REDWOOD BANK LIMITED

PILLAR 3 DISCLOSURES

For the year ended 31 December 2021

Contents

List of Tables

1. Overview

This document sets out the Pillar 3 disclosures of Redwood Bank Limited (the Bank) as at 31 December 2021. The disclosures have been prepared in accordance with the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR).

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) and CRR2 (Regulation (EU) No 876/2019).

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 on market discipline specifies disclosure requirements, which allow market participants to assess key pieces of information on the firm's capital, governance, 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 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 & Financial Statements for the year ending 31 December 2021 filed at Companies House.

As at the 31 December 2021, the Bank met all its regulatory requirements on Capital and Liquidity.

Table 1: Key metrics

		2021	2020[1]
	Available capital (amounts in GBP)		
1	Common Equity Tier 1 (CET1)	39,399,478	27,396,631
1a	Fully loaded ECL accounting model	39,399,478	27,396,631
2	Tier 1	39,399,478	27,396,631
2a	Fully loaded ECL accounting model Tier 1	39,399,478	27,396,631
3	Total regulatory capital	49,909,754	36,528,841
3a	Fully loaded ECL accounting model regulatory capital	49,909,754	36,528,841
	Risk-weighted assets (amounts in GBP)		
4	Total risk-weighted assets (RWA)	233,133,033	205,441,523
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	16.9%	13.3%

[1] Restated due to the correction of total regulatory capital and its ratio and leverage ratio.

5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	16.9%	13.3%
6	Tier 1 ratio (%)	16.9%	13.3%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	16.9%	13.3%
7	Total regulatory capital ratio (%)	21.4%	17.8%
7a	Fully loaded ECL accounting model total capital ratio (%)	21.4%	17.8%
Additional CET1 buffer requirements as a percentage of RWA			
8	Capital conservation buffer requirement (%)	2.5%	2.5%
9	Countercyclical buffer requirement (%)	0.0%	0.0%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0.0%	0.0%
11	Total of Bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.5%	2.5%
12	CET1 available after meeting the Bank’s minimum capital requirements (%)	10.9%	7.3%
Basel III Leverage Ratio			
13	Total Basel III Leverage ratio exposure measure (£)	535,602,756	448,047,098
14	Basel III leverage ratio (%) (row 2 / row 13)	7.4%	6.1%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 3 / row 13)	9.3%	8.2%
Liquidity Coverage Ratio			
15	Total HQLA (£)	111,539,577	88,860,083
16	Total net cash outflows (£)	11,495,946	18,303,758
17	LCR ratio (%)	970.3%	485.5%

2. Pillar 3 Disclosure Policy

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.

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 subject to external audit but have been reviewed at the Executive level by the Assets and Liabilities Committee and by the Executive Committee, and at Board level by the Risk Committee and approved by the Board. Both the Executive and Risk Committees recommended to the Board that the disclosures are made available upon request through the Bank’s website.

Certain information has been extracted from the Bank’s audited Annual Report & Financial Statements for the year ended 31 December 2021.

2.3. 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 of the Bank.

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 2021:

(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 United Kingdom (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 2 and 25 (maximum for commercial property) or 2 and 30 (maximum for residential property) years.

The Bank's deposit product offering at 31 December 2021 consisted of business notice accounts, with both 35-day notice and 95-day notice products and 12 months 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 this strategy. Therefore, the Bank has established a risk governance and risk appetite framework to identify, measure and control each risk within agreed risk tolerances.

3.2. Risk Ownership

The Bank operates with a Board of Directors, a Board Risk Committee, a Board Audit & Compliance Committee (A&CCo), a Nominations and Governance Committee, a Remuneration Committee, an Executive Committee, an Assets & Liabilities Committee (ALCo), a Credit Committee, a Conduct, Compliance & Operational Risk Committee, a Marketing & Products Committee and a Project & Systems Development Committee.

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 client facing and primary origination units (i.e., secured residential and commercial mortgage lending) plus finance and treasury, IT, portfolio management, strategy, products and marketing, operations and human resources. All staff members of such areas play a key role in the Bank's risk management processes and are required to understand and review the Bank's risk policies and procedures relevant to the activities they undertake.

The following specific responsibilities are allocated to the FLOD:

i) Ownership of the risks being faced by the Bank;
ii) Preparation of new business proposals, risk assessments and approval process;
iii) Primary responsibility for the day-to-day management of the Bank's exposure to risks arising from the activities undertaken;
iv) Development and maintenance of an effective control environment, which include preventative and detective controls to ensure that risks, including proposed, emerging and existing, remain within the Bank's Risk Appetite; and
v) Production of Management Information in a form and at a frequency commensurate with the underlying risks and activities undertaken.

3.2.2 Second Line of Defence (SLOD)

The SLOD comprises the Bank's oversight and risk management functions. For the Bank, this comprises the Bank's Risk and Compliance teams and General Counsel, alongside outsourced compliance monitoring provided by a third party.

The SLOD is responsible for:

i) The development and management of the Bank's risk and compliance policies and the oversight of ongoing adherence to their provisions. Specifically, the Risk Management Framework, Operational Risk Policy, Conduct Risk Policy and the Lending and Credit Risk Policy;
ii) Monitoring and oversight of the Bank's key risk exposures;
iii) Independent validation/assessment of proposals for the assumption, renewal and variation of risk profile generally;
iv) Oversight and challenge of the FLOD control environment, including risk monitoring;
v) Enterprise risk management and emerging risk awareness;
vi) The provision of risk-based Management Information to the Board and relevant Board and Executive Committees; and
vii) Assistance to the FLOD in the identification of risks associated with their activities, and mitigation strategies.

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 management of risk, considering the Bank's exposures to risks, its strategy and 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.

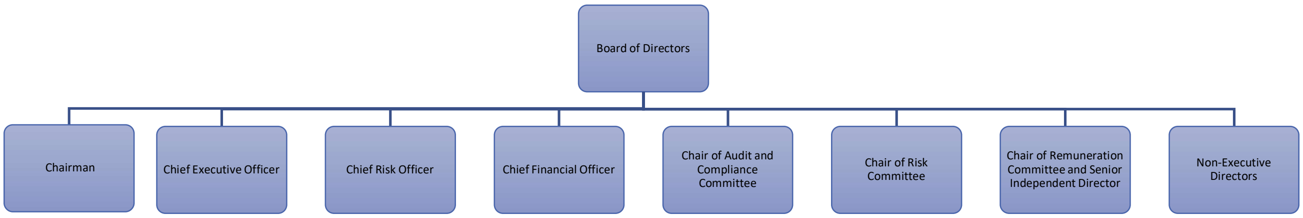
3.3. Responsibilities of the Board, Board Sub-committees and Management Committees

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 2021[2]



Board Committees

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

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

The 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 Committee is responsible for reviewing all risks arising from the Bank's activities. 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.
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 is responsible for making recommendations to the Board in respect of the appointment of the Internal and External Auditors and their terms of engagement.

[2] Maria Elizabeth Walker and Rajesh Khosla have been approved to perform Senior Management Functions i.e. Chair of the Remuneration Committee and Senior Independent Director, and Chief Risk Officer respectively by the regulators in the subsequent year after the balance sheet date.

Nominations & Governance Committee	On behalf of the Board, the Committee is responsible for considering and making recommendations to the Board in respect of appointments to the Board, membership and chairmanship of Board Committees, regulatory and strategic developments in corporate governance, monitoring the governance arrangements of the Bank and the consideration of succession planning and development programmes, and the composition of the Board.
Remuneration Committee	On behalf of the Board, the Committee is responsible for overseeing the appointment, remuneration and other benefits of all Directors and Executive Management. The Committee makes recommendations as appropriate to the Board concerning such matters, including the implementation of any variable remuneration schemes.

Management Committees

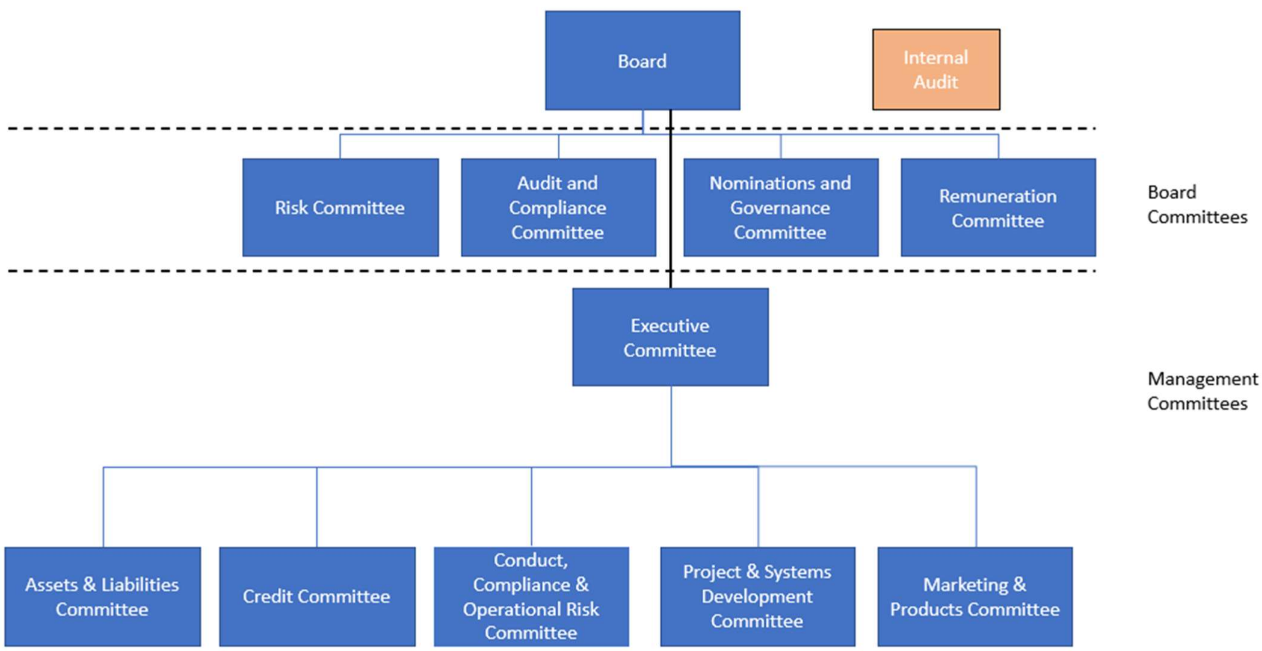
The Executive Committee (EXCO) is an executive committee established by the Board to manage the activities of the Bank on an on-going basis, within the framework of the Business Plan and subject to the overall control of the Board. EXCO has five sub committees which have delegated authority from the Executive Committee including:

Table 3: Executive Committees

Committee	Main objectives and responsibilities
Executive Committee	The Executive Committee 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 all executive committees, and reviews the minutes from these committees.
Assets & Liabilities Committee	The Assets & Liabilities Committee (ALCo) is an Executive Committee established by the EXCO to monitor the liquidity, capital, financial and interest rate risk management, funding profile and net interest margin of the Bank on an on-going basis within the framework of the Business Plan, and the Policies recommended by this Committee are approved by the Board.
Sub Assets & Liabilities Committee	The Sub Assets & Liabilities Committee is a sub-committee of the Assets & Liabilities Committee, established by the ALCo to challenge and authorise the submission of prudential regulatory returns and oversee the regulatory reporting of the Bank.
Credit Committee	The Credit Committee is an Executive Committee established by the 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 an Executive Committee established by the 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 an Executive Committee established by the 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 an Executive Committee established by the 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.

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;
- 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 activity assessment;
- Risk Event reporting;
- Business impact analysis;
- Process risk analysis;
- Second line monitoring activities;
- Scenario analysis, sensitivity analysis and stress testing;
- Internal audit reports; and
- External reviews.

The outcome of these tools and methodologies are used to populate the Bank's Risk Register, which acts as a tool for the recording of its risks. The Risk Register, alongside subject matter expertise, is then utilised to inform the scope of the Bank's Risk Taxonomy. The Bank's Risk Appetite is disseminated from the Bank's Board and documented 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 Risk Register 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 Risk Register, including verification of the ratings assigned, is the responsibility of the Second Line of Defence. Within the Bank, this occurs through:

- Risk Committee reviewing the Risk Register to ensure that the 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 Risk Register;
- 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 may be split into 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, industry type or product type etc.
Financial (Liquidity, Funding and IRRBB) 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 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 for under such stress. Key stress tests are captured in the ILAAP and in the ICAAP, although they have not been used to set the Bank's Pillar 2B buffer to date. Additional details on Credit risk, Liquidity risk, and Emerging risks are provided in subsequent sections of this document.

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 Finance 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 outsourced to a third party, who carry out independent reviews on behalf of the Risk and Compliance Department. The reviews are scheduled using risk-based prioritisation and are addressed annually, every two years or every three years for a rolling three-year cycle, designed to ensure the coverage of all risks.

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 comprises 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 outsourced its compliance monitoring activities to a third party during 2021.

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 2021: 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 limits set out in the Bank's lending policy, 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 has not recorded any crystallised losses in 2021. At 31 December 2021 the Bank classified 9 (2020: 7) loans as impaired , with outstanding balances of £6,913k (2020: £6,531k).

As at 31 December 2021 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 2021. 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 (HQLA) which includes liquidity held in a Reserve Account with the Bank of England. At the 31 December 2021 the Bank had encumbered £39.2m (2020: £20.2m) of its gilts as collateral for drawdowns from the Bank of England's Term Funding Scheme for SMEs (TFSME).

During the course of 2021 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

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 (EBA).

Capital allocation for interest rate risk in the banking book 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 against risk appetite 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.

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 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 £1.6m as at 31 December 2021.

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 reports into the Executive Committee, with oversight provided by the Risk Committee.

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 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 the Financial Services Culture Board and 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 core niche 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 2021.

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 without adequate notice, 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.

Securitisation Treatment

As of December 2021, and December 2020, 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 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 L-SREP process, 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. 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.

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.

Three tiers of capital are recognised, being Common Equity Tier 1, Tier 1 and Tier 2 Capital, with the sum of 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 2021.

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

Table 5: Own funds

	2021 £	2020[3] £
Common Equity Tier 1 Capital		
Called up share capital	111	111
Share premium / Capital contribution	47,922,405	38,022,405
Retained earnings	(6,372,210)	(10,456,684)
Other reserves	(54,202)	14,876
Deductions from common equity tier 1 capital		
Intangible assets	(182,069)	(180,203)
Deferred tax arising from carried forward losses	(1,910,683)	-
Non-regulatory capital	(3,874)	(3,874)
Common Equity Tier 1 Capital	39,399,478	27,396,631
Total Tier 1 Capital	39,399,478	27,396,631
Tier 2 Capital		
Paid up capital instruments	9,000,000	9,000,000
General loan provisions	1,510,276	2,251,174
Ineligible Tier 2 Capital	-	(2,118,964)
Total Tier 2 Capital	10,510,276	9,132,210
Own Funds (total regulatory capital)	49,909,754	36,528,841

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.

During the financial year the Bank received an investment from its shareholders of £9.9m of CET1.

[3] Restated due to the correction of ineligible Tier 2 capital and 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% 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 2021, 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 2021 was 0% 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 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.

Please note that this is 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 RWAs met by CET1 capital 6.0% of RWAs met by Tier 1 Capital
Market Risk	N/A	The Bank does not operate a trading book, and any financial market transactions such as derivatives will only be entered into to hedge the Bank's balance sheet. Therefore, market risk has not been considered in the Bank's capital adequacy calculations.	

Operational Risk	Basic Indicator Approach (BIA)	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).	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 2021	
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 11.99%. At least 56% of this must be met with CET 1 and 75% with Tier 1 (which at the end of 2021 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.	0% 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 11.99% for the year ended 31 December 2021.

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

	2021		2020	
£	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	626,025	50,082	508,930	40,714
Corporates				
Retail				
Secured by mortgages on residential property	68,247,424	5,459,794	57,320,883	4,585,671
Secured by mortgages on commercial real estate	137,862,947	11,029,036	128,085,685	10,246,855
Past due	5,461,469	436,918	6,309,056	504,724
Regulatory high-risk categories				
Covered bonds				
Securitisation positions				
Short-term claims on institutions and corporates				
Collective Investment Undertakings (CIUs)				
Other items	798,294	63,864	773,708	61,897
Total Credit Risk	212,996,159	17,039,693	192,998,262	15,439,861
Operational Risk - Basic Indicator Approach	20,136,875	1,610,950	12,443,263	995,461
Total Pillar 1 Risk Weighted Assets / Capital Requirement	233,133,034	18,650,643	205,441,525	16,435,322

6.3.Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

Under the regulatory conditions, the Bank falls under a Modified Insolvency process as part of the Bank Recovery and Resolution Directive (BRRD), under which MREL is set at the same level as regulatory capital requirements. Therefore, the Bank will meet its MREL by meeting existing regulatory capital requirements.

7. Credit Risk

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

Credit risk is 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 Bank's principal source of credit risk relates to the Bank's loans and advances to customers. Credit risk is overseen by the Risk Committee and Credit Committee.

Additional details can be found in the Bank's 2021 Annual Report and Accounts on pages 42-46.

Credit Quality

Tables in the following section detail the Bank's credit risk exposures and are based on the formats set out in the EBA guidelines. Credit risk exposures presented in the following section include off-balance sheet items.

Table 8: Credit quality of exposures by exposure classes and instruments (2021)

2021 £	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	Write-offs in the year	Credit risk adjustment charges of the period	Net carrying values
Central government and central banks		152,153,302				152,153,302
Regional governments or local authorities						
Administrative bodies and non-commercial						
Multilateral development banks						
International organisations						
Institutions		3,130,127				3,130,127
Corporates						
Retail						
Secured by mortgages on residential property		209,433,104				209,433,104
Secured by mortgages on commercial real estate		184,466,215				176,703,087
Past due	7,084,268		-1,628,596			5,455,672
High risk						
Covered bonds						
Securitisation positions						
Short-term claims on institutions and corporates						
Collective Investment Undertakings (CIUs)						
Other items		798,341				798,341
Total	7,084,268	549,981,089	-1,628,596	-	-	547,673,633

Table 9: Credit quality of exposures by exposure classes and instruments (2020)

2020 £	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments	Write-offs in the year	Credit risk adjustment charges of the period	Net carrying values
Central government and central banks		109,045,983				109,045,983
Regional governments or local authorities						
Administrative bodies and non-commercial						
Multilateral development banks						
International organisations						
Institutions		2,544,648				2,544,648

Corporates						
Retail						
Secured by mortgages on residential property		169,324,076				169,324,076
Secured by mortgages on commercial real estate		194,750,139				168,307,144
Past due	7,175,131		-866,075			6,309,056
High risk						
Covered bonds						
Securitisation positions						
Short-term claims on institutions and corporates						
Collective Investment Undertakings (CIUs)						
Other items		773,783				773,783
Total	7,175,131	476,438,629	-866,075	-	-	456,328,640

Definition of Past Due and Impaired

For regulatory purposes, a financial asset is considered as a defaulted exposure when a contractual payment is overdue for more than 90 days 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. 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 changes in stock of defaulted loans and debt securities as at 31 December 2021 and 31 December 2020 are presented in the following table:

Table 10: Changes in stock of defaulted loans and debt securities

	Twelve months to 31 Dec	
	2021	2020
£	Gross carrying value	Gross carrying value
Defaulted loans and debt securities at end of the previous reporting period	7,175,131	-
Loans and debt securities that have defaulted since the last reporting period	4,662,548	7,175,131
Returned to non-defaulted status	(1,496,218)	-
Amounts written off	-	-
Other changes	(3,257,193)	-
Defaulted loans and debt securities at end of the reporting period	7,084,268	7,175,131

Credit Risk Mitigation

The Bank uses credit risk assessment techniques to ensure it is able to keep its credit risk profile within the boundaries of its Risk Appetite Statement. As an essential starting point the Bank makes extensive use of appropriate credit reference agencies and company search data to verify the historic payment record of any borrower. A key feature of Bank underwriting processes is also the detailed assessment of the capacity of the borrower to service the proposed debt without distress, ensuring that the borrower is able to service the proposed debt under stressed repayment conditions.

Beyond assessing the borrower's ability to repay the debt, the risk of loss is further mitigated by ensuring that collateral is obtained for the funds advanced, which for the Bank is in the form of mortgages over Residential and Commercial property. All mortgage lending activities are supported by an appropriate form of valuation using an independent firm of valuers. Throughout the life of the loan, updated valuations are obtained in accordance with the loan agreement for each facility, or at the Bank's request where a breach of covenants may have occurred.

Each individual lending transaction will be underwritten and can have specific credit risk mitigants attached to it, dependent upon the nature of the debt proposed.

Further information and analysis of the Bank's collateral held can be found in the Bank's 2021 Annual Report and Accounts, starting on page 45.

Credit Risk Exposure Breakdowns

The following tables show the Bank's credit risk exposure as at 31 December 2021 and 31 December 2020.

Table 11: Credit risk exposure, Credit Conversion Factor (CCF) and Credit Risk Mitigation (CRM) effects (2021)

Standardised Exposure Classes 2021 £	Exposures before CCF and CRM		Exposures after CCF and CRM		After applying SME factor	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Central government and central banks	152,153,302		152,153,302		-	0%
Regional governments or local authorities						
Administrative bodies and non-commercial						
Multilateral development banks						
International organisations						
Institutions	3,130,127		3,130,127		626,025	0.29%
Corporates						
Retail						
Secured by mortgages on residential property	192,859,805	16,573,299	192,847,055	2,145,584	68,247,424	32.04%
Secured by mortgages on commercial real estate	175,121,565	9,344,650	175,121,565	1,581,522	137,862,946	64.73%
Past due	7,084,268		5,455,672		5,461,469	2.56%
High risk						
Covered bonds						
Securitisation positions						
Short-term claims on institutions and corporates						
Collective Investment Undertakings (CIUs)						
Other items	798,341		811,091		798,294	0.37%
Total	531,147,408	25,917,949	529,518,812	3,727,106	212,996,158	100%

Table 12: Credit risk exposure, Credit Conversion Factor (CCF) and Credit Risk Mitigation (CRM) effects (2020)

Standardised Exposure Classes 2020 £	Exposures before CCF and CRM		Exposures after CCF and CRM		After applying SME factor	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Central government and central banks	109,045,983		109,045,983		-	0%
Regional governments or local authorities						

Administrative bodies and non-commercial						
Multilateral development banks						
International organisations						
Institutions	2,544,648		2,544,648		508,930	0.26%
Corporates						
Retail						
Secured by mortgages on residential property	158,580,923	10,743,153	158,574,223	1,450,641	57,320,883	29.70%
Secured by mortgages on commercial real estate	163,368,084	31,382,055	163,368,084	4,939,059	128,085,685	66.37%
Past due	7,175,131		6,309,056		6309056	3.27%
High risk						
Covered bonds						
Securitisation positions						
Short-term claims on institutions and corporates						
Collective Investment Undertakings (CIUs)						
Other items	773,783		797,733		773,708	0.40%
Total	441,488,552	42,125,208	440,639,727	6,389,700	192,998,260	100%

Table 13: Exposures by asset classes and risk weights (2021)

2021 £	0%	10%	20%	35%	50%	75%	100%	150%	Other	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	152,153,302									152,153,302
Non-central government public sector entities										-
Multilateral development banks										-
Institutions			3,130,127							3,130,127
Securities firms										-
Corporates										-
Regulatory retail portfolios										-
Secured by residential property				194,992,639						194,992,639
Secured by commercial real estate							176,703,087			176,703,087
Equity										-
Default							5,444,078	11,594		5,455,672
Higher-risk categories										-
Other assets							811,091			811,091
Total	152,153,302	-	3,130,127	194,992,639	-	-	182,958,256	11,594	-	533,245,918

Table 14: Exposures by asset classes and risk weights (2020)

2020 £	0%	10%	20%	35%	50%	75%	100%	150%	Other	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	109,045,983									109,045,983
Non-central government public sector entities										-
Multilateral development banks										-
Institutions			2,544,648							2,544,648
Securities firms										-
Corporates										-
Regulatory retail portfolios										-
Secured by residential property				160,024,864						160,024,864
Secured by commercial real estate							168,307,144			168,307,144
Equity										-
Default							6,309,056			6,309,056
Higher-risk categories										-
Other assets	23,950						773,783			797,733
Total	109,069,933	-	2,544,648	160,024,864	-	-	175,389,983	-	-	447,029,427

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

Table 15: Short term claims on institutions

Credit Quality Step	Fitch	Moody	S&P	Risk weight	Exposure 2021 £	Exposure 2020 £
1	AAA to AA-	AAA to AA-	Aaa to Aa3	20%	-	-
2	A+ to A-	A+ to A-	A1 to A3	20%	3,130,127	2,544,648
3	BBB+ to BBB-	BBB+ to BBB-	Baa1 to	20%	-	-
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					3,130,127	2,544,648

8. Liquidity Risk

Liquidity is actively monitored on a daily basis by the Bank's Treasury function and reported on a daily and monthly basis through the Assets and Liabilities Committee, and monthly to the Board. A range of early warning indicators are monitored for early signs of liquidity stress. These include a range of quantitative and qualitative measures that include the close monitoring of the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), amongst other bespoke metrics considered to capture the Bank's main liquidity and funding risk drivers.

Liquidity Coverage Ratio (LCR)

The Bank's LCR as at the 31 December 2021 was 970.3% (2020: 485.5%), against a regulatory requirement of 100%. 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 16: Liquidity Coverage Ratio (2021 and 2020)

		2021		2020	
£		Total unweighted amount	Total weighted amount	Total unweighted amount	Total weighted amount
	High-quality liquid assets				
1	Total HQLA		111,539,577		88,860,083
	Cash outflows				
2	Retail deposits and deposits from small business customers, of which:	405,292,207	6,725,938	346,050,157	7,601,231
3	Stable deposits				
4	Less stable deposits	9,646,175	6,725,938	10,320,301	7,601,231
5	Unsecured wholesale funding, of which:				
6	Operational deposits (all counterparties) and deposits in networks of cooperative Banks				
7	Non-operational deposits (all counterparties)	1,485,446	594,178		
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	25,917,949	9,071,282	42,125,208	14,743,823
15	Other contingent funding obligations	1,313,193			
16	Total Cash Outflows	434,008,795	16,391,398	388,175,365	22,345,054
	Cash inflows				
17	Secured lending (e.g. reverse repos)				
18	Inflows from fully performing exposures	2,123,417	1,840,326	1,801,808	1,571,648
19	Other cash inflows	3,055,127	3,055,127	2,469,648	2,469,648
20	Total Cash Inflows	5,178,544	4,895,453	4,271,456	4,041,296
			Total adjusted value		Total adjusted value
21	Total HQLA		111,539,577		88,860,083
22	Total net cash outflows		11,495,946		18,303,758
23	Liquidity Coverage Ratio (%)		970.3%		485.5%

Net Stable Funding Ratio (NSFR)

The Bank's NSFR aims to ensure that the Bank has an acceptable amount of stable funding to support assets over a one-year period of extended stress. Based on current interpretations of regulatory requirements and guidance, the NSFR as at 31 December 2021 is 148.9% (2020: 150.5%), against a regulatory requirement of 100%.

Table 17: Net Stable Funding Ratio (2021)

£		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
Available stable funding (ASF) item						
1	Capital:				49,909,754	49,909,754
2	Regulatory capital				39,399,478	39,399,478
3	Other capital instruments				10,510,276	10,510,276
4	Retail deposits and deposits from small business customers:		383,100,356	54,167,691		381,909,409
5	Stable deposits					
6	Less stable deposits		29,079,584			14,539,792
7	Wholesale funding:				37,600,000	37,600,000
8	Operational deposits					
9	Other wholesale funding				37,600,000	37,600,000
10	Liabilities with matching interdependent assets					-
11	Other liabilities:		6,351,185			-
12	NSFR derivative liabilities					-
13	All other liabilities and equity not included in the above categories		6,351,185			-
14	**Total ASF**					**469,419,164**
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)				49,938,351	39,792,743
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:					272,240,070
18	Performing loans to financial institutions secured by Level 1 HQLA					
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	3,105,127				508,269
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:		2,420,650	3,275,505	171,550,728	145,818,119
21	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk					
22	Performing residential mortgages, of which:		1,504,468	1,528,761	193,713,357	125,913,682
23	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk					
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
25	Assets with matching interdependent liabilities					
26	Other assets:					1,888,221
27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties					

29	NSFR derivative assets					
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories		1,888,221			1,888,221
32	Off-balance sheet items	25,917,949				1,295,897
33	**Total RSF**					**315,216,932**
34	**Net Stable Funding Ratio (%)**					**148.9%**

Table 18: Net Stable Funding Ratio (2020)

£		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
Available stable funding (ASF) item						
1	Capital:				39,505,812	39,505,812
2	Regulatory capital				27,401,939	27,401,939
3	Other capital instruments				12,103,874	12,103,874
4	Retail deposits and deposits from small business customers:		308,592,126	47,586,454		*320,560,722*
5	Stable deposits					
6	Less stable deposits		22,330,259			11,165,130
7	Wholesale funding:					
8	Operational deposits					
9	Other wholesale funding					
10	Liabilities with matching interdependent assets					-
11	Other liabilities:		23,284,806			-
12	NSFR derivative liabilities					-
13	All other liabilities and equity not included in the above categories		23,284,806			-
14	**Total ASF**					371,231,664
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)				30,207,150	1,510,358
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:					240,897,898
18	Performing loans to financial institutions secured by Level 1 HQLA					
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	2,519,648				420,447
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:		2,215,224	2,186,287	164,576,940	139,890,399
21	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk					
22	Performing residential mortgages, of which:		1,199,905	2,736,577	154,749,311	100,587,052
23	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk					
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
25	Assets with matching interdependent liabilities					
26	Other assets:					2,219,474

27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties					
29	NSFR derivative assets					
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories		2,219,474			2,219,474
32	Off-balance sheet items	42,125,208				2,106,260
33	**Total RSF**					246,733,990
34	**Net Stable Funding Ratio (%)**					**150.5%**

9. Asset Encumbrance

Asset encumbrance arises from collateral pledged against secured lending and secured obligations. The Bank has encumbered gilts to the value of £39.2m against drawings under the Bank of England's Term Funding Scheme for SMEs. The Bank adopts the definition of encumbrance in accordance with regulatory guidelines.

The Tables below show the encumbered assets as detailed in the regulatory returns provided to the PRA:

Table 19: Asset Encumbrance

Asset Encumbrance £		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of non-encumbered assets		Fair value of non-encumbered assets	
			of which: central bank's eligible		of which: central bank's eligible		of which: central bank's eligible		of which: central bank's eligible
2021		**10**	**30**	**40**	**50**	**60**	**80**	**90**	**100**
10	Assets of the reporting institution	39,226,026	39,176,026			485,814,334	10,762,325		
20	Loans on demand					105,295,078			
40	Debt securities	39,176,026	39,176,026	39,167,993	39,167,993	10,762,325	10,762,325	10,757,155	10,757,155
70	of which: issued by general governments	39,176,026	39,176,026	39,167,993	39,167,993	10,762,325	10,762,325	10,757,155	10,757,155
100	Loans and advances other than loans on demand					368,776,521			
110	of which: mortgage loans					368,776,521			
120	Other assets	50,000				980,410			

Asset Encumbrance £		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of non-encumbered assets		Fair value of non-encumbered assets	
			of which: central bank's eligible		of which: central bank's eligible		of which: central bank's eligible		of which: central bank's eligible
2020		**10**	**30**	**40**	**50**	**60**	**80**	**90**	**100**
10	Assets of the reporting institution	20,230,744	20,180,744			416,195,849	10,046,082		
20	Loans on demand					81,313,805			
40	Debt securities	20,180,744	20,180,744	20,180,744	20,180,744	10,046,082	10,046,082	10,040,850	10,040,850
70	of which: issued by general governments	20,180,744	20,180,744	20,180,744	20,180,744	10,046,082	10,046,082	10,040,850	10,040,850
100	Loans and advances other than loans on demand					323,881,972			
110	of which: mortgage loans					323,881,972			
120	Other assets	50,000				953,990			

10. Evolving Risks

UK Economic Headwinds

The UK economy is currently facing significant headwinds, which are expected to continue and potentially worsen in the coming 12 months owing to inflationary pressures (and the consequent pressure of significant increases in the Bank of England Base Rate), at a time where GDP is on a downward trajectory. This raises the potential for the UK to enter into recession which would bring the potential for "stagflation" to the UK economy. The annual increase of the Consumer Price Index (CPI) for the UK was 9.1% as at May 2022 and is forecast to reach above 10% during 2022, driven by rising energy, fuel and food prices alongside shortages in goods. The current and projected rates are considerably in excess of the Bank of England's target levels of 2%, potentially generating an increased likelihood of continued future interest rate rises.

The dual impact of a rising Bank rate and a higher than forecast CPI means customer affordability is likely to be constrained in the short to medium term. The Bank continues to perform detailed analyses of potential credit losses and holds appropriate impairment provisions that can be used to absorb any losses. Regular Management Information is provided to both senior management and the Risk Committee on the credit performance of the Bank's portfolio, while as part of the Bank's underwriting processes, a detailed assessment is undertaken to understand the capacity of the borrower to service proposed debt, including under stressed repayment conditions.

The Bank also recognises the potential for further domestic disturbance impacting upon the broader economy, arising from the longer term implications from the UK's withdrawal from the European Union (EU) and the continued fall-out from the Covid-19 pandemic (see below), and the potential for political disturbance to manifest in continued economic uncertainty.

Geo-political Risk

The Bank recognises the acute challenges in the broader geo-political environment and, in particular, the long term impact of the Russian / Ukraine war on the global economy and how this conflict has the potential to continue to exacerbate some of the headwinds mentioned in the section above, in particular the implications on energy costs, food shortages, etc. While the Bank is a solely UK focused Bank lending to UK customers only, the Bank will remain wary of the impact of any contagion of global events on the UK economy, and the markets within which it operates.

Covid-19

While Covid-19 has now been classified as endemic, the extent of the financial impact in the banking sector from its aftermath, and the potential long term structural changes in economic demand driven by it remain uncertain. The Board continues to monitor the impact of Covid-19, in particular for those customers who were most affected during the lockdown periods.

In addition, the pandemic has also increased the inherent conduct risk profile within the banking sector, with particular focus on Treating Customers Fairly and Vulnerable Customer regulation as a consequence of the wide-ranging impacts of the pandemic, and the Bank continues to ensure that support is given to its customers in line with the Bank's values, principles and policies and in line with the PRA and FCA expectations.

Cyber Risk

Cyber risk remains a key focus of the Bank, with several high-profile multi-industry attacks seen in 2021, as well as the implications of the on-going war in Ukraine, sharpening the view of this risk's significance, in particular as a consequence of the increase in global cyber-risk threats arising from the Russia / Ukraine war. The Bank maintains robust cyber security systems and control measures, designed to achieve a low level of risk in both areas. The Bank continues to develop and embed its approach to managing cyber risk across the Bank, learning from intelligence sources and industry peers to identify new and emerging cyber risks. It uses a combination of techniques to manage its cyber risk profile.

Operational Resilience

Safe and resilient operations remain vital to banks and the financial services sector. Increasing external complexities compound the risk exposure across the industry. The Bank is committed to investing in the continued enhancement of resilience controls and capabilities, so that it can continue to deliver consistent and excellent service to its customers.

Operational resilience is high on the regulatory agenda and features as an area of strategic focus as per the Dear CEO letter communicated setting out PRA priorities for 2022. The joint release by the PRA and FCA of SS1/21 Operational Resilience: Impact Tolerances for Important Business Services in 2021 required firms to identify their important business services and set tolerances for disruption by March 2022 and ensure that they can remain within those tolerances during severe but plausible scenarios thereafter. The Bank completed its self-assessment on Operational Resilience by the deadline set of the end of March 2022.

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

Pace of Regulatory Change

The Bank is cognisant of the volume of regulatory change which small UK banks are required to interpret and, where relevant, implement over the next 12 to 24 months. This ranges from regulatory change focused on alterations to the UK's approach post departure from the European Union, upcoming Basel III reforms, or more specific areas such as Operational Resilience (as noted above) or Outsourcing / Third Party Risk Management.

To mitigate this risk, the Bank maintains a robust and forward-looking process of regulatory horizon scanning for identifying and interpreting upcoming regulatory change at the earliest possible stage, allowing appropriate allocation of resource and, where relevant, identification of any skills gaps that need to be addressed. The Bank will continue to maintain this process and proportionately address relevant regulatory change as it arises.

Climate Change

The PRA reiterated their initial expectations of firms with regards to managing the financial risks arising from climate change. It expects firms to take a strategic approach which will consider how actions taken today affect future financial risks. Firms are asked to embed climate change considerations in their risk management and day-to-day operations.

The Bank lends to British borrowers, where the funds advanced are secured on UK property. Climate change risks arise through physical risk, which may impact the quality of the property as adequate security and/or transition risk as markets shift towards a low carbon economy. These risks may impact the ability of borrowers to meet their obligations under their loans. The Bank has developed and enhanced its climate change plan to assess and address the risks it faces, through governance, risk management, scenario analysis and disclosures in respect of climate change. The Bank will continue to build its climate change capabilities, recognising that further progress will be made across the financial services industry with regards to the sophistication of climate change risk modelling, and of the data available more generally, for assessing the potential financial impacts of this risk. The Bank is also currently assessing its exposure resulting from changes to Energy Performance Certificate (EPC) requirements for buy to let and commercial rented properties.

11. Governance

Directorships held by members of the Board

The total number of directorships and partnerships held by the Executive and Non-Executive Directors who served on the Board as at 31 December 2021 are detailed below:

Table 20: Board directorships[4]

Name	Position	Directorships
Mark Winlow	Chair	8
Gary Wilkinson	Executive Director	4
Brian Mulholland	Executive Director	3
Jerry Loy	Non-Executive Director	4
Robert Endersby	Non-Executive Director	2
Maria Elizabeth Walker	Non-Executive Director	4
John Lowe	Non-Executive Director	2

The above table indicates total number of directorships held by each director, including the Bank, but excludes subsidiaries within the same group.

Changes to the Board

During 2021, the following new independent Non-Executive Directors (NEDs) were appointed to the Board: Mark Winlow as Chair; Jerry Loy as Chair of the Audit and Compliance Committee; Robert Endersby as Chair of the Risk Committee; Maria Elizabeth Walker as Senior Independent NED and Chair of the Remuneration Committee, and John Lowe as NED. All bring extensive board governance experience of financial institutions and financial regulation. The appointment of the new NEDs allowed for the smooth handover from the previous incumbent NEDs, who resigned from the Board in 2021.

Board Recruitment

The Board has delegated specific powers and authority to the Nominations and Governance Committee to lead the appointments process to fill Board vacancies. It is also responsible for keeping the size, structure and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary. The Nominations and Governance Committee also formulates succession plans for the Chair, Non-Executive Directors, and the Executives.

All Board appointments are subject to a formal, rigorous and transparent procedure. Before an appointment is made to the Board, the Nominations and Governance Committee evaluates the balance of skills, knowledge and experience on the Board and, in light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Nominations and Governance Committee will:

- Use the services of external advisers to facilitate the search;
- Have regard to the balance of skills, experience and knowledge on the Board appropriate for the business and the cognitive skills, personal strengths and, where relevant, the independence of the candidate;
- Consider candidates on merit and against defined job specifications and criteria, taking care that appointees have enough time to devote to the position;
- Consider the Equality, Diversity and Inclusion agenda; and
- Have due regard to regulatory approval criteria.

[4] Brian Mulholland will cease his directorship on 7 August 2022. Maria Elizabeth Walker and Rajesh Khosla have been approved to perform Senior Management Functions i.e. Chair of the Remuneration Committee and Senior Independent Director, and Chief Risk Officer respectively by the regulators in the subsequent year after the balance sheet date.

12. Board Diversity

The Nominations and Governance Committee is responsible for all aspects of diversity, including age, gender, religion, race and ethnicity in the Board's composition, whilst at the same time recognising the need to strike an appropriate balance of skills, background, experience and knowledge. The Committee decides on a target for the gender representation in the Board and recommends to the Board strategies on how to meet the targets.

Research shows evidence of correlations between diversity and inclusion and positive outcomes in risk management, good conduct, healthy working cultures, and innovation[5]. These outcomes directly contribute to the stability, fairness, and effectiveness of banks. The Bank seeks to leverage the benefits of diversity amongst both employees and the Board. To this end the Bank has subscribed to the Women in Finance Charter aimed at promoting a fairer and more inclusive working environment. The Bank has committed to an internal target for gender diversity in its Senior Management team of 30%. The Bank is working towards fostering the development of female professionals within the organisation.

The Bank further offers paid parental leave and flexible work options to support its employees, understanding that many of them are juggling family responsibilities. The Bank's internal mentoring programme is encouraged to all, offering people in its business the opportunity to be mentored by leaders across a variety of business areas. All staff must attend Diversity and Inclusion and Unconscious Bias Training, to help employees understand how cultural differences can impact how people work and interact at work.

[5] DP21/2: Diversity and inclusion in the financial sector - working together to drive change

13. 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 2021, 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 23 (2020: 18) individuals as MRTs for the year ended 31 December 2021.[6]

Decision Making

The Nominations and Governance Committee and Remuneration Committee are committees of the Board and are responsible for overseeing the appointment, remuneration and other benefits of all directors and executive management. The Committees make appropriate recommendations to the Board concerning such matters, including the implementation of any variable reward schemes, the consideration of succession planning and development programmes, and the composition of the Board.

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.

For the majority of 2021, both Committees comprised four members, including three Non-Executive Directors and the Chair of the Board, who chaired the Nominations and Governance and Remuneration Committees. From November 2021, the Committees comprised five members, including four Non-Executive Directors and the Chair of the Board. Committee terms of reference are kept under regular review; the last review date in 2021 being November.

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 four meetings of the Remuneration Committee and three Nominations & Governance Committee meetings during the year ended 31 December 2021. In carrying out their responsibilities, the Committees can seek 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 two main elements of remuneration for MRTs:

- Base salary or fees
- Benefits (pension, healthcare, insurances etc). Car allowance is part of the remuneration for some MRTs.

[6] Including a NED and CRO who have been approved to perform Senior Management Functions by the regulators in the subsequent year.

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.

Benefits

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

Material Risk Takers

The Bank has identified 23 (2020: 18) Material Risk Takers comprising five non-executive directors, three executive directors (2020: four), four members of the executive committee (2020: seven) and 11 (2020: 11) other Material Risk Takers who are defined as those staff whose professional activities have a material impact on the firm's risk profile.

Remuneration for Senior Management and MRTs

The table below shows fixed base remuneration awarded to MRT's in respect of the year ending 31 December 2021 (2020).

Table 21: Code staff aggregate remuneration for 2021 and 2020

	Senior Management		Other Material Risk Takers		Notes
2021	**No. of recipients**	**£'000**	**No. of recipients**	**£'000**	
Fixed remuneration during 2021	15	£2,204.6	8	£705.5	Basic salary, employer's contributions
Variable remuneration awarded for 2021 Performance	-	-	-	-	
Cash (Paid)	-	-	-	-	
Total Remuneration		£2,204.6		£705.5	

	Senior Management		Other Code staff		Notes
2020	**No. of recipients**	**£'000**	**No. of recipients**	**£'000**	
Fixed remuneration during 2020	11	£1,794	7	£528	Basic salary, employer's contributions
Variable remuneration awarded for 2020 Performance	-	-	-	-	
Cash (Paid)	-	-	-	-	
Total Remuneration		£1,794		£528	

Appendix I – Main Features of Regulatory Capital Instruments

		CET1	Tier 2
1	Issuer	Redwood Bank Limited	Redwood Bank Limited
2	Unique identifier (eg Committee on Uniform Security Identification Procedures (CUSIP), International Securities Identification Number (ISIN) or Bloomberg identifier for private placement)	Private placement	Private placement
3	Governing law(s) of the instrument	English law	English law
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for other TLAC-eligible instruments governed by foreign law)	Not applicable	Not applicable
4	Transitional Basel III rules	CET1	Tier 2
5	Post-transitional Basel III rules	CET1	Tier 2
6	Eligible at solo/group/group and solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Subordinated loan
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	£47,922,516	£9,000,000
9	Par value of instrument	£100.01	£9,000,000
10	Accounting classification	Shareholders' equity	Liability - amortised cost
11	Original date of issuance	Various	10/03/2020
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	Not applicable	11/01/2031
14	Issuer call subject to prior supervisory approval	No	No
15	Optional call date, contingent call dates and redemption amount	-	-
16	Subsequent call dates, if applicable	-	-
	Coupons / dividends		
17	Fixed or floating dividend/coupon	-	Fixed
18	Coupon rate and any related index	-	6.5% pa
19	Existence of a dividend stopper	-	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory
21	Existence of step-up or other incentive to redeem	-	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	-	-
25	If convertible, fully or partially	-	-
26	If convertible, conversion rate	-	-
27	If convertible, mandatory or optional conversion	-	-
28	If convertible, specify instrument type convertible into	-	-
29	If convertible, specify issuer of instrument it converts into	-	-
30	Writedown feature	No	No
31	If writedown, writedown trigger(s)	-	-
32	If writedown, full or partial	-	-

33	If writedown, permanent or temporary	-	-
34	If temporary write-down, description of writeup mechanism	-	-
34a	Type of subordination	-	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Immediately subordinate to subordinated loan	Immediately subordinate to senior creditors
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	-	-

Appendix II – Composition of Regulatory Capital

	Common Equity Tier 1 capital: instruments and reserves	**2021 £**	**2020 £**
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	47,922,516	38,022,516
2	Retained earnings	(6,372,210)	(10,456,684)
3	Accumulated other comprehensive income (and other reserves)	(54,202)	14,876
4	*Directly issued capital subject to phase-out from CET1 capital (only applicable to non-joint stock companies)*		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1 capital)		
6	**Common Equity Tier 1 capital before regulatory adjustments**	41,496,104	27,580,708
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudent valuation adjustments		
8	Goodwill (net of related tax liability)		
9	Other intangibles other than mortgage servicing rights (MSR) (net of related tax liability)	(182,069)	(180,203)
10	Deferred tax assets (DTA) that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	(1,910,683)	
11	Cash flow hedge reserve		
12	Shortfall of provisions to expected losses		
13	Securitisation gain on sale (as set out in [CAP30.14])		
14	Gains and losses due to changes in own credit risk on fair valued liabilities		
15	Defined benefit pension fund net assets		
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	(3,874)	(3,874)
17	Reciprocal cross-holdings in common equity		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		
20	MSR (amount above 10% threshold)		
21	DTA arising from temporary differences (amount above 10% threshold, net of related tax liability)		
22	Amount exceeding the 15% threshold		
23	Of which: significant investments in the common stock of financials		

24	Of which: MSR		
25	Of which: DTA arising from temporary differences		
26	National specific regulatory adjustments		
27	Regulatory adjustments applied to Common Equity Tier 1 capital due to insufficient Additional Tier 1 and Tier 2 capital to cover deductions		
28	**Total regulatory adjustments to Common Equity Tier 1 capital**	(2,096,626)	(184,077)
29	**Common Equity Tier 1 capital (CET1)**	39,399,478	27,396,631
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying additional Tier 1 instruments plus related stock surplus		
31	Of which: classified as equity under applicable accounting standards		
32	Of which: classified as liabilities under applicable accounting standards		
33	*Directly issued capital instruments subject to phase-out from additional Tier 1 capital*		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group additional Tier 1 capital)		
35	*Of which: instruments issued by subsidiaries subject to phase-out*		
36	Additional Tier 1 capital before regulatory adjustments		
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own additional Tier 1 instruments		
38	Reciprocal cross-holdings in additional Tier 1 instruments		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation		
41	National specific regulatory adjustments		
42	Regulatory adjustments applied to additional Tier 1 capital due to insufficient Tier 2 capital to cover deductions		
43	**Total regulatory adjustments to additional Tier 1 capital**		
44	**Additional Tier 1 capital (AT1)**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	39,399,478	27,396,631
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	9,000,000	9,000,000
47	*Directly issued capital instruments subject to phase-out from Tier 2 capital*		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)		
49	*Of which: instruments issued by subsidiaries subject to phase-out*		
50	Provisions	1,510,276	2,251,174
51	**Tier 2 capital before regulatory adjustments**	10,510,276	11,251,174
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments		
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities		
54	Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)		

55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
56	National specific regulatory adjustments		
57	**Total regulatory adjustments to Tier 2 capital**		(2,118,964)
58	**Tier 2 capital**	10,510,276	9,132,210
59	**Total regulatory capital (= Tier 1 + Tier 2)**	49,909,754	36,528,841
60	**Total risk-weighted assets**	233,133,033	205,441,523
	Capital adequacy ratios and buffers		
61	**Common Equity Tier 1 capital (as a percentage of risk-weighted assets)**	16.9%	13.3%
62	**Tier 1 capital (as a percentage of risk-weighted assets)**	16.9%	13.3%
63	**Total capital (as a percentage of risk-weighted assets)**	21.4%	17.8%
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)**	5,828,326	5,136,038
65	Of which: capital conservation buffer requirement	5,828,326	5,136,038
66	Of which: bank-specific countercyclical buffer requirement		
67	Of which: higher loss absorbency requirement		
68	**Common Equity Tier 1 capital (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements**	10.9%	7.3%
	National minima (if different from Basel III)		
69	National minimum Common Equity Tier 1 capital adequacy ratio (if different from Basel III minimum)		
70	National minimum Tier 1 capital adequacy ratio (if different from Basel III minimum)		
71	National minimum Total capital adequacy ratio (if different from Basel III minimum)		
	Amounts below the thresholds for deduction (before risk-weighting)		
72	Non-significant investments in the capital and other TLAC liabilities of other financial entities		
73	Significant investments in the common stock of financial entities		
74	MSR (net of related tax liability)		
75	DTA arising from temporary differences (net of related tax liability)		
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 capital in respect of exposures subject to standardised approach (prior to application of cap)	1,510,276	2,251,174
77	Cap on inclusion of provisions in Tier 2 capital under standardised approach	2,662,451	2,412,478
78	Provisions eligible for inclusion in Tier 2 capital in respect of exposures subject to internal ratings-based approach (prior to application of cap)		
79	Cap for inclusion of provisions in Tier 2 capital under internal ratings-based approach		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 instruments subject to phase-out arrangements*		
81	*Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)*		
82	*Current cap on AT1 instruments subject to phase-out arrangements*		
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*		
84	*Current cap on Tier 2 instruments subject to phase-out arrangements*		
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*		

Appendix III – Reconciliation from Regulatory Capital to Balance Sheet

£	Balance sheet extract	Eligible capital components
Equity		
Share capital and share premium	47,922,516	
of which: amount eligible for common equity tier 1 capital		47,918,631
Revaluation reserve	(54,202)	
of which: amount eligible for common equity tier 1 capital		(54,202)
Profit and loss account	(6,372,210)	
of which: retained earnings	(10,456,685)	
of which: profit or loss for year	4,084,475	
of which: amount eligible for common equity tier 1 capital		(6,372,210)
Total equity/Common Equity Tier 1 Capital before adjustments	**41,496,104**	**41,492,219**
Regulatory capital calculation		
Share capital and share premium		47,918,642
Retained earnings		(6,372,210)
Revaluation reserve		(54,202)
Deductions:		
Intangible assets		(182,069)
Deferred tax arising from carried forward losses		(1,910,683)
Common Equity Tier 1 Capital		**39,399,478**
Collective loan loss provision		1,510,276
Subordinated debt		9,000,000
Total Tier 2 capital		**10,510,276**
Total regulatory capital		**49,909,754**

Appendix IV – Leverage Ratio

Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures

Item		2021 CRR leverage Ratio Exposure £	2020 CRR leverage Ratio Exposure £
1	Total assets as per published accounts	527,973,212	436,448,406
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation		
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure		
4	Adjustments for derivative financial instruments		
5	Adjustment for securities financing transactions (SFTs)		
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	4,455,348	7,407,371
7	Other adjustments	3,174,196	4,191,321
8	**Leverage ratio total exposure**	**535,602,756**	**448,047,098**

Leverage Ratio Common Disclosure

Item		2021 CRR leverage Ratio Exposure £	2020 CRR leverage Ratio Exposure £
On-balance sheet items (excluding derivatives and, SFT's)			
1	On-balance sheet items (excluding derivatives, SFT's and fiduciary assets, but including collateral)	531,147,408	440,639,727
2	Asset amounts deducted in determining Tier 1 capital		
3	**Total on-balance sheet exposures (excluding derivatives, SFT's and fiduciary assets)**	**531,147,408**	**440,639,727**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)		
5	Add-on amounts of PFE associated with all derivatives transactions (mark-to-market method)		
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework		
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
8	(Exempted central counterparty, or CCP, leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	**Total derivatives exposures**		
Other off-balance sheet exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions		
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	Counterparty credit risk exposure for SFT assets		
15	Agent transaction exposures		

16	Total securities financing transaction exposures (sum of rows 12 to 15)		
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	25,917,949	42,125,208
18	(Adjustments for conversion to credit equivalent amounts)	(21,462,601)	(34,717,837)
19	**Other off-balance sheet exposures**	**4,455,348**	**7,407,371**
Capital and total exposures			
20	**Tier 1 capital**	**39,399,478**	**27,396,631**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 19)**	**535,602,756**	**448,047,098**
Leverage ratio			
22	**Leverage ratio – transitional definition of Tier 1 capital**	**7.4%**	**6.1%**
23	**Leverage ratio – fully phased-in definition of Tier 1 capital**	**7.4%**	**6.1%**
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)

	Item	2021 CRR leverage Ratio Exposure £	2020 CRR leverage Ratio Exposure £
EU-1	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**531,147,408**	**440,639,727**
EU-2	Trading book exposures		
EU-3	Banking book exposures of which:		
EU-5	Exposures treated as sovereigns	152,153,302	109,045,983
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns		
EU-7	Institutions	3,130,127	2,544,648
EU-8	Secured by mortgages of immovable properties	367,968,621	321,942,307
EU-9	Retail exposures		
EU-10	Corporate		
EU-11	Exposures in default	7,084,268	6,309,056
EU-12	Other exposures (e.g., equity, securitisations, and other non-credit obligations)	811,091	797,733

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 its capital forecast. The Bank will maintain a Leverage Ratio well in excess of the regulatory minimum in its most recent strategic plan.

The Bank's leverage ratio as at the 31 December 2021 was 7.4% (2020: 6.1%).