REDWOOD BANK LIMITED

PILLAR 3 DISCLOSURES

For the year ended 31 December 2022

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1. Overview

This document sets out the Pillar 3 disclosures of Redwood Bank Limited (the Bank) as at 31 December 2022. The disclosures have been prepared in accordance with the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR), which are known as CRD IV or Basel III. These regulations were implemented in the United Kingdom (UK) by the Prudential Regulation Authority (PRA) under the PRA Rulebook (CRR) Instrument 2021, PRA Rulebook (CRR firms), Leverage Instrument 2021 and PRA Rulebook (CRD V) Instrument 2020.

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 assessment process.

The Bank has established internal controls and procedures to be applied in producing the disclosure. 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 2022 filed at Companies House.

As at the 31 December 2022, the Bank met all its regulatory requirements for Capital and Liquidity.

In producing this disclosure 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 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 identify and 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.

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 sub-set of the Executive, and at Board level by the Risk Committee and approved by the Board. Both the Executive and Risk Committee recommended to the Board that the disclosures are made available upon request through the Bank's website.

Certain information has been extracted from the Bank's audited Annual Report and Accounts for the year ended 31 December 2022.

1.3 Frequency

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

2. Summary of Key Metrics

Table 1: Key metrics

		2022 £	2021 £
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	41,430,663	39,399,478
2	Tier 1	41,430,663	39,399,478
3	Total capital	51,320,588	49,909,754
	Risk-weighted exposure amounts		
4	Total risk-weighted assets (RWA)	269,415,717	233,133,033
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	15.4%	16.9%
6	Tier 1 ratio (%)	15.4%	16.9%
7	Total regulatory capital ratio (%)	19.0%	21.4%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)		
UK 7a	Additional CET1 SREP requirements (%)	3.88%	3.99%
UK7d	Total SREP own funds requirements (%)	11.88%	11.99%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer requirement (%)	2.5%	2.5%
9	Countercyclical buffer requirement (%)	1.0%	0.0%
11	Total of Bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	3.5%	2.5%
UK 11a	Overall capital requirements (%)	15.38%	14.49%
12	CET1 available after meeting the total SREP own funds requirements (%)	9.38%	8.49%
	Leverage ratio		
13	Total exposure measure excluding claims on central banks	472,748,850	456,786,462
14	Leverage ratio excluding claims on central banks (%)	8.8%	8.6%
	Liquidity Coverage Ratio*		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	111,134,353	95,371,099
UK 16a	Cash outflows - Total weighted value	33,822,803	24,586,016
UK 16b	Cash inflows - Total weighted value	5,606,270	5,502,886
16	Total net cash outflows (adjusted value)	28,216,533	19,083,130
17	Liquidity coverage ratio (%)	394%	500%
	Net Stable Funding Ratio**		
18	Total available stable funding	475,506,474	440,542,002
19	Total required stable funding	331,042,832	298,659,417
20	Net stable funding ratio (%)	144%	148%

* Average of preceding 12 months
** Average of preceding four quarters

3. Strategic Risk Management Framework

3.1. Background

The primary strategy of the Bank 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 2022:

(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, smaller hotels, guesthouses and bed and breakfast and 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 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 term of the loans range 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 2022 consisted of business notice accounts, with both 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 pursuit of its strategy. 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 Nominations and Governance Committee (NomCo) and a 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 which 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 (i.e., secured residential and commercial mortgage lending) plus associated support functions in Credit & Underwriting, Finance and Treasury, IT, Portfolio Management, Products and Marketing, Operations, and Human Resources. 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 faced by the Bank that arise from the activities that the FLOD undertakes;
- Undertaking of the preparation of proposals and risk assessments associated with the activities in which they engage (including risk ratings where appropriate);
- Primary responsibility for the day-to-day management of the Bank's exposure to risks arising from activities undertaken;
- Development and maintenance of an effective control environment, which will include preventative and detective controls to ensure that risks, including emerging and existing, remain within the Bank's Risk Appetite;
- Production of Management Information in a form and at a frequency commensurate with the underlying risks and activities undertaken; and
- Risk assessment processes.

3.2.2 Second Line of Defence (SLOD)

The SLOD comprises the Bank's risk management functions, which include the Bank's Risk and Compliance teams, and General Counsel, alongside regulatory compliance monitoring provided by RSM LLP.

The SLOD is responsible for:

- Ownership and oversight of the Bank’s Risk Management Framework (RMF);
- Management level ownership and oversight of the Bank’s Risk Appetite Framework (RAF) and Statement (RAS);
- Development, management and where appropriate, ownership, of the Bank’s risk and compliance policies and frameworks, and oversight of ongoing adherence to their provisions;
- Deployment of various tools and techniques that enable risk management oversight of the FLOD;
- Monitoring, oversight and reporting of the Bank’s key risk exposures;
- Oversight and challenge of the FLOD control environment, including risk monitoring;
- Enterprise wide risk management;
- Emerging risk identification and awareness; and
- Provision of risk-related Management Information to the Board and other senior committees (defined as sub-committees of the Board and ExCo).

3.2.3 Third Line of Defence (TLOD)

The TLOD comprises the Bank’s Internal Audit function. To ensure effective coverage of the Bank’s 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.

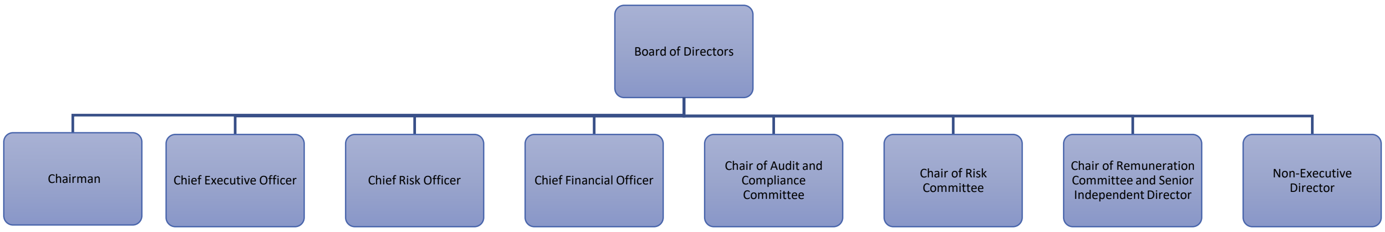
3.3. Responsibilities of the Board, Board Sub-committees and Management Committees

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 which enables risks to be assessed and managed.

Figure 1: Board Composition as at 31 December 2022[1]



Board Committees

The Risk Committee has been established by the Board to identify oversight, ensure effective management of the Bank's inherent risks, ensure that these risks are fully documented, and to recommend to the Board the Bank's Risk Appetite Framework and Statement.

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

The Bank also operates with a Nominations and Governance Committee and a Remuneration Committee to ensure there is formal oversight over such areas as succession and formalisation of the governance and review structures. The Committee governance has also been enhanced, by increasing the independence of each committee through, where appropriate, re-defining the Terms of Reference and changing membership to comprise solely independent directors.

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, in order 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, Resolution Pack, 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.

[1] Ashraf Piranie has been approved to perform Senior Management Function 2, Chief Finance, by the regulators in the subsequent year to the balance sheet date.

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

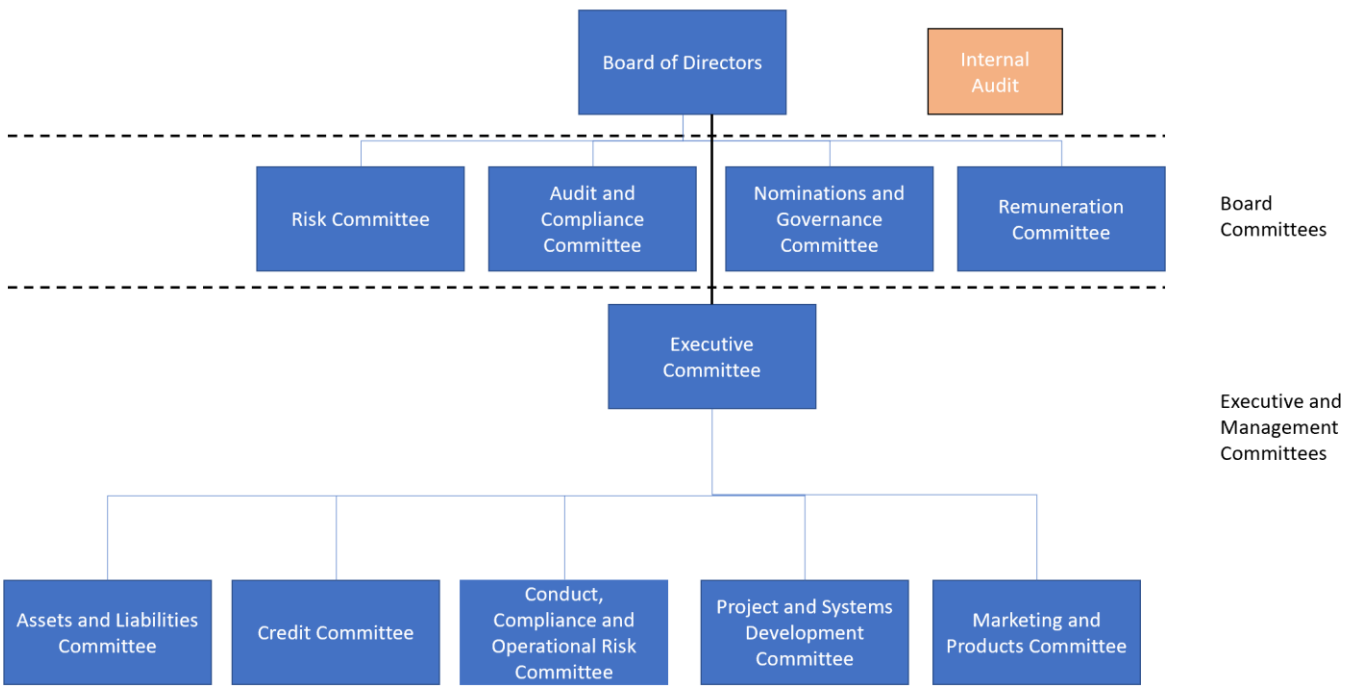
The Executive Committee (ExCo) is a committee established by the Board to manage the activities of the Bank within the framework of the Business Plan and subject to the overall control of the Board. The ExCo has five sub-committees which have delegated authority from the ExCo:

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 & Liabilities Committee	The Assets & 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 meet monthly to undertake wider responsibilities, in particular to review the Bank's lending portfolio and the risk exposures thereof.
Conduct, Compliance & Operational Risk Committee	The Conduct, Compliance & 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 & Systems Development Committee	The Project & 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 & Products Committee	The Marketing & 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;
- 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 Report, which acts as a tool for the identification and logging of its risks. The Bank Risk 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 Senior Management Function (SMF) holder to ensure that the Bank's Risk Report completely and accurately represents all of 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 Report 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 and legal horizon scanning process which seeks to 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 (SME) failing to make timely repayments of a loan or wholesale counterparty defaulting on their debt. The risk to the Bank from having concentrations of lending to a number of 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	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
Compliance & Regulatory Risk	The risk arising from customers, counterparties, shareholders, investors or regulators taking action towards the Bank which 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 impact 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 appetites under stress scenarios applied. Key stress tests are captured in the ILAAP and in the ICAAP.

3.8. Internal Control Framework

The Risk Committee and the Audit & Compliance Committee are both 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, who carries out independent reviews on behalf of the Risk and Compliance Department. The reviews are scheduled using risk-based prioritisation and are addressed 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 2022.

3.10. Internal Audit

Internal Audit comprises the Third Line of Defence. The Internal Audit function, but not ultimate accountability which 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 & 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 & 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 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 2022: 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 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. The Bank did not record any crystallised losses in 2022. At 31 December 2022 the Bank classified eight (2021: nine) loans as impaired, with outstanding balances of £11,957k (2021: £6,913k).

As at 31 December 2022 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 2022. 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 & 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.

The Bank holds a portfolio of High-Quality Liquid Assets which includes liquidity held in a Reserve Account with the Bank of England. At the 31 December 2022 the Bank had encumbered £41.9m (2021: £39.2m) of its gilts as collateral for drawdowns from the Bank of England's Term Funding Scheme for SMEs.

During the course of 2022 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 Processes.

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

The Bank 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. The balance sheet is also analysed for basis risk and reported to the ALCo monthly, with oversight provided by the Risk Committee. The Bank does not have a trading book.

The Bank is exposed to Basis Risk which arises from assets and liabilities re-pricing with reference to different interest rate indices, including positions which reference variable market, central bank policy and managed rates. The Bank maintains defined limits to allow appropriate management and operational flexibility, with risk appetite limits in place for basis risk that are endorsed by the Risk Committee and approved by the Board. (See pages 55 – 58 in the Annual Report and Accounts.)

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 has adopted the Basic Indicator Approach (BIA) to operational risk, and thus holds, as a minimum, capital against the 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 £2.4m as at 31 December 2022 (2021: £1.6m).

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 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 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 in 2022 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 & 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 which 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 2022.

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. In order 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 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.

The Bank is undertaking actions to meet and embed the revised expectations of the Financial Conduct Authority (FCA) Consumer Duty into the business. The development of the Bank’s practices to apply Consumer Duty will continue ahead of the 31 July 2023 implementation deadline.

Securitisation Treatment

As of December 2022, and December 2021, 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 (5 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 and stress 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, Solvent Wind Down Plan and Resolution Pack, normally on an annual basis. This is designed to ensure that the Bank’s Recovery Plan is 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 and Tier 2 Capital, with the sum of Common Equity Tier 1 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 capital requirements to which it is subject, for the year ended December 2022.

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

Table 5: Own funds

	2022 £	2021 £
Common Equity Tier 1 Capital		
Called up share capital	111	111
Share premium / Capital contribution	47,922,405	47,922,405
Retained earnings	(4,574,596)	(6,372,210)
Other reserves	(21,961)	(54,202)
Deductions from common equity tier 1 capital		
Intangible assets	(448,996)	(182,069)
Deferred tax arising from carried forward losses	(1,442,426)	(1,910,683)
Non-regulatory capital	(3,874)	(3,874)
Common Equity Tier 1 Capital	41,430,663	39,399,478
Total Tier 1 Capital	41,430,663	39,399,478
Tier 2 Capital		
Paid up capital instruments	9,000,000	9,000,000
General loan provisions	889,925	1,510,276
Total Tier 2 Capital	9,889,925	10,510,276
Own Funds (total regulatory capital)	51,320,588	49,909,754

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. The 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

In order 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 with regard to 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 2022, 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 system-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 2022 was 1% and will be increased to 2% with 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
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).	Tier 1 Capital 8.0% of RWAs met by total capital.
Credit Valuation Adjustment	N/A	Not applicable as the Bank had no derivatives transactions as at 31 December 2022	
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 in order to assess the Pillar 2 capital requirement. This exercise is part of the ICAAP. Based on the results of the ICAAP the PRA determines the Bank's required TCR which is the Pillar 1 and Pillar 2A requirement.	The Bank's TCR is 11.88%. At least 56.25% of this must be met with CET 1 and 75% with Tier 1 (which at the end of 2022 was entirely met with CET1 capital).
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 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.	1% 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 CET 1 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 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 of 11.88% for the year ended 31 December 2022.

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

	2022		2021	
	Risk Weighted Assets	Capital Requirements	Risk Weighted Assets	Capital Requirements
Standardised Exposure Classes	£	£	£	£
Central government and central Banks				
Regional governments or local authorities				
Administrative bodies and non-commercial				
Multilateral development Banks				
International organisations				
Institutions	946,102	75,688	626,025	50,082
Corporates				
Retail				
Secured by mortgages on residential property	27,562,520	2,205,002	68,247,424	5,459,794
Secured by mortgages on commercial real estate	196,007,206	15,680,577	137,862,947	11,029,036
Past due	14,025,145	1,122,012	5,461,469	436,918
Regulatory high-risk categories				
Covered bonds				
Securitisation positions				
Short-term claims on institutions and corporates				
Collective Investment Undertakings (CIUs)				
Other items	1,095,331	87,626	798,294	63,864
Total Credit Risk	239,636,304	19,170,904	212,996,159	17,039,693
Operational Risk - Basic Indicator Approach	29,779,413	2,382,353	20,136,875	1,610,950
Total Pillar 1 Risk Weighted Assets / Capital Requirement	269,415,717	21,553,257	233,133,034	18,650,643

7. Remuneration

The following disclosures for Redwood Bank Limited 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) & 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 2022, 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 29 (2021: 23) individuals as MRTs during the year ended 31 December 2022.

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 2022, both committees comprised of 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 2022 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 Head of Human Resources, 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 five meetings of the Remuneration Committee and two Nominations & Governance Committee meetings during the year ended 31 December 2022. 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, 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 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

- 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 the 1 April), taking into account market data, individual experience and performance, the economic environment and the Bank's performance. The approach to reviewing salaries for MRTs is in line with the approach for other employees.

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

Variable remuneration

Performance related annual cash-based bonus schemes for all staff were introduced as variable remuneration in 2022, and calculated based on seniority and performance. The Bank also introduced to 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 are to be cash-settled with proportional adjustments for changes in the net asset value of the Bank.

In order 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

In order 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 2022, the Bank identified 29 MRTs, comprising five non-executive directors, three executive directors (including one in place for only part of the year), 13 senior managers and eight other MRTs (including three in place for only part of the year) who are defined as those staff whose professional activities could have a material impact on the firm's risk profile.

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

Table 8: Remuneration awarded for the financial year

UK REM1 - Remuneration awarded for the financial year (no., £)			a MB Supervisory function	b MB Management function	c Other senior management	d Other identified staff
1	Fixed remuneration	Number of identified staff	5	3	13	8
2		Total fixed remuneration	443,866	839,242	1,681,027	624,290
3		Of which: cash-based	443,866	764,487	1,549,082	559,135
4		(Not applicable in the UK)				
UK-4a		Of which: shares or equivalent ownership interests				
5		Of which: share-linked instruments or equivalent non-cash instruments				
UK-5x		Of which: other instruments				
6		(Not applicable in the UK)				
7		Of which: other forms	-	74,755	131,946	65,156
8		(Not applicable in the UK)				
9	Variable remuneration	Number of identified staff	-	2	4	1
10		Total variable remuneration	-	386,112	637,933	187,886
11		Of which: cash-based	-	386,112	637,933	187,886
12		Of which: deferred	-	255,000	418,608	116,206
UK-13a		Of which: shares or equivalent ownership interests				
UK-14a		Of which: deferred				
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments				
UK-14b		Of which: deferred				
UK-14x		Of which: other instruments				
UK-14y		Of which: deferred				
15		Of which: other forms				
16		Of which: deferred				
17	Total remuneration (2 + 10)		443,866	1,225,354	2,318,960	812,176

Table 9: Information on remuneration of MRTs

UK REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) (no., £)		a	b	c	d	g	h	i	j
		Management body remuneration			Business areas				
		MB Supervisory function	MB Management function	Total MB	Mortage Lending	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff								29
2	Of which: members of the MB	5	3	8					
3	Of which: other senior management				1	3	1	-	
4	Of which: other identified staff				3	12	1	-	
5	Total remuneration of identified staff	443,866	1,225,354	1,669,220	676,142	2,155,351	299,643	-	
6	Of which: variable remuneration	-	386,112	386,112	158,975	588,518	78,326	-	
7	Of which: fixed remuneration	443,866	839,242	1,283,108	517,167	1,566,833	221,318	-	