PILLAR 3 DISCLOSURES

For the year ended 31 December 2018

Contents

1. Overview

This document sets out the Pillar 3 disclosures of Redwood Bank as at 31 December 2018. The disclosures have been prepared in accordance with the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR), together known as CRD IV, which came into force on 1 January 2014.

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

The framework consists of the following three pillars of regulation:

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

The Bank has established a disclosure policy for Pillar 3 information that sets out the internal controls and procedures to be applied in producing the disclosure. Pillar 3 disclosures will be prepared and updated on an annual basis, or more frequently if there is a material change to the previously disclosed data or information. The Pillar 3 document should be read in conjunction with the Bank's Annual Report & Financial Statements for the year ending 31st December 2018 filed at Companies House.

2. Pillar 3 Disclosure Policy

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

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

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

2.1 Non-material, proprietary or confidential information

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

2.2 Verification

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

Certain information has been extracted from Redwood's audited Annual Report and Financial Statements for the year ended 31 December 2018.

3. Strategic Risk Management Framework

3.1 Background

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

The Bank had three lending products as at 31 December 2018:

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

Loans are secured, with UK commercial or residential real estate as the primary security, either freehold, or leasehold with an unexpired term of at least 75 years over the term of the mortgage agreed. The loans are for terms between 2 and 20 (maximum for commercial property) or 2-30 (maximum for residential property) years.

The Bank's deposit product offering at 31 December 2018 consisted of business notice accounts, with both 35-day notice and 95-day notice products and 12 Months Fixed term bonds. These accounts are competitive within the Bank's targeted markets of SMEs, charities, clubs and associations.

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

3.2 Governance

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

i) First line: Operationally, the Executive and senior management have primary responsibility for the identification, measurement and management of all risks. In addition to the day to day risk management processes of the Bank, this is managed through ALCO, MAPCO and Credit Committees. The Bank's liquidity and capital positions are managed and reported daily by Finance and reported to ALCO and Risk Committee and the Board at least monthly.

ii) Second line: The Director of Risk & Compliance conducts independent reviews of risk management in the Bank and provides challenge to the Executive and senior management regarding the adequacy and accuracy of MI used in risk management decision making. In addition, the Director of Risk and Compliance provides expertise and guidance on appropriate risk management practices, including good practice, policies and procedures. It is also the Director of Risk & Compliance's responsibility to update relevant personnel and committees at the Bank regarding new and amended rules, regulations or guidance; and ensure that the Bank responds with appropriate actions. The Director or Risk & Compliance reports to the CEO and directly to the Chair of the Audit and Compliance Committee (ACC) and to the Chair of the Risk Committee.

iii) Third line: Internal Audit is responsible for the independent review of the effectiveness of risk management at the Bank. Internal Audit report directly to the Chairman of the ACC. External Audit also report directly to the Chairman of the ACC and provide independent review and challenge to risk management.

Redwood Bank Governance Structure

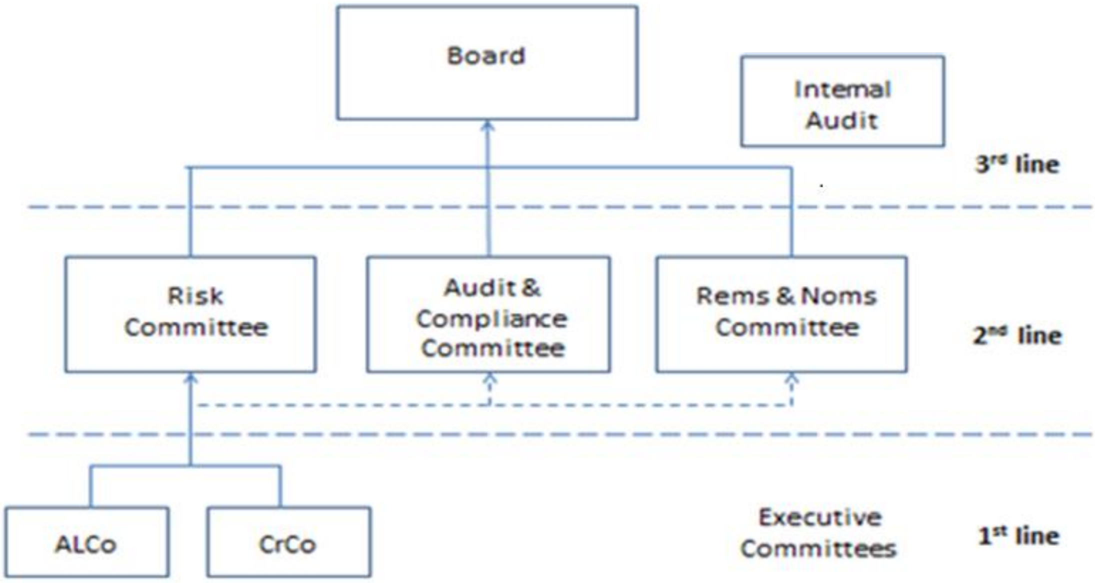

Figure 1

3.3 Risk Management Objectives

The risk management objectives of the Bank are to:

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

3.4 Risk Identification

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

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

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

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

3.5 Risk Categorisation

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

Table 1 : Risk categories

Risk Category	Definition	Risk Appetite Statement
Credit and Concentration	The risk of loss from a business customer (SME) or wholesale counterparty either defaulting on their debt or failing to make timely repayments of a loan. The risk to the Bank from having concentrations of funding from, or lending to, a number of individuals or groups with similar risk characteristics, e.g. geographic area, industry type or product type etc	The Bank's primary aim is to lend money to small and medium sized enterprises. The Bank has a low tolerance for credit losses but recognises that losses are inevitable in any lending portfolio. The Bank will seek to maintain a balance between low tolerance for losses and the need to maintain adequate returns against the basic principles of lend responsibly and treat customers fairly and frankly. The Bank will put in place concentration limits and regularly review them to ensure that customer, geographic, sector, and product concentrations are acceptable.
Financial Interest Rate	The risk to economic value or net interest margin from unfavourable movements in interest rates due to: Re-pricing date mismatches between assets and liabilities; and Interest rate basis mismatches between assets and liabilities (basis risk)	The Bank will take necessary steps to protect its earnings and market value from fluctuations in interest rates. In order to meet this objective, the Bank will not tolerate interest rate positions which: a) subject to a 200bps parallel shift in the yield curve, have an impact to economic value of greater than £800k; b) Subject to a 100bps parallel shift in the yield curve have an impact to earnings greater than £800k
Liquidity	The risk that the Bank has insufficient financial resources to meet its liabilities as they fall due, or, where financial resources are available, they can only be secured at excessive cost.	At all times the Bank will maintain adequate liquidity resources to meet all liabilities as they fall due by holding sufficient high quality liquid assets to meet the greater of the Regulator's requirements or the Bank's own internal estimates of liquidity adequacy, taking into consideration various stress scenarios.
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.	The Bank has a low tolerance for operational losses and seeks to run its business in such a way that operational losses are avoided at all times. The Bank recognises that some operational losses are inevitable and therefore ensures that significant losses are logged, investigated and subject to root-cause analysis.
Compliance & Regulatory Risk	The risk arising from customers, counterparties, shareholders, investors or regulators having a negative perception of the Bank which could adversely affect the Bank's ability to achieve its strategic plan or even lead to the Bank becoming unviable.	The Bank will act in the best interests of customers at all times. It will comply fully with all laws and regulations relating to the conduct of its business.
Business and Strategy Risk	The risk that the Bank may not be able to deliver its strategic objectives due to changes in its business environment.	Capital: The Bank will maintain minimum capital resources of the greater of the sum of prevailing regulatory Individual Capital Guidance (ICG) and all capital buffers, or the Bank's own internal estimates of capital adequacy. In addition, the Bank will exceed all regulatory limits on the composition of capital. The Bank will set internal limits, early warning indicators and Recovery Plan invocation trigger points.

		Pre-Tax Losses: It is fully expected that in the early start up years the Bank will incur pre-tax losses. However, once the Bank reaches profitability, going forward it should maintain pre-tax profitability throughout any economic cycle, including any downturn.
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	The Bank will act in the best interests of customers at all times. It will comply fully with all laws and regulations relating to the conduct of its business and will ensure that customers are treated fairly, responsibly and with respect.

3.6 Internal Control Framework

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

3.7 Compliance

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

3.8 Internal Audit

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

4. Risk Governance & Organisational Structure

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

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

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

Figure 2 - Board Composition

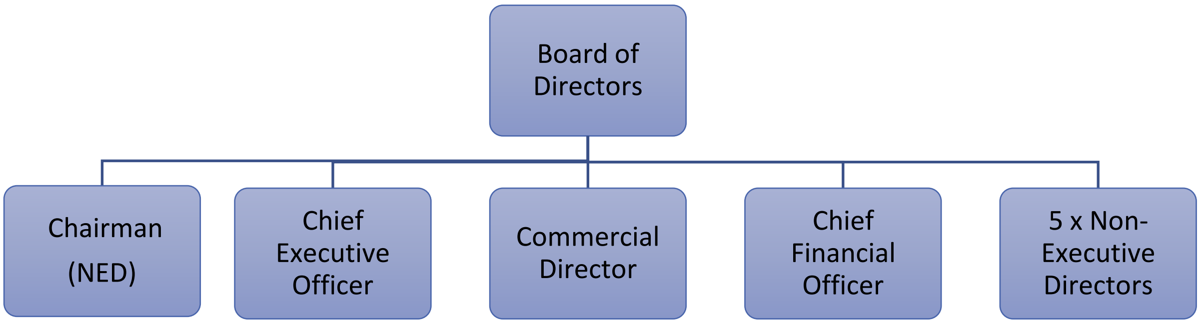

Figure 3 - Board Committees

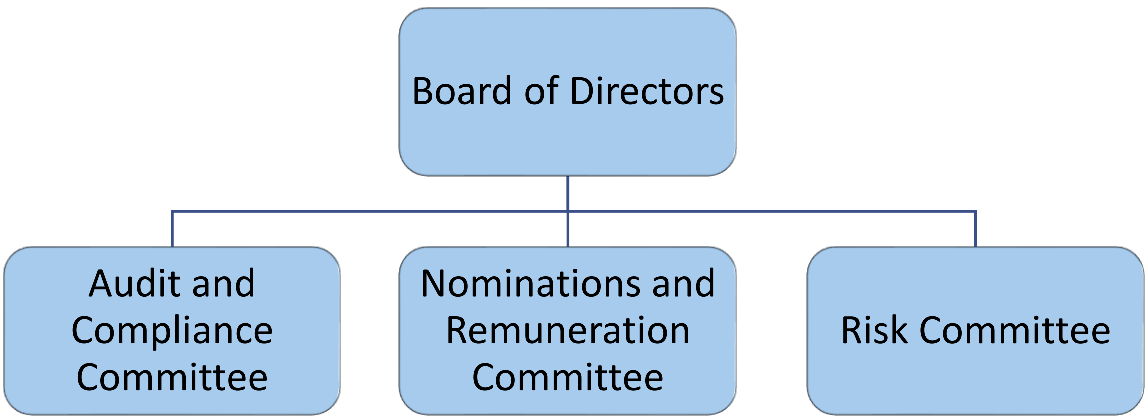

Figure 4 - Executive Committees

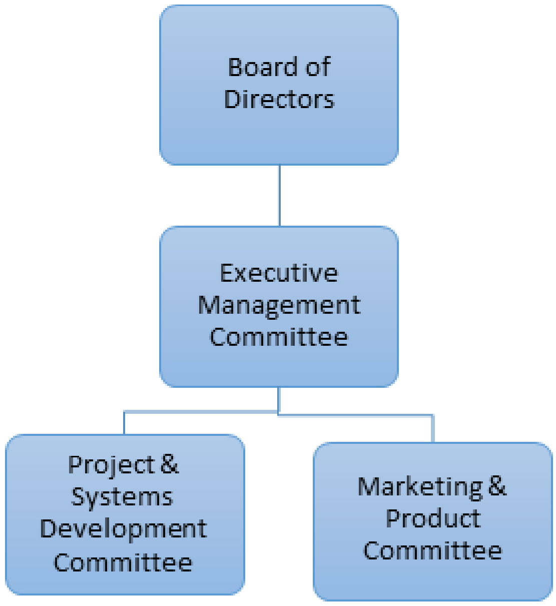

Figure 5 - Executive Committees (cont.)

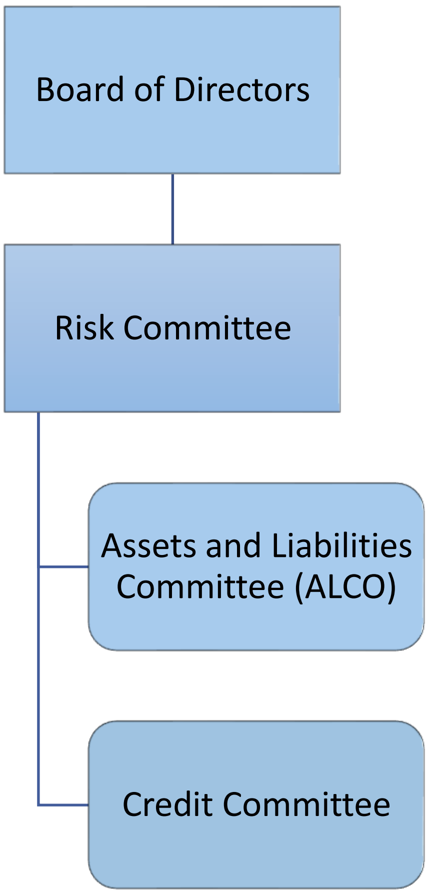

Table 2: Board Committees

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

Table 3: Executive subcommittees

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

Risk Categories

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

Credit and Concentration Risk

The Bank’s primary aim is to lend to small and medium sized enterprises. The Bank had three main lending products as at 31 December 2018:

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

All loans are secured, with UK commercial or residential real estate as the primary security, either freehold, or leasehold with an unexpired term of at least 75 years over the term of the mortgage agreed. The loans are for terms between 2 and 20 years (maximum for commercial property) or 30 years (maximum for residential property).

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

The Bank has a low tolerance for credit losses, but some losses are inevitable in any lending portfolio. The Bank has not recorded any default or any credit risk related losses in 2018. The Bank recorded one impaired loan, with an outstanding balance of £835k at the end of the year.

As at 31 December 2018 the Bank had counterparty exposure to one wholesale counterparty in the UK, rated BBB+ by Fitch. The Bank had no derivatives transactions outstanding as at 31 December 2018. The Bank also had exposure to the UK government in respect of its holdings of UK Gilts and Treasury Bills.

Financial - Liquidity & Funding Risk

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

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

During the course of 2018 the Bank actively managed its liquidity and funding profile within the confines of its risk appetite as set out in its risk policies and reviewed in its Individual Liquidity Adequacy Assessment Process (ILAAP).

Financial - Interest Rate Risk in the Banking Book

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

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

The Bank will take necessary steps to protect its earnings and market value from fluctuations in interest rates.

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

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

Financial – Market risk

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

Operational Risk

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

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

The Bank held Pillar 1 capital against this risk of £1,071,842 as at 31 December 2018.

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

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

Compliance and Regulatory Risk

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

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

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

Business & Strategy Risk

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

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

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

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

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

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

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

Reputation / Franchise Risk

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

Conduct Risk

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

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

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

Risk Based Submissions

The Bank undertakes a comprehensive review of its current and projected risk profiles based on expected and stressed market and economic conditions. The two primary risk-based annual planning exercises are the ICAAP and the ILAAP. The ICAAP informs the Board's and management's view on the level and quality of capital needed to meet the prudential and risk based capital requirements over the planning horizon under base and stress scenarios. The ICAAP is an integral input into the PRA's supervisory review process (C-SREP) and forms the basis upon which the Bank's capital guidance is set. The ILAAP informs the Board's view on the Bank's level and quality of liquidity buffer and liquidity management framework. It is an input to the PRA's L-SREP process, which leads to regulatory liquidity buffer guidance (ILG).

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

Recovery Plan and the Resolution Pack

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

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

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

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

As at the 31st December 2018 the Bank comfortably met all its regulatory requirements on Capital and Liquidity.

Table 4 : Overview of prudential metrics

		2018	2017
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1)	15,052,746	9,142,139
1a	Fully loaded ECL accounting model	15,052,746	9,142,139
2	Tier 1	15,052,746	9,142,139
2a	Fully loaded ECL accounting model Tier 1	15,052,746	9,142,139
3	Total capital	15,147,620	9,142,150
3a	Fully loaded ECL accounting model regulatory capital	15,147,620	9,142,150
	Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA)	52,495,810	8,268,832
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	22.83%	59.78%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	22.83%	59.78%
6	Tier 1 ratio (%)	22.83%	59.78%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	22.83%	59.78%
7	Total capital ratio (%)	22.99%	59.78%
7a	Fully loaded ECL accounting model total capital ratio (%)	22.99%	59.78%
	Additional CET1 buffer requirements as a percentage of RWA		
8	Capital conservation buffer requirement (1.87% @ 31/12/2018) (%)	1.875%	1.25%
9	Countercyclical buffer requirement (%)	1.00%	0%

10	Bank G-SIB and/or D-SIB additional requirements (%)	0%	0%
11	Total of Bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.875%	1.25%
12	CET1 available after meeting the Bank's minimum capital requirements (%)	8.275%	46.85%
	Basel III leverage ratio		
13	Total Basel III Leverage ratio exposure measure	143,250,300	34,912,525
14	Basel III leverage ratio (%) (row 2 / row 13)	10.51%	26.19%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 3 / row 13)	10.51%	28.67%
	Liquidity Coverage Ratio		
15	Total HQLA	56,305,459	15,024,205
16	Total net cash outflows	16,501,130	2,412,433
17	LCR ratio (%)	399.32%	622.78%

Capital Resources

Table 5: Capital Resources summarises the composition of regulatory capital resources as of 31 December 2018. The Bank's capital resources are in the majority composed off CET1 eligible capital and comfortably complied with all capital requirements to which it is subject, for the year ended December 2018.

Table 5: Capital Resources

		2018	2017
		£	£
Common equity tier 1 capital			
	Called up share capital	111	100
	Share premium / Capital contribution	22,822,405	13,018,539
	Retained earnings	(7,524,465)	(3,718,487)
	Other reserves	(23,776)	5092
Deductions from common equity tier 1 capital			
	Intangible assets	(217,654)	(163,105)
	Tier 2 capital	(3,874)	
	Common equity tier 1 capital	15,202,745	9,142,139
Total Tier 1 Capital		15,052,747	9,142,139
Tier 2 capital			
	Paid up capital instruments	3,874	11
	General loan provisions	91,000	
Total Tier 2 Capital		94,874	11
Total regulatory capital		15,147,621	9,142,150

6. Capital requirements

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

The Bank was operating under a prescribed Total Capital Requirement (TCR) of 11.68% for the year ended 31 December 2018.

Pillar 1 requirements

The Bank's Pillar 1 capital requirement is calculated using the following approaches:

- Credit - Standardised approach
- Operational risk - Basic indicator approach

The following risks are not applicable to Redwood Bank's Pillar 1 capital requirement:

- Market risk - not applicable as Redwood Bank does not have a trading book
- Credit valuation adjustment (CVA) risk – not applicable as Redwood Bank had no derivatives transactions as at 31 December 2018

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

Table 6: Pillar 1 capital requirements

	2018		2017	
Standardised Exposure Classes	Risk Weighted Assets £	Capital Requirement £	Risk Weighted Assets £	Capital Requirement £
Central government and central Banks				
Regional governments or local authorities				
Administrative bodies and non-commercial				
Multilateral development Banks				
International organisations				
Institutions	334,991	26,799	838,261	67,061
Corporates				
Retail				
Secured by mortgages on residential property	13,274,257	1,061,941	1,194,463	95,557
Secured by mortgages on commercial real estate	38,181,083	3,054,487	5,619,059	449,525
Past due				
Regulatory high-risk categories				
Covered bonds				
Securitisation positions				
Short-term claims on institutions and corporates				
Collective Investment Undertakings (CIUs)				
Other items	705,480	56,238	617,049	49,364
Total Credit Risk	52,495,810	4,199,665	8,268,832	661,506
Operational Risk - Basic Indicator Approach	13,398,025	1,071,842	7,025,000	562,000
Total Pillar 1 Risk Weighted Assets / Capital Requirement	65,893,829	5,271,506	15,293,832	1,223,506

Large Exposures

The Bank has established a conservative internal exposure limit of £2m on an individual asset level and £3m on an aggregate exposure level). As at 31 December 2018 this internal threshold is lower than the Large Exposure maximum as per Article 395 of the CRR.

As per Article 392 of the CRR the Bank report on any connected exposure higher than 10% of Total Capital. As of 31 December 2017, there were 13 connected exposures over 10% of Capital, with the highest exposure being 20.28% of Total Capital.

Overall Pillar 2 Rule

Additional capital is held under Pillar 2 for risks either not captured or not fully captured under Pillar 1.

At least annually the Bank undertakes a detailed, forward-looking assessment of capital adequacy in order to assess the Pillar 2 capital requirement. This exercise is part of the ICAAP. Based on the results of the ICAAP the PRA determines the Bank's required ICG and Capital buffers, which include the countercyclical capital buffer, the capital conservation buffer and the PRA buffer. It is the Bank's policy to hold capital resources in excess of its ICG plus its capital buffers. As at the 31st December 2018 the Bank's Total Capital Requirement was the higher of 11.68% plus regulatory buffers and the Base Capital Requirement plus regulatory buffers.

Capital Buffers

As a new entity the Bank is expected to hold Capital to cover a scenario where the Bank winds-down the business. Such amount is assumed to include all other applicable Regulatory capital buffers for the firm (Capital Conservation buffer (CCoB) and Countercyclical Capital Buffer (CCyB)) for as long as it is higher than the sum of such Regulatory Capital buffers. As of December 2018, the CCoB for UK Banks was 1.875% (2017: 1.25%) while the CCyB was set at 1% (2017: Nil). The Bank's calculation of Wind Down costs approach was higher than the sum of CCyB and CCoB and the Bank held enough Capital to meet all its Regulatory Requirements.

Credit risk

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

Definition of past due and impaired

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

Details of past due and impaired loans as at 31 December 2018 are presented in Table 7 below. The Bank had no past due or impaired loans as at 31 December 2017.

Impairment of financial assets

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

Table 7: Impaired, past due, provisions and provision charges by counterparty type

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

Table 8: Reconciliation of changes in provisions for impaired exposures

2018 Impairment provisions	£'000
Opening balance as at 1 January 2018	-.
Write offs in year	-
Disposals	-
Transfers between reserves	-
Charge/(credit) for the year net of recoveries	241
31 December 2018	241
2017 Impairment provisions	£'000
Opening balance as at 1 January 2017	-.
Write offs in year	-
Disposals	-
Transfers between reserves	-
Charge/(credit) for the year net of recoveries	-
31 December 2017	-

Credit risk exposure breakdowns

The following tables show the Bank's credit risk exposure as at 31 December 2018.

Table 9: Credit risk exposure, Credit Conversion Factor (CCF) and Credit Risk Mitigation (CRM) effects

	Exposures before CCF and CRM		Exposures after CCF and CRM		After applying SME factor	
Standardised Exposure Classes	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
Central government and central Banks	15,012,364		15,012,364		-	0%
Regional governments or local authorities						
Administrative bodies and non-commercial						
Multilateral development Banks						
International organisations						
Institutions	1,674,954		1,674,954		334,991	20.00%
Corporates						
Retail						
Secured by mortgages on residential property	36,956,348	13,060,034	36,939,098	987,000	13,274,257	26.55%
Secured by mortgages on commercial real estate	43,397,696	14,082,831	43,397,696	1,995,324	38,181,083	66.42%
Past due						
High risk						
Covered bonds						
Securitisation positions						
Short-term claims on institutions and corporates						
Collective Investment Undertakings (CIUs)						
Other items	705,480		722,804		705,480	100%
Total	97,746,842	27,142,865	97,746,916	2,982,324	52,495,811	

Table 10: Assets by RWA category

	0%	10%	20%	35%	50%	75%	100%	150%	Other	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central Banks	15,012,387									-
Non-central government public sector entities (PSEs)										
Multilateral development Banks (MDBs)										
Banks			1,674,954							334,991
Securities firms										
Corporates										
Regulatory retail portfolios										
Secured by residential property				50,016,382						13,274,257
Secured by commercial real estate							57,480,527			38,181,083
Equity										
Past-due loans										
Higher-risk categories										
Other assets	17,574						705,480			705,480
Total	158,029,961		1,674,954	50,016,382 2			58,186,007			52,495,811

Use of External Credit Assessment Institutions (ECAIs)

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

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

Table 11: Short term claims on Institutions and Corporates

Credit Quality Step	Fitch	Moody	S&P	Risk Weight	Exposure 2018 £	Exposure 2017 £
1	AAA to AA-	AAA to AA-	Aaa to Aa3	20%	-	-
2	A+ to A-	A+ to A-	A1 to A3	20%	-	-
3	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	20%	1,674,954	4,191,305
4	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	50%	-	-
5	B+ to B-	B+ to B-	B1 to B3	50%	-	-
6	CCC+ and below	CCC+ and Below	Caa1 and below	150%	-	-
Total					**1,674,954**	**4,191,305**

Interest Rate Risk in the Banking Book (IRRBB)

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

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

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

The Bank’s assets are linked to Base Rate and deposits are self-administered, which are highly correlated, which greatly reduces the calculated fair-value IRRBB exposure. The Bank has set internal limits to IRRBB well below the regulatory maximum of 20% of Total Capital and the Banks’ exposure to a 2% parallel shift in interest rates was, at the end of December 2018,210 £k (2017: £15k). This was comfortably below the Bank’s appetite for IRRBB. The Bank will consider the use of Interest Rate Swaps to maintain IRRBB within approved limits but has yet to transact any such derivative products.

Securitisation Treatment

As of December 2018, and December 2017, the Bank had no economic interest in any Securitisation vehicle.

Asset Encumbrance

With the exception of £50k collateral held against the Bank’s credit card facility, all of the Bank’s assets are unencumbered as of 31 December 2018 and 31 December 2017.

Operational Risk

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

7. Liquidity Coverage Ratio

The Bank's LCR as at the 31st December 2018 was 391.32% (2017: 622.78%). The Bank's HQLA was entirely composed of UK Sovereign Debt securities and cash held in the Bank's Reserve Account with the Bank of England.

Table 12: Liquidity Coverage Ratio

		Total unweighted amount	Total weighted amount
	High-quality liquid assets		
1	Total HQLA	56,205,459	56,205,459
	Cash outflows		
2	Retail deposits and deposits from small business customers, of which:		
3	Stable deposits		
4	Less stable deposits	7,356,659	7,001,127
5	Unsecured wholesale funding, of which:		
6	Operational deposits (all counterparties) and deposits in networks of cooperative Banks		
7	Non-operational deposits (all counterparties		
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which:		
11	Outflows related to derivative exposures and other collateral requirements		
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities		
14	Other contractual funding obligations	27,142,865	9,500,003
15	Other contingent funding obligations		
16	**TOTAL CASH OUTFLOWS**	34,449,524	16,501,130
	Cash inflows		
17	Secured lending (eg reverse repos)		
18	Inflows from fully performing exposures	513,083	
19	Other cash inflows	1,624,954	
20	**TOTAL CASH INFLOWS**		2,138,037
			Total adjusted value
21	**Total HQLA**		56,205,549
22	**Total net cash outflows**		14,363,093
23	**Liquidity Coverage Ratio (%)**		391.32%

8. Minimum Requirement for Own Funds and Eligible Liabilities

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

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

9. Remuneration

The following disclosures for Redwood Bank Limited (the "Bank") are prepared in accordance with the Capital Requirements Regulation ("CRR") remuneration disclosure requirements, as further elaborated in the FCA's General guidance on Proportionality: The Remuneration Code (SYSC 19A) & Pillar 3 disclosures on Remuneration (Article 450 of the CRR), and provides details of the remuneration of the Bank's Material Risk Takers ("MRTs") for the year ended 31 December 2018, together with an explanation of the Bank's remuneration policies, practices and governance.

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

Decision Making

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

During 2018, the Committee comprised six members, including five Non-Executive Directors and the Chairman of the Nomination and Remuneration Committee. The Committee's terms of reference are kept under regular review; the last review date in 2018 was December.

The Nomination and Remuneration Committee is supported by the Director of Risk and Compliance, Chief Executive Officer, and the General Counsel and Company Secretary, who attend meetings by invitation.

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

The Committee meets four times a year, although it can meet more frequently as required. There have been four meetings during the year ended 31st December 2018. In carrying out its responsibilities, the Committee has sought independent external advice as necessary.

Material Risk Takers

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

- Chief Executive Officer
- Chief Financial Officer
- Commercial Director
- General Counsel and Company Secretary
- Director of Risk and Compliance
- Director of Operations
- Director of Credit and Underwriting

Table 13: Board directorships

Name	Position	Directorships[1]
David Buckley	Chairman	11
Gary Wilkinson	Executive Director	4
Brian Mulholland	Executive Director	2
Graham Reynolds	Executive Director	-
Jonathan Rowland	Non-Executive Director	5
Sally Veitch	Non-Executive Director	2
Clive Hetherington	Non-Executive Director	1
Nigel Boothroyd	Non-Executive Director	3
Eirvin Knox2	Non-Executive Director	5

[1] The number of directorships shown excludes the Bank. Directorships of non-commercial organisations are not included.

[2] Eirvin Knox resigned as a director on 1 January 2019.

Remuneration policy and structure – link between pay and performance

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

There are two main elements of remuneration for Material Risk Takers:

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

Base salary or fees

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

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

Benefits

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

Remuneration for MRTs

The table below shows fixed base remuneration awarded to MRT's in respect of the year ending 31 December 2018 (2017).

MRT's	2018	2017
Total Fixed remuneration	£984,315	£656,000
Number of MRTs	7	7

Table 14: Code staff aggregate remuneration for 2018 (2017)

	Senior Management (ExCo & ED's)		Other Code staff		Notes
	No. of recipients	£'000	No. of recipients	£'000	
Fixed remuneration during 2018	7	984	0	0	Basic salary, employers contributions
Variable remuneration awarded for 2018 Performance					
Cash (Paid)					
Total Remuneration		**656**		**0**	

	Senior Management (ExCo & ED's)		Other Code staff		Notes
	No. of recipients	£'000	No. of recipients	£'000	
Fixed remuneration during 2017	7	656	0	0	Basic salary, employers contributions
Variable remuneration awarded for 2017 Performance					
Cash (Paid)					
Total Remuneration		**656**		**0**	

Appendix I - Disclosure on Asset Encumbrance

Template A – Assets

2018

		Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
		010	040	060	090
010	Assets			139.0	
030	Equity instruments	-	-	-	-
040	Debt securities	-	-	16.2	15.0
	Other assets			122.8	

2017

		Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
		010	040	060	090
010	Assets			28.4	
030	Equity instruments	-	-	-	-
040	Debt securities	-	-	15.0	15.0
	Other assets			13.4	

Template B - Collateral received

2018

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

2017

		Fair value of encumbered collateral received or own debt securities issued £m	Fair value of collateral received or own debt securities issued available for encumbrance £m

		010	040
130	Collateral received	-	-
140	Loans on demand	-	-
150	Equity instruments	-	-
160	Debt securities	-	-
230	Other collateral received	-	-
240	Own debt securities issued other than own covered bonds or ABSs	-	-

Template C-Encumbered assets/collateral received and associated liabilities

2018

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

2017

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

Template D- Information on importance of encumbrance

The Bank currently has no assets that are encumbered as part of the Bank's funding strategy. The Bank has been granted access to the Reserve Account with the Bank of England and now has the ability to pre-positioning assets in the BoE Contingent Liquidity Facilities. The Bank will keep a low level of encumbrance and is currently not using its lending assets as collateral as part of its Funding Strategy. An encumbrance ratio will be reported to ALCO on a monthly basis as soon as any material assets are deemed to have been encumbered by the Bank.

Appendix II - Own Funds

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

Redwood Bank	**£** **31/12/2018**	**£** **31/12/2017**
Capital: instruments and		
Reserves		
Capital instruments and the related share premium Accounts	22,822,516	13,018,642
of which: Common shares	111	100
Retained earnings	(7,524,465)	(3,718,487)
Accumulated other comprehensive income (and any other reserves)	(23,776)	5,092
Capital before regulatory adjustments	15,274,386	9,305,244
Common Equity Tier 1 (CET1) capital: regulatory Adjustments		
Goodwill and Other intangible assets (net of related tax liability)	(217,654)	(163,105)
Deferred tax assets that rely on future profitability excluding those arising from temporary difference		
Tier 2 capital	(3,874)	-
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(221,528)	(163,105)
Common Equity Tier 1 (CET1) capital	15,052,747	9,142,139
Additional Tier 1 (AT1) capital	-	-
Tier 1 capital (T1 = CET1 + AT1)	15,052,747	9,142,139
Tier 2 (T2) capital: instruments and provisions		
Capital instruments	3,874	11
Credit risk adjustments	91,000	
Tier 2 (T2) capital before regulatory adjustment	94,874	11
Tier 2 (T2) capital: regulatory adjustments		
of which holdings existing before 1 January 2013	-	-
Total regulatory adjustments to Tier 2 (T2) capital		
Total Tier 2 (T2) capital	94,874	11
Total capital (TC = T1 + T2)	15,147,621	9,142,150
Total risk-weighted exposures		
Capital ratios and buffers		
Common Equity Tier 1 ratio	22.84%	59.78%
Tier 1 ratio	22.84%	59.78%
Total capital ratio	22.99%	59.78%
Applicable caps on the inclusion of provisions in Tier 2		
Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		

Appendix III: Leverage Ratio

Summary reconciliation of accounting assets and leverage ratio exposures

	Item
1	Total assets as per published accounts
4	Adjustments for derivative financial instruments
5	Adjustment for securities financing transactions (SFTs)
6	Adjustment for off-balance sheet items (ie conversa equivalent amounts of off-balance sheet exposures)
7	Other adjustments
8	**Leverage ratio total exposure**

Leverage ratio common disclosure

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

		2018 CRR leverage Ratio Exposure	2017 CRR leverage Ratio Exposure
Item		£	£
	On-balance sheet items (excluding derivatives and , SFT's)		
1	On-balance sheet items (excluding derivatives, SFT's and fiduciary assets, but including collateral)	139,044,928	28,338,929
2	Asset amounts deducted in determining Tier 1 capital		
3	**Total on-balance sheet exposures (excluding derivatives, SFT's and fiduciary assets)**	**139,044,928**	**28,338,929**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)		
5	Add-on amounts of PFE associated with all derivatives transactions (mark-to-market method)		
11	**Total derivatives exposures**		
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	27,142,865	14,802,146
18	(Adjustments for conversion to credit equivalent amounts)	(22,937,242)	(8,228,550)
19	**Other off-balance sheet exposures**	**4,205,623**	**6,573,596**
	Capital and total exposures		
20	Tier 1 capital	15,202,746	9,142,139
21	Leverage ratio total exposure measure (sum of lines 3, 11, 19)	143,250,300	34,912,525
	Leverage ratio		
22	Leverage ratio – transitional definition of Tier 1 capital	10.51%	26.19%
23	Leverage ratio – fully phased-in definition of Tier 1 capital	10.51%	26.19%
EU-23	Choice on transitional arrangements for the definition of the capital Measure	Fully phased in	Fully phased in

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

		2018 CRR leverage Ratio Exposure £	2017 CRR leverage Ratio Exposure £
EU-1	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	139,044,928	28,338,929
EU-2	Trading book exposures		
EU-3	Banking book exposures of which:		
EU-5	Exposures treated as sovereigns	56,310,126	15,012,364
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns		
EU-7	Institutions	1,674,954	4,191,305
EU-8	Secured by mortgages of immovable properties	80,336,794	8,500,688
EU-9	Retail exposures		
EU-10	Corporate		
EU-11	Exposures in default		
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligations)	723,054	634,572

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

The Bank's leverage ratio as at the 31st December 2018 was 10.51% (2017: 28.67%).