approach to liquidity management through maintaining sufficient liquidity resources to meet cash-flow obligations in both normal and stressed conditions. The Bank has set a liquidity risk appetite designed to ensure that it always operates above the minimum regulatory requirements, with an internal buffer to provide additional safeguarding.

The Bank holds a portfolio of high-quality liquid assets which includes liquidity held in a reserve account with the Bank of England. At 31 December 2023, the Bank had encumbered £42.0m (2022: £41.9m) of its gilts as collateral for drawdowns from the Bank of England's Term Funding Scheme for SMEs.

During 2023 the Bank actively managed its liquidity and funding profile within the confines of its risk appetite as set out in its liquidity risk policies and included in its Internal Liquidity Adequacy Assessment Process.

Financial – Interest Rate Risk in the Banking Book (IRRBB)

The Bank does not have a trading book and has a low appetite for interest rate risk and does not seek to take a significant directional interest rate position. The Bank is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset or, if earlier, the dates on which the instruments mature. Limits have been set to protect earnings and market value from fluctuations in interest rates. Capital has been allocated for this risk, expressed as a capital add-on under Pillar 2A.

The Bank measures IRRBB by applying a 2% parallel shift (upwards and downwards) to interest rates and computing the fair value of the Bank's assets and liabilities under such an interest rate environment. The Bank also monitors its exposure to interest rate risk by calculating the impacts on its Economic Value of Equity under the six interest rate scenarios as recommended by the European Banking Authority.

Capital allocation for IRRBB has been set based on the Bank's appetite for changes in the Economic Value of Equity under a scenario where the yield curve shifts by 200bps. This exposure is assessed, monitored and reported daily. (See page 79 in the annual report and accounts.)

The Bank is exposed to basis risk that arises from assets and liabilities re-pricing with reference to different interest rate indices, including positions that reference variable market, central bank policy and managed rates. The Bank maintains defined limits to allow appropriate management and operational flexibility, with risk appetite limits in place for basis risk that are reported to the ALCo monthly, with oversight provided by the Risk Committee and approved by the Board.

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

Financial – market risk

The Bank is not exposed to market risk as it does not operate a trading book.

Operational risk

The Bank adopts the Basic Indicator Approach (BIA) to operational risk, and thus holds, as a minimum, capital against this risk equal to 15% of the last three-year average net operating income (net interest income plus fees and commissions).

The Bank held Pillar 1 capital against this risk of £3.2m as at 31 December 2023 (2022: £2.4m).

The First Line of Defence is responsible for the management of operational risk in accordance with policies, governance, agreed processes and controls. The Second Line of Defence provides oversight and challenge through completion of its annual risk plan. The Third Line of Defence provides an independent overview of key operational risk controls and frameworks via an agreed programme of audits.

The Bank has established a risk management framework, supported by policies which are designed to ensure the Bank operates within a low appetite for operational risk. Monitoring and reporting of the overall risk profile is undertaken through the CCORCo, which is a sub-committee of ExCo, with oversight provided by the Risk Committee. The Bank has also completed its self-assessment on operational resilience by identifying important business services and setting tolerances for disruption, and is working towards the full implementation by March 2025.

Compliance and regulatory risk

The Bank is committed to ensuring that high standards of regulatory conduct are in place and aims to minimise breaches, financial costs and reputational damage associated with non-compliance. The Bank has a zero tolerance to regulatory compliance and financial crime risk.

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

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

Business and strategy risk

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

To deliver against its strategic objectives and business plan, the Bank has adopted a resilient and efficient business operating model based on a focused approach to its targeted markets.

The Bank remains highly focused on delivering against its core strategic objectives and strengthening its market position further through sustainable financial performance as evidenced through its profitability in 2023 and in prior years.

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

The Board requires that the Bank will maintain capital resources greater than the Bank's own internal estimates of its capital requirements which is set higher than the prevailing regulatory Total Capital Requirement (TCR) plus CRD IV buffers. To ensure that regulatory limits are not breached, the Bank sets internal limits above the regulatory limits.

There is a comprehensive capital management plan in place, including the Internal Capital Adequacy Assessment Process, which is prepared at least annually and reviewed by the Risk Committee and approved by the Board.

Conduct risk

The Bank views effective conduct risk management as a core feature of its risk culture and values, and its risk appetite statement sets out that the Bank will always act in the best interests of customers. It will comply fully with all laws and regulations relating to the conduct of its business and will ensure that customers are treated fairly, responsibly and with respect.

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

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

The Bank embedded Consumer Duty across the savings business ahead of the regulatory deadline of 31 July 2023. It continues to focus on its support for its customers, striving for good customer outcomes at all touch points with the Bank.

Securitisation treatment

As of December 2023, and December 2022, the Bank had no economic interest in any securitisation vehicle.

Risk-based submissions

The Bank undertakes a comprehensive review of its current and projected risk profiles based on expected and stressed market and economic conditions. The three primary risk-based annual planning exercises are the annual review of the strategic plan, the ICAAP and the ILAAP, which are supplemented with the Recovery Plan and the Solvent Wind Down Plan. The strategic plan describes the Bank's strategic direction for the planning horizon (five years). The ICAAP informs the Board and management's view on the level and quality of capital needed to meet the prudential and risk-based capital requirements over the planning horizon under base case and stressed scenarios. The ICAAP is an integral input into the PRA's capital supervisory review process (C-SREP) and forms the basis upon which the Bank's capital requirement is set. The ILAAP informs the Board's view on the Bank's level and quality of liquidity buffer and liquidity management framework. It is an input to the PRA's liquidity supervisory review process (L-SREP), which leads to individual liquidity guidance (ILG).

The Bank also reviews and updates its Recovery Plan and Solvent Wind Down Plan, normally on an annual basis. This is designed to ensure that the Bank's Recovery Plan remains credible and can be implemented at a time of stress. The Bank's recovery options are assessed for feasibility and time to implementation under stressed conditions. The Bank has identified a suite of early warning indicators and triggers which inform the nature and type of recovery options which would be put in place. The Solvent Wind Down Plan provides a range of options and implications should the Recovery Plan not deliver the required and intended improvement.

5. Capital

Own funds (also referred to as capital resources) comprise the type and level of regulatory capital which must be held to enable the Bank to absorb losses. The Bank is required to hold own funds in sufficient quantity and quality in accordance with CRR, which sets out the characteristics and conditions for own funds.

Two tiers of capital are recognised by the Bank, being Common Equity Tier 1 (CET1) and Tier 2 capital, with the sum of CET1 and Tier 2 capital constituting “own funds”. The Bank’s own funds are in the majority composed of CET1 eligible capital and the Bank complied with all the relevant capital requirements, for the year ended December 2023.

The following table shows the breakdown of the Bank’s capital resources:

Table 5: Own funds

	2023	2022
	£	£
Common equity tier 1 capital		
Called up share capital	111	111
Share premium/capital contribution	47,922,405	47,922,405
Retained earnings	(370,347)	(4,574,596)
Other reserves	-	(21,961)
Deductions from common equity tier 1 capital		
Intangible assets	(783,820)	(448,996)
Deferred tax	-	(1,442,426)
Non-regulatory capital	(3,874)	(3,874)
Common equity tier 1 capital	46,764,475	41,430,663
Total tier 1 capital	46,764,475	41,430,663
Tier 2 capital		
Paid up capital instruments	9,000,000	9,000,000
General loan provisions	1,124,076	889,925
Total Tier 2 capital	10,124,076	9,889,925
Own funds (total regulatory capital)	56,888,551	51,320,588

Common equity tier 1 comprises ordinary share capital, share premium and allowable reserves, less accumulated losses. Adjustments included in CET1 include a deduction for intangible assets.

Tier 2 capital comprises qualifying subordinated debt liability and collective impairment provisions. The subordinated debt liability is unsecured and ranks behind any claims against the Bank from all depositors and creditors. Regulatory rules limit the amount of Tier 2 capital to a maximum of 25% of the Bank’s own funds.

6. Capital requirements

6.1. Capital requirements framework

To protect the solvency of the Bank, the Bank holds internal capital resources to absorb unexpected losses. The capital resources requirement is determined by the regulator's guidance.

The capital framework as applicable to the Bank business model is described below.

Pillar 1 sets out the minimum capital requirements that the Bank is required to meet for credit, market, operational and credit valuation adjustment risk.

Pillar 2A sets out the requirements for the Bank regarding its ICAAP, internal procedures and control mechanisms. The PRA requires that the Bank meets its Pillar 2A with at least 56.25% CET1.

Total Capital Requirement (TCR) is the sum of Pillar 1 capital requirements plus Pillar 2A capital requirements.

Capital conservation buffer (CCoB) The purpose of this buffer is to enable firms to absorb losses in stressed periods. As at 31 December 2023, the CCoB rate was 2.5%.

Countercyclical buffer (CCyB) requires the Bank to build up capital when aggregate growth in credit is judged to be associated with a build-up of market-wide risk. The buffer can be drawn down to absorb losses during periods of stress. The Financial Policy Committee (FPC) is responsible for setting the UK CCyB rate that applies to eligible UK exposures. The UK CCyB rate as at 31 December 2023 was 2%, which came into effect from 5 July 2023.

Pillar 2B (PRA buffer) The PRA buffer is an amount of capital that firms must hold, in addition to their TCR, to cover losses that may arise under a severe but plausible scenario, but avoiding duplication with the CRD IV buffers (CCoB and CCyB). The PRA buffer imposes a firm-specific PRA buffer incremental to Pillar 1, Pillar 2A and the CRD buffers. The PRA determines the amount required to be maintained by firms using a range of factors, but not limited to, firm-specific stress test results.

The above represents a simplified view of the capital framework, and there are other elements like systemic buffers and sectoral capital requirements that are currently not applicable to the Bank. These additional elements could be included in the future, based on specific thresholds, exposure types and changes to regulatory guidance. The Bank, due to its simple business model and balance sheet size, has not been identified as a Globally Systemically Important Bank.

The capital requirements framework applicable to the Bank is summarised as follows:

Table 6: Capital requirements

Requirement	Calculation Method	Description	Requirements
Pillar 1			
Credit risk	Standardised approach	The Bank applies the standardised method to the entire loan book and other assets. The standardised approach applies a prescribed set of risk weightings to credit risk exposures.	Pillar 1 Requirements (per Article 92 of the CRR): 4.5% of Risk Weighted Assets (RWAs) met by CET1 capital 6.0% of RWAs met by Tier 1 Capital 8.0% of RWAs met by total capital.
Market risk	N/A	The Bank does not operate a trading book, and any financial market transactions such as derivatives will only be entered into to hedge the Bank's balance sheet. Therefore, market risk has not been considered in the Bank's capital adequacy calculations.	
Operational risk	Basic indicator approach	The Bank applies the BIA for operational risk capital requirements in accordance with CRR Article 315. A 15% multiplier is applied to the historical and/or forecast average net interest and fee income for three years (per Article 315 (2) of the CRR).	
Credit valuation adjustment (CVA)	N/A	Not applicable as the Bank had no derivatives transactions as at 31 December 2023.	
Pillar 2			
Pillar 2A	Expressed as a percentage of RWAs	Additional capital is held under Pillar 2 for risks either not captured or not fully captured under Pillar 1. At least annually the Bank undertakes a detailed, forward-looking assessment of capital adequacy to assess the Pillar 2 capital requirement. This exercise is part of the ICAAP. Based on the results of the ICAAP the PRA determines the Bank's required TCR which is the Pillar 1 and Pillar 2A requirement.	The Bank's TCR is 11.59%. At least 56.25% of this must be met with CET1 and 75% with Tier 1 (which at the end of 2023 was entirely met with CET1 capital).

Requirement	Calculation Method	Description	Requirements
Combined buffers			
Capital conservation buffer (CCoB)	Expressed as a percentage of RWAs	The capital conservation buffer is part of the CRD IV combined buffer. It is held in combination with the countercyclical buffer and the PRA buffer to ensure the Bank can withstand an adverse market stress. To be met fully with CET1 capital.	2.5% of RWAs
Countercyclical buffer (CCyB)	Expressed as a percentage of RWAs	Expressed as a percentage of RWAs for a specific jurisdiction. In accordance with Regulation (EU) 1152/2014, as foreign credit exposures represent less than 2% aggregate risk weighted exposures, all exposures have been allocated to the UK, as such no other CCyB is applicable to the Bank.	2% of RWAs
Pillar 2B (PRA Buffer)			
PRA buffer	Expressed as a percentage of RWAs	The PRA buffer, in combination with the CRD IV combined buffer, is held to ensure the Bank can withstand an adverse market stress. The PRA buffer must be met fully with CET1 capital.	The PRA buffer is set by the PRA and is not disclosed.

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

The Bank was operating under a prescribed total capital requirement of 11.59% for the year ended 31 December 2023.

6.2. Pillar 1 capital requirements

The following table shows the risk weighted assets in accordance with the standardised approach to credit risk and the Pillar 1 capital requirement for each of the standardised credit risk exposure classes. The table also shows the Bank's capital requirements due to operational risk requirements, calculated in accordance with the BIA.

Table 7: Pillar 1 capital requirements

Standardised exposure classes	2023		2022	
	Risk weighted assets	Capital requirements	Risk weighted assets	Capital requirements
	£	£	£	£
Central government and central banks				
Regional governments or local authorities				
Administrative bodies and non-commercial				
Multilateral development banks				
International organisations				
Institutions	583,047	46,644	946,102	75,688
Corporates				
Retail				
Secured by mortgages on residential property	70,065,294	5,605,224	27,562,520	2,205,002
Secured by mortgages on commercial real estate	145,500,647	11,640,052	196,007,206	15,680,577
Past due	35,540,399	2,843,232	14,025,145	1,122,012
Regulatory high-risk categories				
Covered bonds				
Securitisation positions				
Short-term claims on institutions and corporates				
Collective Investment Undertakings (CIUs)				
Other items	1,839,907	147,193	1,095,331	87,626
Total credit risk	253,529,294	20,282,345	239,636,304	19,170,905
Operational risk - basic indicator approach	40,520,788	3,241,663	29,779,413	2,382,353
Total pillar 1 risk weighted assets/capital requirement	294,050,082	23,524,008	269,415,717	21,553,258

7. Remuneration

The following disclosures for the Bank are prepared in accordance with the Capital Requirements Directive V (CRD V) remuneration disclosure requirements, as further elaborated in the FCA's General guidance on Proportionality: The Remuneration Code (SYSC 19A) and Pillar 3 disclosures on Remuneration (Article 450 of the CRR). They provide details of the remuneration of the Bank's Material Risk Takers (MRTs) for the year ended 31 December 2023, together with an explanation of the Bank's remuneration policies, practices and governance.

Material Risk Takers are those individuals whose actions could have a material impact on the risk profile of the Bank. The Bank identified a total of 30 (2022: 29) individuals as MRTs during the year ended 31 December 2023.

Decision making

The Nominations and Governance Committee and Remuneration Committee are committees of the Board. The Nomination and Governance Committee is responsible for overseeing the appointment of Executive and Non-Executive Directors and making recommendations to the Board concerning such matters, including the consideration of succession planning and development programmes, and the composition of the Board and Board sub-committees.

The Remuneration Committee is responsible for the remuneration and other benefits of all Executive Directors, senior management function holders and Material Risk Takers. The Remuneration Committee makes appropriate recommendations to the Board concerning such matters, including the implementation of any variable reward schemes.

Remuneration policies and practices are designed to support strategy and promote long-term sustainable success, with executive remuneration aligned to company purpose and values, linked to the successful delivery of the company's long-term strategy, and which enable the use of discretion to override formulaic outcomes and recover and/or withhold sums or share awards under appropriate specified circumstances.

Throughout 2023, both committees comprised five members, including four Non-Executive Directors and the Chair of the Board. Committee terms of reference are kept under regular review, the last review date in 2023 being March.

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

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

The Committees meet at least annually, although they can meet more frequently as required. There have been three meetings of the Remuneration Committee and two Nominations and Governance Committee meetings during the year ended 31 December 2023. In carrying out their responsibilities, the committees have sought independent external advice as necessary.

Remuneration policy and structure – link between pay and performance

The Bank's remuneration policy is designed to ensure that Material Risk Takers' remuneration appropriately rewards them for their responsibilities, performance and experience, considering market data. Remuneration packages aim to aid the recruitment, retention and motivation of high calibre individuals to lead and direct the Bank and deliver continuously improving performance and long-term sustainability for stakeholders.

There are three main elements of remuneration for MRTs:

- Base salary or fees
- Variable remuneration
 - Performance-related annual cash-based bonus schemes
 - Cash-based Long Term Incentive Plan (LTIP)
- Benefits (pension, healthcare, insurances etc). Car allowance is part of the remuneration for some MRTs.

Base salary or fees

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

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

Variable remuneration

Performance-related annual cash-based bonus schemes for all staff were introduced as variable remuneration in 2022 and continued to be in place in 2023, and calculated based on seniority and performance. The Bank has in place, for key staff, a cash-based Long Term Incentive Plan 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, calculated based on seniority and performance in the grant year. The grants vest in December 2024 and in December 2025 and are to be cash-settled with proportional adjustments for changes in the net asset value of the Bank.

To ensure that variable remuneration computations and awards are made in a manner that is equitable across the business, and such that it does not reward risk taking beyond the Bank's appetite, the Bank's Chief Risk Officer assesses the variable remuneration schemes and their outcomes and reports their findings to the Remuneration Committee for consideration. This process may result in adjustments to the scheme itself, or awards from it, through the consideration of matters relating to employee conduct, the firm's values and individual performance.

Benefits

To provide a competitive and appropriate benefits package, MRTs, excluding NEDs, receive benefits such as pension, private medical insurance, private dental insurance, income protection, critical illness and death in service benefit.

Material Risk Takers

For the year ended 31 December 2023, the Bank identified 30 MRTs, comprising five Non-Executive Directors, four Directors, 14 senior managers and seven other MRTs who are defined as those staff whose professional activities could have a material impact on the firm's risk profile.

The tables below show remuneration awarded for the financial year and information on remuneration of MRTs.

Table 8: Remuneration awarded for the financial year

	MB Supervisory function	MB Management function	Other senior management	Other identified staff	
UK REM1 - Remuneration awarded for the financial year (no., £)					
1	Number of identified staff	5	4	14	7
17	Total remuneration	483,008	1,499,869	2,510,281	941,829

Table 9: Information on remuneration of Material Risk Takers

UK REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) (no., £)	Management body remuneration			Business areas				Total
	MB Supervisory function	MB Management function	Total MB	Mortgage Lending	Corporate functions	Independent internal control functions	All other	
1	Total number of identified staff							30
2	Of which: members of the MB	5	4	9				
3	Of which: other senior management				4	9	1	-
4	Of which: other identified staff				1	5	1	-
5	Total remuneration of identified staff	483,008	1,499,869	1,982,877	643,647	2,501,447	307,016	-