RedwoodBank
IT'S ABOUT TIME

# Annual report and accounts

**For the year ended 31 December 2023**

Company number: 09872265

# Bank information

| | |
|---|---|
| **Directors** | Mark Winlow [Chairman]<br>Gary Wilkinson [Chief Executive Officer]<br>Robert Endersby<br>Rajesh Khosla<br>John Lowe<br>Jerry Loy<br>Ashraf Piranie<br>Maria Elizabeth Walker |
| **Company secretary** | Eleanor Kenny |
| **Registered number** | 09872265 |
| **Registered office** | Suite 101 The Nexus Building<br>Broadway<br>Letchworth Garden City<br>England<br>SG6 3TA |
| **Independent auditor** | Mazars LLP<br>30 Old Bailey<br>London<br>England<br>EC4M 7AU |



# Contents

# Strategic report

# Key highlights

2023 results show further success and strengthening performance

**93%**
of customers were **satisfied** with the service they received*

CET1 ratio increased to
**16.0%**

The Bank's net loan book increased by
**£11m to £414m**

Total assets increased by
**£58.8m to**
**£599.1m**

Deposit balances increased by £53m to
**£500m**

* Based on the customer satisfaction survey conducted during the year.

Profit before tax **increased** to
**£5.5m**

Bank's franchise has **grown to more than**
**7,400**
customers

Since its launch in 2017, the Bank has lent over
**£600m**
in total to support SME businesses

# Chairman's report

Redwood Bank (the "Bank" or "Company") was established in 2017 to support United Kingdom ("UK") businesses, providing a real alternative for small and medium sized enterprises ("SME") seeking to ensure that their properties and cash work harder for them. The Bank celebrated its sixth anniversary in 2023 by posting a record set of results.

## Overview

From inception to profitability in four years, the Bank has delivered significant improvement in business performance against a backdrop of testing economic conditions, both for our SME customer base and the financial services sector as a whole.

The Bank has, over the years, demonstrated a depth of experience in property lending, and has built a robust savings franchise with a focus on SMEs, clubs, associations and charities. It has also established a unique positive culture where customers come first, and it is with pride that I can report that the energy and commitment of our colleagues across the business are reflected in extremely high customer satisfaction and advocacy scores.

Our capital position strengthened in 2023 and the Bank has invested carefully in building a robust infrastructure and a dedicated team to prepare it for its next phase of growth.

We have put in place the requirements of the Financial Conduct Authority's ("FCA") Consumer Duty initiative, in line with the 31 July 2023 deadline for regulated products that are open to sale or renewal, which makes much more explicit the duty of financial institutions to ensure a good outcome for their customers. This initiative aligns closely with our own view of the importance of looking after our customers' interests as a natural part of an effective and sustainable business.

The Bank is cognisant of the ongoing and upcoming regulatory changes that small UK banks will be required to interpret and, where relevant, implement over the next 12 months. The continuing roll-out of the Strong and Simple Regime alongside Basel 3.1 are likely to have implications for the Bank's capital requirements. The Bank routinely assesses its sensitivity to potential new requirements. It also continues to focus on the implementation of the operational resilience requirements.

The Board recognises the importance that culture plays in sustainability and performance, setting the tone, and ensuring that it delivers on its responsibilities to all stakeholders. The Bank recognises the importance of adopting a clear environmental, societal and governance ("ESG") strategy, including climate change risk, which is incorporated into the Bank's risk appetite. More information on our sustainability work is provided in the relevant sections later in the annual report.



## Future strategy

The Bank remains committed to serving the needs of SMEs and property investors, building relationships, principally through a broker network, manually underwriting all lending, investing in technology to improve its processes, and delivering an efficient and excellent customer experience.

To date, growth has been limited by available regulatory capital, which means that the Bank could, with additional capital, grow the balance sheet significantly without proportionately increasing costs, and thereby deliver enhanced shareholder value. To increase available capital, the Bank's parent company, Redwood Financial Partners Limited ("RFPL"), is progressing with a reverse takeover ("RTO") of R8 Capital Investments PLC (R8), with a completion date planned for Q3 2024.

## Our senior team

The senior management team was further strengthened during 2023 with the appointment of Ashraf Piranie, as Chief Financial Officer in February, John Eastgate was appointed Chief Commercial Officer in October and, more recently, David Kennedy has joined the team as Chief Operating Officer. Each brings very valuable and extensive financial services experience and expertise to the Bank.

After a three-year term, Robert Endersby has made the decision to retire from the Board and will leave in August 2024. As Chair of the Board Risk Committee ("BRC"), his contribution to the risk management and governance process has been invaluable. I would like to thank him for his support and for ensuring that "the heavy lifting" at BRC made my work easier at our Board meetings.

## Summary

The economic and market challenges are expected to remain during 2024 as the economy emerges out of recession. The Bank has built several pillars of strength, with a consistent market presence in its key area of focus in the SME market. It has demonstrated prudent financial management, a positive culture where customers and colleagues come first, a stable funding base, with an established customer-focused operating model.

The strong performance outlined in this report would not have been possible without the continued support of our shareholders and the commitment and hard work of our colleagues across the business. Led by Gary Wilkinson and the wider executive team, I would like to pay a particular tribute to all of the team and to thank them for their strong commitment and efforts during the past year.

**Mark Winlow**
Chairman

**"The strong performance outlined in this report would not have been possible without the commitment and hard work of our colleagues across the business."**

# Chief Executive Officer's report

The Bank offers SME customers straightforward loans and savings accounts, backed up with tailored service and efficient technology. The Bank serves the needs of its borrowers by building relationships principally through a broker network, manually underwriting all lending, investing in technology to improve processes and delivering an efficient and excellent customer experience.

## Overview

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

Since inception, the Bank's shareholders have supported the Bank by investing, to date, Tier 1 capital of £47.9m and £9.0m of Tier 2 subordinated debt. This has allowed for expansion and investment in core infrastructure and staff.

During 2023, the Bank focused on delivering steady, profitable growth, with profit before tax rising by 144% to £5.5m in 2023 (2022: £2.3m). By the end of 2023, the Bank's franchise had grown to over 7,400 customers with deposit balances of £500m and lending balances of £414m. Since its launch in 2017, the Bank has lent over £600m in total to support SMEs.

## Proven business model

The Bank has established a solid business and operating model and has created several pillars of strength that provide a strong platform for future growth.

Our technology platform, housed entirely in the cloud, is the backbone for scalable franchise growth. The Bank has demonstrated its ability to operate throughout the economic cycle. During 2023, it continued to support its existing customers who were experiencing financial difficulty through its dedicated relationship management team. In terms of new lending business, the Bank launched its new five-year fixed rate product and made several changes to its proposition, including the launch of a green mortgage incentive. It has continued with a consistent market presence, providing competitive savings rates for new and existing customers and surety of service for lending customers in a challenging Base Rate environment.

## Prudent financial management

The Bank reached profitability in only four years from its inception and has consistently delivered growth year on year. It has demonstrated sustained profitability with profits in the last three financial years. The Bank's Common Equity Tier 1 ("CET1") ratio is 16.0% (2022: 15.4%), with a profit before tax of £5.5m, (2022: £2.3m), a Net Interest Margin (NIM) of 4.79% (2022: 3.70%) and a current net asset value of £47.6m (2022: £43.3m).

## Customer-focused operating model

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

It has continued to measure its customer satisfaction and advocacy. During the year, 93% of customers surveyed were satisfied with the service they received and 94% said that they would recommend the services of the Bank. The Bank was the recipient of a banking industry award during the year (Business MoneyFacts Awards: Best Business Variable Rate Deposit Account Provider 2023 for the fifth year in succession). It was also a finalist in a further four awards categories (Business MoneyFacts Awards: Best Business Fixed Account Provider and Best Service from a Commercial Mortgage Provider; Savings Champion Awards: Best Business Notice Account Provider (highly commended); and NACFB Lender Awards: Specialist Lender of the Year).

During 2023, in order to provide ongoing improvements in customer service, the Bank continued to invest in its core IT set-up and infrastructure, in particular for its core banking platform, which has been upgraded in early 2024. Investment in IT equipment, security and other aspects continued to improve performance and enhance resilience. The Bank is committed to providing secure and scalable infrastructure.

"The Bank has a positive culture where customers come first, as reflected in extremely high satisfaction scores."

**Gary Wilkinson**
Chief Executive Officer

In response to Consumer Duty requirements, the Bank has assigned an independent non-executive director as the Consumer Duty Champion and embedded Consumer Duty principles across the business ahead of the regulatory deadline of 31 July 2023. The Bank continues to focus on its relentless support for its customers, striving for good customer outcomes at all touch points with the Bank.

## Stable funding base

The Bank has established a savings customer base of over 6,000 customers, with £500m of deposit balances, and has the ability to scale up quickly. Notice periods and maturities of between 35 days and two years provide the Bank with a stable and predictable liquidity profile.

## Our people

The Bank has a positive culture where customers come first, as reflected in extremely high satisfaction and likelihood to recommend scores. This is supported by a strong leadership team and Board, with significant experience of growing challenger banks.

In January 2024, the Bank conducted an Employee Engagement survey through an external provider People Insight. An 84% response rate and an 86% engagement score were achieved, this score being calculated by referring to how committed to and satisfied with the Bank employees are. This placed the Bank in the upper quartile of all organisations surveyed by People Insight. This recognises the effort, investment and value the Bank puts into employee engagement. When asked to note the best thing about working for the Bank, the top five keywords used by our people were 'people', 'work', 'culture', 'team' and 'caring'. The Bank also assigned an independent non-executive director representative to engage with the workforce to further ensure their voices are heard by the Board.

The Bank has continued to operate successfully under a hybrid staff working model regardless of seniority or role during the year. It has actively monitored staff engagement, and has promoted well-being by raising mental health awareness and offering health assessments to all employees.

## Workplace welfare, diversity and inclusion

The Bank is committed to providing a workplace culture characterised by inclusivity, building on a foundation of respect and appreciation of diversity. It aspires to achieve an appropriately gender-balanced and diverse workforce, and is fully committed to having more females in senior positions. It saw a positive trajectory in the proportion of women in senior management roles, increasing from 20% in 2019 to 31% at the end of December 2023. The Bank promotes the fact that it is a signatory to the Women in Finance Charter and has achieved its Charter target of having at least 30% female representation at "Senior Management Level", this being defined as members of the Board, Executive Committee, Business Leadership Group and Heads of Departments. The Bank is committed to maintaining its Charter target of 30% and sees this as a minimum threshold.

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



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

## Environmental, social and governance

The Bank has demonstrated its commitment to its key ESG objectives throughout the year. In 2023, the Bank successfully launched a Green mortgage proposition, supporting landlords who have attained the highest energy standards by giving a cashback of up to 0.50% of the loan value. Since signing up to be part of the Investors in the Environment ("iiE") three years ago, the Bank has achieved both Bronze and Silver accreditations. The iiE is a national environmental accreditation scheme designed to help organisations save time and money, in order to reduce their impact on the environment.

Some notable charitable efforts included colleagues supporting a local dogs' home in Warrington and helping with the redevelopment of a grassroots football club's changing rooms. Throughout the year, colleagues supported and ran a number of events internally to raise awareness of charities and good causes.

## 2023 performance summary

Profit before tax increased to £5.5m in 2023, which is the Bank's third consecutive annual profit since its launch in 2017 (2022: £2.3m; 2021: £2.2m). The increase in profit of £3.2m was driven mainly by an increase in net interest income of £8.0m, partially offset by higher impairment charges of £0.3m, and higher administrative costs of £4.4m. CET1 capital, as at the 31 December 2023, was £46.8m (2022: £41.4m) and this exceeded the regulatory minimum required.

The Bank's NIM was 4.79% (2022: 3.65%), reflecting an increase in the average lending interest rate achieved during the year, mainly attributable to increases in the Bank of England ("BoE") Base Rate, partially offset by an increase in the average interest rate paid on deposits. The Bank has passed on some of the impact of the Base Rate increases to its savings customers as it continues to focus on offering fair value to both new and existing customers and to retain balances as part of its conservative liquidity policy.

The Bank's loan book increased by £11m to £414m, and the impairment charge in 2023 remained at 0.7% of the gross lending book at the end of 2023, with impairment provisions providing coverage of 1.6% of lending. A modest lending growth strategy continued throughout 2023, while the Bank continued to seek alternative sources of capital to allow it to expand more rapidly and to consider diversifying its assets. The Bank delivered new lending of £79m, and made numerous product enhancements, including the launch of five-year fixed rate loans.

Total customer deposits increased by £53m to £500m, with the Bank demonstrating an ability to generate liquidity quickly when necessary. The use of cash management services as an alternative source of deposits continued to be an ancillary part of the Bank's funding strategy. At the end of 2023, the Bank held total unencumbered High-Quality Liquid Assets of £136m (2022: £86m) and had a Liquidity Coverage Ratio ("LCR") of 481% (2022: 352%).

## Current economic environment

The current economic climate of high interest rates and low growth remains challenging for customers as the economy is expected to emerge out of technical recession in 2024. However, there is an expectation for interest rates to reduce during 2024, with inflationary pressures subsiding and with early signs of an acceleration in economic growth. The Bank employs prudent affordability assessments and a bespoke approach to lending. This takes into account our customers' circumstances and is at the heart of our decision-making process. The Bank remains committed to supporting its existing customers by offering tailored support schemes to customers in financial difficulties.

## Looking ahead

While the Bank has made good progress over the past few years and delivered a strong financial performance in 2023, the reverse takeover ("RTO"), referred to in the Chairman's report, provides an opportunity for additional capital to be made available. This will allow the Bank to grow the balance sheet significantly without proportionately increasing costs, and thereby deliver enhanced stakeholder value. Supporting the successful completion of the RTO is currently an area of key focus for the Bank's Board and Executive team, which is expected to be finalised in Q3 2024.

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

**Gary Wilkinson**
Chief Executive Officer



# Business model and strategy

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

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

## Redwood's purpose – relentless customer focus

The Bank's core purpose remains as follows:

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

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

## Values and culture

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

- **Integrity** – treating people how you would like to be treated;
- **Certainty** – reassurance that you are in the right place;
- **Tireless** – it's about a genuine passion for our customers' success; and
- **Simplicity** – it's about not hiding behind the asterisk.

## Strategy

The Bank believes additional capital will provide impetus to unlock the Bank's true potential over a shorter period than would be the case if the Bank relied purely on re-investing its profits. Its key priorities are:

1. Capital – deliver the RTO and secure new capital;
2. Core lending growth – greater focus on residential Buy-To-Let ("BTL") lending to professional landlords supported by a first class customer journey experience;
3. Consider alternative asset growth – consider reducing reliance on existing core lending and diversifying its asset classes;
4. Funding growth – diversify funding sources to support future growth;
5. People and culture – ensure optimal resource allocation and maximise the potential of all its people;
6. Core infrastructure – further develop a scalable and resilient infrastructure to enable future growth; and
7. Regulation and compliance – ensure the Bank meets all legal, regulatory and compliance obligations.

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

Assessments of the risks to the strategy are carried out regularly, including in respect of net interest margin, impairment and external market influences, such as Base Rate changes, the impact of rising inflation, and other cost-of-living pressures. The Bank also remains wary of developments in global tensions, in particular, the Middle East and Ukraine, and their potential impact on economic stability. The Bank continues to assess its capital and liquidity plans to ensure adequacy and regulatory compliance. See key risks and emerging risks on pages 30 to 33 for further assessment of risks regarding capital and liquidity.

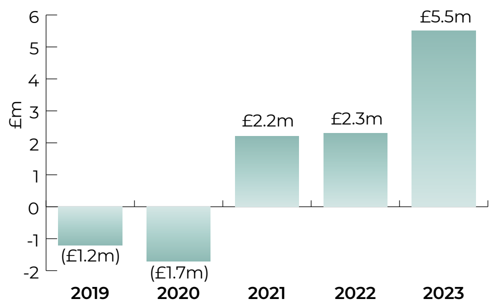
# Performance review

## Profit and loss

| Summary profit and loss statement (£) | 2023 | 2022 |
|---|---:|---:|
| Interest receivable | 46,123,616 | 28,087,329 |
| Interest payable | (17,294,646) | (7,219,223) |
| **Net interest income** | **28,828,970** | **20,868,106** |
| Administrative expenses | (20,509,671) | (16,105,258) |
| Impairment charge on loans and advances to customers | (2,782,364) | (2,496,977) |
| **Profit before tax** | **5,536,935** | **2,265,871** |
| Tax charge | (1,332,686) | (468,257) |
| **Profit for the year** | **4,204,249** | **1,797,614** |

### Profit before tax

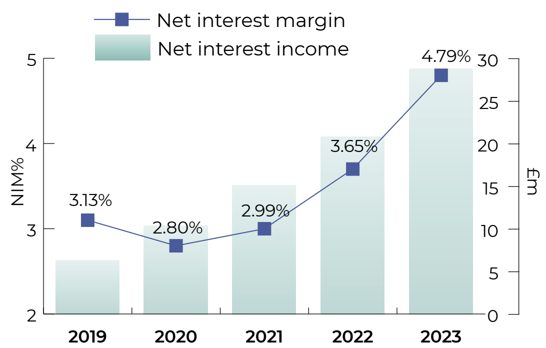
In a year of high interest rates, inflation and energy prices slowing economic growth, the Bank made a profit for the third consecutive year in its six-year history. It reported a profit before tax of £5.5m (2022: £2.3m), mainly driven by an increase in net interest income of £8.0m and partially offset by an increase in impairment loss charge of £0.3m and an increase in administrative costs of £4.4m. Operating profit before impairment charge increased by over 75% to £8.3m (2022: £4.8m), driven mostly by the higher BoE Base Rate, resulting in an improvement in net interest income, and growth in total assets.




Profit before tax

### Net interest income and net interest margin

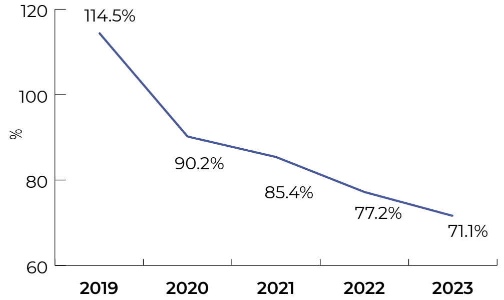
The Bank delivered a net interest margin of 4.79% (2022: 3.65%) during the year. The average lending interest rate achieved during the year was 9.26% (2022: 6.47%), with the increase mainly due to rises in the BoE Base Rate. The average interest rate paid for the year on deposits was 3.48% (2022: 1.62%) driven by increases in market deposit rates following rises in the BoE Base Rate.




Net interest income and net interest margin

### Cost-to-income ratio

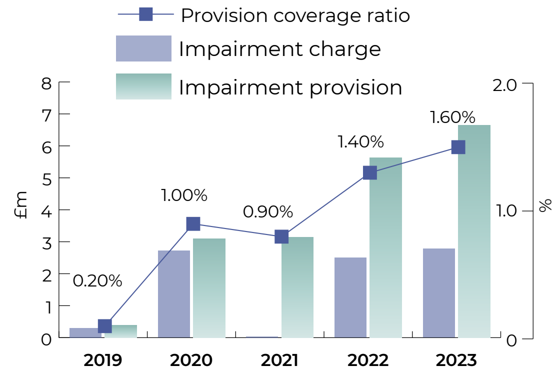
While administrative expenses increased by 27%, reflecting the Bank's investment in its people, skills and infrastructure, net interest income increased at a greater rate of 38%. The cost-to-income ratio has, as a result, reduced from 77.2% to 71.1%.




Cost-to-income ratio

### Impairment

The Bank experienced increases in arrears levels (explained in Note 11), reflecting the current adverse economic and market conditions. The Bank reviewed its lending portfolio extensively during 2023, including stressing the value of collateral and reassessing the probability of anticipated losses. The Bank created appropriate levels of impairment provisions to capture the risks associated with its lending portfolio. The impairment charge increased from £2.5m to £2.8m during the year and, as a result, impairment provisions also increased from £5.6m to £6.6m, representing 1.6% (2022: 1.4%) of total lending as at 31 December 2023.




Impairment charge and provision and provision coverage ratio

**Profit before tax increased from £2.3m to**

**£5.5m**

**Ashraf Piranie**
Chief Financial Officer

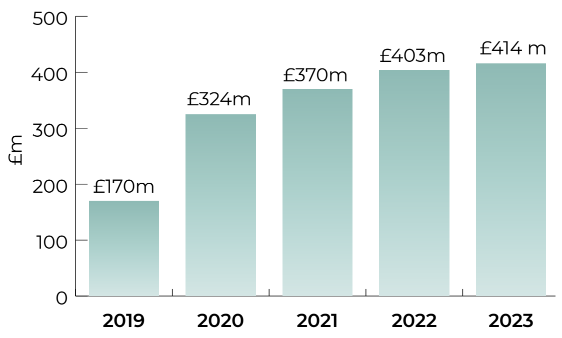
# Balance sheet

| Summary balance sheet (£) | 2023 | 2022 |
|---|---|---|
| Assets | | |
| Liquid assets | 182,744,876 | 133,977,103 |
| Other assets and prepayments | 2,327,188 | 2,911,410 |
| Loans and advances to customers | 413,983,306 | 403,371,972 |
| **Total assets** | **599,055,370** | **540,260,485** |
| Liabilities | | |
| Amounts due to banks | 38,067,988 | 37,862,456 |
| Customer deposits | 499,967,473 | 447,173,300 |
| Tax liability | 222,250 | - |
| Other liabilities and accruals | 4,245,490 | 2,898,770 |
| Subordinated debt | 9,000,000 | 9,000,000 |
| **Total liabilities** | **551,503,201** | **496,934,526** |
| **Total equity** | **47,552,169** | **43,325,959** |
| **Total equity and liabilities** | **599,055,370** | **540,260,485** |

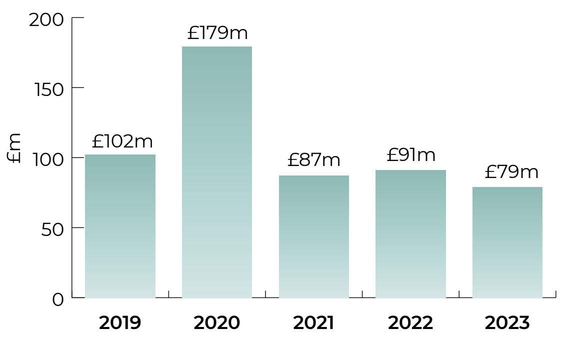
## Lending

The Bank's total lending book increased by £11m (2022: £33m) during the period, to £414m (2022: £403m), driven by new lending drawdowns of £79m (2022: £91m). The lending book (gross) increased by 2.7% to £422m (2022: £411m). This is mainly due to the increase in fixed rate mortgages to support business customers through the current challenging economic conditions. The focus remains on supporting all customers through their lending experience with the Bank, with a clear focus on customer retention, as well as refining the overall service proposition to drive new business opportunities.

The Bank adjusted its lending approach in 2023 to optimise its capital position, with an increased focus on residential BTL assets. This strategy was supported by a new five-year fixed rate product launch, which has proved extremely popular with customers. The Bank is still active in the commercial investment market and continues to selectively grow its exposure to this market sector alongside its BTL business focus.



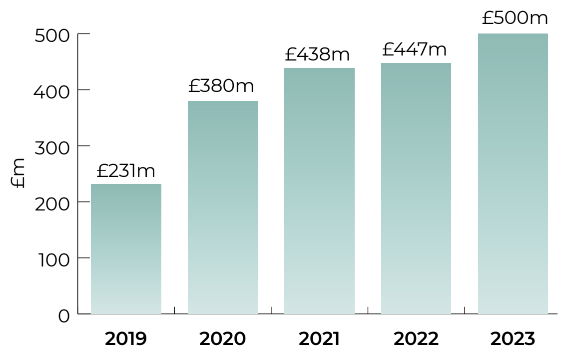

Lending balances




Lending drawdowns

## Deposits

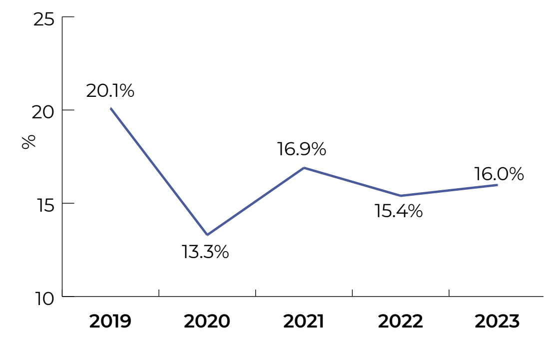
Total deposits held by the Bank increased by £53m (11.8%) (2022: £9m) during the year to £500m (2022: £447m). Medium term deposits (1-year and 2-year bonds) more than doubled. In addition to customer deposits, the amount drawn under the Government's Term Funding Scheme with additional incentives for SMEs ("TFSME") was £37.6m at the 2023 year end (2022: £37.6m).




Deposits

## Common equity tier 1 ratio

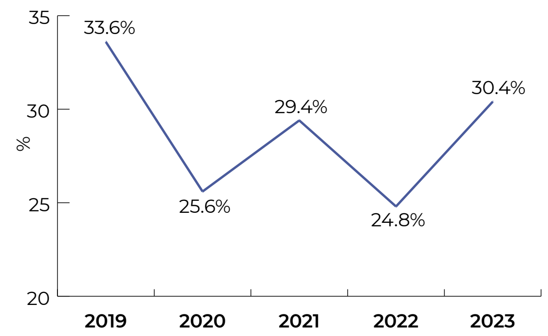
CET1 capital, as at 31 December 2023, was £46.8m (2022: £41.4m) and this exceeded the regulatory minimum required. The CET1 ratio was 16.0% (2022: 15.4%).




Common equity tier 1 ratio

## Liquid assets as % of total assets

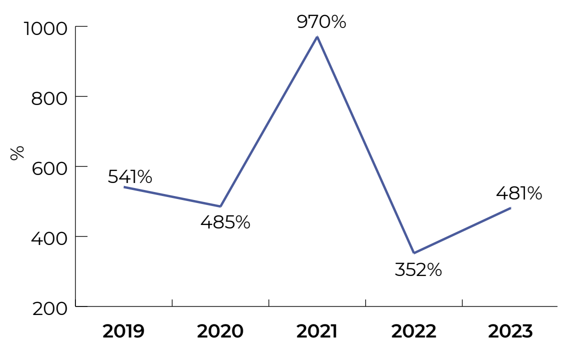
The Bank held £183m (2022: £134m) in liquid assets at the year end, comprising cash at bank, deposits at the Bank of England, and UK gilts and Treasury bills. Total liquidity held is sufficient for the Bank's lending needs and exceeds amounts required to meet the Bank's regulatory requirements. Liquid assets comprised 30.4% of the Bank's total assets at the 2023 year end (2022: 24.8%).




Liquid assets as % of total assets

## Liquid coverage ratio

The Bank's liquidity coverage ratio of 481% as at 31 December 2023 (2022: 352%) exceeded the regulatory minimum of 100% set by the Prudential Regulatory Authority ("PRA"). The Bank held a total value of unencumbered high-quality liquid assets of £136m (2022: £86m).

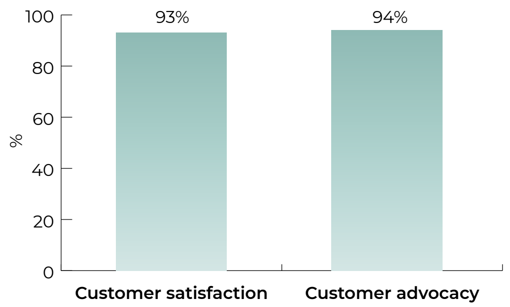



Liquid coverage ratio

# Non-financial metrics

## Customer satisfaction and advocacy

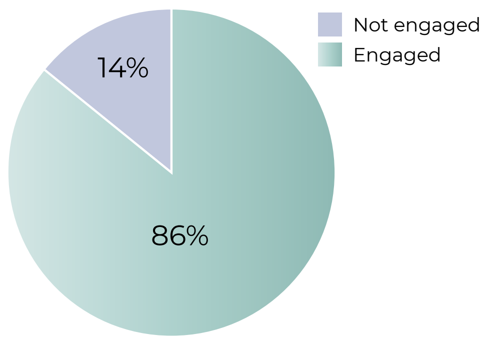
The Bank continued to measure its customer satisfaction and advocacy. During 2023, 93% of customers were satisfied with the service they received from the Bank and 94% said that they would recommend the services of the Bank*.




Customer satisfaction and advocacy

## Staff engagement

An 84% response rate and an 86% engagement score - this score being calculated by referring to how committed to and satisfied with the Bank employees are - were achieved in an Employee Engagement survey conducted through an external provider People Insight in January 2024. When asked to note the best thing about working for the Bank, the top five keywords used by its employees were ‘people’, ‘work’, ‘culture’, ‘team’ and ‘caring’.




Staff engagement

* Based on the customer satisfaction survey conducted during the year



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

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

## Stakeholder engagement

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

| Stakeholder | Description | Engagement |
|---|---|---|
| Shareholders | The Bank is a wholly owned subsidiary of Redwood Financial Partners Limited | The Bank maintains close relations with its shareholders and has a stringent governance regime to protect its shareholders' investments. One of the Bank's key strategic objectives is to deliver strong shareholder returns. Its strategic plan forecasts continued profitability over the next five years. |
| Customers | The Bank has in excess of 7,400 customers across depositors and borrowers | Good customer outcomes are central to the Bank's culture and therefore essential to its success as a lender and deposit taker. The Bank's products, processes and communications are developed and assessed with these positive customer outcomes in mind, with a strong awareness of regulation and the Bank's values.<br><br>The Bank's customer feedback framework and customer satisfaction programmes have, and will continue to, evolve and improve, with regular Management Information ("MI") on customer satisfaction, customer advocacy and verbatim customer feedback from four distinct sets of customers at different stages of the customer journey or lifecycle:<br>• new deposit customers;<br>• existing deposit customers;<br>• new lending customers; and<br>• existing lending customers.<br>In addition, the Bank receives regular feedback from its broker network.<br><br>"Treating customers fairly" and "achieving good customer outcomes" are incorporated into all staff personal objectives and reviews. Key Customer Outcome indicators are included in the regular Conduct Risk MI reported to the Conduct, Compliance and Operational Risk Committee. Customer outcomes are detailed within the Bank's approved conduct risk policy, managing feedback from dissatisfied customers, and vulnerable customer policies. |

| Stakeholder | Description | Engagement |
|---|---|---|
| Customers continued | The Bank has in excess of 7,400 customers across depositors and borrowers | The Bank has embedded Consumer Duty across the business ahead of the regulatory deadline of 31 July 2023. It continues to focus on its relentless support for its customers, striving for good customer outcomes at all touch points with the Bank. |

| Stakeholder | Description | Engagement |
|---|---|---|
| Employees | The Bank employs 131 employees who are based mainly in offices in Letchworth Garden City and Warrington | The Bank seeks to recruit and retain high calibre employees. Staff satisfaction, engagement, compensation, and welfare are critical elements in ensuring retention, and are ongoing areas of focus for the Bank, along with ensuring diversity and inclusion.<br><br>The Bank's aim is to build a business bank whose customers are at the heart of everything it does. To help achieve this, it needs to continue developing a shared understanding of how to behave, both with customers and colleagues.<br><br>Following on from the development of its core values, the Bank identified a set of behaviours that clearly detail what is desired, along with what attitudes should be demonstrated by all employees to support the delivery of the Bank's business plan. These behaviours translate values into tangible, observable and measurable elements that can be implemented, assessed and improved and form a central part of its working culture and people management processes.<br><br>The behaviours underpin a values and behaviour-based approach to the recruitment and management of staff, which enables the Bank to effectively recruit people who fit with the Bank's culture, and who will therefore focus on good outcomes for customers. This approach is needed to:<br>• continuously improve performance;<br>• enhance professional development;<br>• recruit and retain talented people; and<br>• encourage a 'one team' work ethic.<br><br>These behaviours, combined with individual and corporate performance against objectives, inform the variable components of the Bank's remuneration package, which includes a Long Term Incentive Plan ("LTIP") and annual cash settled bonus detailed in Notes 2.13, 8 and 9. In setting its Remuneration Policy, the Bank has given consideration to the principles and provisions relating to remuneration in the FCA's Remuneration Code and the Remuneration Part of the PRA's Rulebook. |

Directors and employee statistics as at end of December 2023 and December 2022 were as follows:

| | 2023 Male | 2023 Female | 2023 Total | 2022 Male | 2022 Female | 2022 Total |
|---|---|---|---|---|---|---|
| Directors of the Bank | 7 | 1 | 8 | 6 | 1 | 7 |
| Employees in Senior Management Team | 13 | 8 | 21 | 13 | 9 | 22 |
| Other employees | 50 | 52 | 102 | 47 | 46 | 93 |
| Total | 71 | 60 | 131 | 66 | 56 | 122 |

| Stakeholder | Description | Engagement |
|---|---|---|
| Regulators | The Bank is regulated by the PRA and FCA | The Bank maintains close and constructive relations with its regulators and responds to all their requests in a timely manner. The Bank ensures that all metrics are maintained within the regulatory framework provided, and regularly submits reports to the regulators to that effect. The Bank accelerated the strengthening of its second line of defence, its governance, its operational risk management and framework, its underwriting processes and management information, to address the challenges arising from the evolving needs of the Bank's customers and to continue to maintain compliance with the expectations of the regulators. |
| Community | The communities local to where the Bank has offices, employees and customers | The Bank continued to fulfil charity and community engagements at local and national level. Details are set out in the ESG report on page 34. |
| Third party suppliers | The businesses and individuals who provide goods and services that the Bank uses to enable it to service its customers | The Bank continues to operate an "outsourced service provider model". As a result, third party suppliers are identified as key stakeholders of the Bank. The Bank has a robust and detailed supplier selection process, and a process to ensure it pays suppliers promptly. During 2023, it completed a full review of all suppliers and their criticality to the Bank and its operations. As such, the Bank has identified a small number of business-critical suppliers that are subject to annual reviews, as well as regular monthly or quarterly performance meetings where service performance, management information, business updates and external market changes are monitored and reviewed. All reviews are overseen by an appropriate Bank management committee. |



The Bank is committed to maintaining its Women in Finance Charter target of

**30%**

# Governance and risk management

## Governance structure

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

Following a positive external board effectiveness review undertaken in 2022, which concluded that the set-up of the Board is a strength of the organisation, Company Secretariat followed up on that review and undertook an internal effectiveness review of the Board and its Committees in 2023. The internal effectiveness review concluded that the Board continues to be effective in its duties and noted that the suggested areas for focus recommended in the 2022 external review had been factored into all relevant Board and Committee discussions during 2023, ensuring matters such as Board composition, succession planning and training were all given appropriate priority.

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


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

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

***First Line of Defence ("FLOD")***

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

The following specific responsibilities are allocated to the FLOD:

- ownership of the risks it introduces to the Bank;
- preparation of risk assessments (including risk ratings where appropriate);
- primary responsibility for the day-to-day management of the Bank's exposure to risks arising from the activities undertaken;
- development and maintenance of an effective control environment that must include preventative and detective controls to ensure that risks, proposed and existing, remain within the Bank's Risk Appetite; and
- production of Management Information in a form and at a frequency commensurate with the underlying risk and activities undertaken.

***Second Line of Defence ("SLOD")***

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

The SLOD is responsible for:

- ownership and oversight of the Bank's Risk Management Framework;
- ownership and oversight of the Bank's Risk Appetite Framework and Statement;
- development, management and, where appropriate, ownership of the Bank's risk and compliance policies and frameworks as they pertain to the Bank's risks and for oversight of ongoing adherence to their provisions;
- provision of tools and techniques that enable risk and compliance to be managed in the first line;
- monitoring and oversight of the Bank's Level 1 Risks (see below);
- risk assessment and approval processes;
- oversight and challenge of the FLOD control environment, including risk monitoring;
- enterprise risk management;
- regulatory horizon scanning;
- emerging risk identification and awareness; and
- provision of risk-based Management Information to the Board and senior committees (defined as sub-committees of the Board and ExCo) of the Bank.

***Third Line of Defence ("TLOD")***

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

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

TLOD responsibilities are contained within an Internal Audit Charter, which is subject to the independent oversight of the Board Audit and Compliance Committee.

## Key risks

The Bank identifies six Level 1 risk categories:

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

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

The Bank aims to ensure that enough capital is held to remain solvent should it suffer losses arising from a range of severe but plausible scenarios. It has prepared base case and sensitised forecasts, which consider both capital requirements and liquidity, for a period of five years from the date of reporting of these financial statements. The base case and sensitised forecasts do not assume any further capital injections from shareholders or external investments. The Bank and its Directors do, however, anticipate that the Bank will require additional capital from investors to fulfil its potential and meet future business plans of increased growth, and achieve improved, sustainable profitability, and are actively progressing with capital-raising initiatives that, if successful, will increase the Bank's available regulatory capital.

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

The Bank aims to maintain its lending profile within its stated credit risk appetite and credit risk framework. It will continue to carefully monitor the performance of its lending portfolio and will consider adjusting as required in response to changes in the lending market and in the economy. At all times, it will seek to ensure that it maintains an acceptable profile in terms of Loan to Value ("LTV") and Debt Service Coverage Ratio ("DSCR") for new lending.

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

**Operational risk:** the Bank faces a range of operational risks arising from the processes it undertakes in order to facilitate its business aims. These are continuously managed within its risk governance framework, with actions undertaken to reduce and mitigate risk exposures as required. Key risks are identified in a Bank-wide Risk Register Report and graded according to a likelihood and impact methodology. The Bank holds adequate levels of regulatory capital to absorb losses arising from a range of severe but plausible scenarios that may arise from operational risks crystallising, and it reassesses the level of capital holdings required to offset potential operational risk losses as part of its internal capital adequacy assessment process ("ICAAP").

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

**Conduct risk:** represents the risk that the Bank's behaviours, culture, or approach lead to poor outcomes for customers, fines, damaging the integrity of or trust in the Bank, or harm market integrity or fair competition. The Bank seeks to mitigate this risk by ensuring that appropriate focus is provided on the customer within all stages of its customer journey and operational processes.

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



## Risks and uncertainties

### UK economic headwinds

While the UK economy is now in technical recession (following two consecutive quarters of negative GDP movements), it has proved to be more resilient to the impact of the pandemic and energy crisis than expected and real growth has remained positive in the year at 0.1%[1] (reducing from 4.3% in 2022) and is expected to increase to 0.7% in 2024 and 1.4% in 2025.

The Bank of England Base Rate increased from 3.5% to a 15-year high of 5.25% during the year, which is, however, considered by the Bank to be at the peak. Market consensus expects that interest rates will remain at this level for a period to bring inflation under control. The Consumer Price Index ("CPI") for the UK was 4.0% in the 12 months to December 2023, and it is expected that inflation will fall to slightly below the Government's 2% target in 2024 Q2[2].

The dual impact of a high interest rate and inflationary environment means customer affordability is likely to remain constrained in the short to medium term. The Bank continues to perform detailed analyses of potential credit losses and holds impairment provisions in line with IAS 39, based upon its loan book performance to date. Regular Management Information is provided to senior management and the Board Risk Committee on the credit performance of the Bank's portfolio, 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.

Good customer outcomes are central to the Bank's culture, with products, processes and communications developed, assessed and tracked to ensure appropriate consideration is given to its customers.

**Rajesh Khosla**
Chief Risk Officer

1. GDP first quarterly estimate, UK: October to December 2023, Office for National Statistics
2. Bank of England Monetary Policy Summary, March 2024

The Bank also recognises the challenges presented by the broader geo-political environment and, in particular, the long-term impact of the Russia/Ukraine war, as well as escalating tension in the Middle East, on the global economy, and how these conflicts have the potential to continue to exacerbate some of the headwinds mentioned above, with specific regard to the implications on energy costs and overall inflation levels. The Bank will remain wary of the impact of any contagion of global events on the UK economy, and of the markets within which it operates.

**Climate change**

The PRA continues to reiterate its expectations of firms with regards to managing the financial risks arising from climate change. It expects firms to take a strategic approach that 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 SMEs, where the funds advanced are secured on property located in Great Britain. 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 or the value of the underlying security.

The Bank has developed and enhanced its climate change agenda through a dedicated climate change working group that assesses and addresses 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 has assessed its exposure resulting from previously proposed changes to Energy Performance Certificate ("EPC") requirements for buy-to-let and commercial rented properties and is using this to further inform its strategy in this area. It has also developed and further enhanced its stress testing capability, maintaining a specific climate change stress as part of its suite of ICAAP stress scenarios.

**Cyber risk**

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

The Bank maintains systems, training and controls designed to reduce the probability of a successful cyber threat, while retaining response capabilities that allow the Bank to limit the impacts and restore services in a prompt manner in the event of a successful cyber-security breach. The Bank continues to assess these capabilities internally and using external technology specialists, and the Bank's cyber-security processes, tools and governance arrangements are subject to ongoing enhancement and review.

**Regulatory change**

The Bank is cognisant of the ongoing and upcoming regulatory changes that small UK banks are required to interpret and, where relevant, implement over the next 12 months. The continuing roll-out of the Strong and Simple Regime alongside Basel 3.1 is likely to have implications for the Bank's capital requirements. The implementation of the operational resilience requirements is ongoing (see below), while Consumer Duty was implemented in line with the 31 July 2023 deadline for open products.

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

## Operational resilience

Operational resilience is high on the regulatory agenda and features as an area of focus for the Bank. 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 could remain within those tolerances during severe but plausible scenarios thereafter. The Bank completed its annual self-assessment of operational resilience in 2023 and is cognisant of the transition period until March 2025 when full implementation is required.

## Environmental, social and governance

The Bank's ESG agenda is key to the business, with quarterly reporting to the Board from the Director of Sustainability. The Board recognises the importance that culture plays in sustainability and performance, and the tone is set from the Board, ensuring that the Bank delivers on its responsibilities to all stakeholders. The Bank has a clear ESG strategy, including climate risk, and has climate-related risk factors incorporated into credit risk appetite, tolerances and credit underwriting.

**Climate and the environment**

Climate change is one of the most significant challenges facing all of society and the Bank is focusing on a proactive approach to its environmental responsibilities, including an aim to transition to net zero, but also in supporting customers, colleagues and the wider community. While the Bank does not operate traditional branches, and as such avoids the environmental impact of operating a large property network, it does recognise that its operations will still have an impact on the global climate crisis and the production of carbon emissions. As such, the Bank is focusing on how it can reduce its carbon footprint, and operates a climate change working group that is dedicated to supporting the reduction of harmful carbon emissions and general waste that negatively impact the environment. The working group assesses the Bank's climate footprint, regulation, market changes and products, and reports to appropriate committees quarterly. In addition to this, the Bank has also appointed an Environmental Champion to support and integrate climate change actions and awareness within the business.

The Bank is also closely looking at potential environmental impacts on its loan collateral, including flood risk and EPC ratings. It is the Bank's current policy to lend secured on properties that meet the EPC regulation. In the third quarter of 2023, the Bank launched a Green mortgage proposition, Green Reward, supporting landlords who have already achieved EPC ratings of A-C and resulting in the first drawdowns in 2024. Any new loan deals completed on properties in these top three EPC ratings will be given cashback of up to 0.50% of the loan value. The launch of this product with cashback as a tangible benefit promotes and rewards customers with energy efficient properties meeting the highest standards.

**Social and community**

During 2023, the Bank was proud to continue its support for its main chosen charity, PoetsIN (a mental health support organisation). Around £22k was donated during the year across several charities and community events. Some notable charitable efforts included colleagues supporting a local dogs' home in Warrington and helping with the redevelopment of a grassroots football club's changing rooms.

Throughout the year, colleagues supported and ran a number of events internally to raise awareness of charities and good causes. The Bank also continued with awards sponsorship for the Hertfordshire Chamber of Commerce, supporting local businesses and local awards.

The Bank is committed to making a positive impact on the community and will continue to run community and sponsorship events in 2024.

## Consumer Duty

In July 2022, the FCA released enhanced expectations through "FCA Policy Statement PS22/9: A New Consumer Duty", requiring firms to evidence and deliver good customer outcomes, representing a higher bar than previous requirements to treat customers fairly. In response to this, the Bank assigned an independent non-executive director as Consumer Duty Champion in 2022 and embedded actions derived from a Consumer Working Group into the business before the Consumer Duty implementation deadline of 31 July 2023.

The product development and governance procedures ensure that all products are assessed against customer outcomes, as part of the design, development, and approval process.

The Bank's customer feedback framework ensures that customer feedback is collected consistently and is carefully considered, ensuring that the Executive Committee and Board have clear visibility of customer views.



## Remuneration

**Background**

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

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

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

**Governance and risk management**

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

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

**Remuneration components**

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

**1) Fixed remuneration**

The Bank aims to provide all employees with fair and competitive remuneration in order to facilitate long-term commitment of employees at all levels to grow and sustain the Bank's business. Base salaries are set according to market-related salary ranges that reflect the size, skill, level or responsibilities attached to each role. The Remuneration Committee is provided with appropriate information to enable it to assess the appropriateness of the Bank's fixed remuneration.

**2) Variable remuneration**

The required behaviours set by the Bank, combined with individual and corporate performance against objectives, inform the variable components of the Bank's remuneration package. The variable pay structure includes annual cash settled bonuses for all colleagues in the business, and, additionally for key senior management, includes a Long Term Incentive Plan ("LTIP").

Further information on remuneration is detailed in Notes 2.13, 8 and 9 to the accounts.

This report was approved by the Board on 12 April 2024 and signed on its behalf.

**Gary Wilkinson**
Chief Executive Officer

# Directors' report

**For the year ended 31 December 2023**

Strategic report
Directors' report
Directors' responsibilities statement
Independent auditor's report
Financial statements
Notes to the financial statements

# Directors’ report

## for the year ended 31 December 2023

### The Directors present their report and the financial statements for the year ended 31 December 2023.

### Results and dividends

The profit for the year, before taxation, amounted to £5,536,935 (2022: £2,265,871).

The Directors do not recommend the payment of a dividend for the year ended 31 December 2023 (2022: £nil).

### Directors

The Directors who served during the year were:

Mark Winlow [Chairman]
Gary Wilkinson [Chief Executive Officer]
Robert Endersby
Rajesh Khosla
John Lowe
Jerry Loy
Ashraf Piranie
Maria Elizabeth Walker

### Political and charitable contributions

The Bank made no political donations during the year.

The Bank made charitable donations totalling £22k (2022: £14k) in the year.

### Key risks

Information regarding key risks and emerging risks is contained within the Strategic Report on pages 30 to 33 and Note 11.

### Future developments and prospects

The Bank is profitable, despite the significant headwinds faced over the last few years. It will continue to build on the strong foundations that have been put in place.

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

Through continued investment in its people and infrastructure, the Bank will continue to deliver excellent levels of customer service for businesses and their owners, as it enters the next phase of its growth.

### Directors’ indemnities

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

### Going concern

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

For the year ended 31 December 2023, the Bank recognised a profit before tax of £5.5m. The Bank’s total assets as at 31 December 2023 were £599.1m. The Bank has £182.7m of liquidity resources, of which £42.0m are encumbered as collateral for its TFSME borrowings. The liquidity resources comprise cash and cash equivalents, and other highly liquid assets, as at 31 December 2023.

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

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

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

### Disclosure of information to the auditor

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

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

### Post year end events

On 9 April 2024, subsequent to the year ended 31 December 2023, the Bank entered into a contingent commitment to pay up to £1.4m on behalf of an external party, R8, to a third party (EY LLP). The Bank’s obligation to pay arises only if R8 fails to fulfil its payment obligations. The actual amount payable by the Bank would depend on the progress and completion of the RTO referred to in the Chairman’s Statement. Payment would be due at the end of the project, expected in the third quarter of 2024, or at an earlier point if the RTO is aborted.

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

### Auditor

The auditors, Mazars LLP, will be considered for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board on 12 April 2024 and signed on its behalf.

**Gary Wilkinson**
Chief Executive Officer
Suite 101 The Nexus Building Broadway
Letchworth Garden City
England
SG6 3TA

# Directors' responsibilities statement

**For the year ended 31 December 2023**

# Directors’ responsibilities statement

## for the year ended 31 December 2023

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

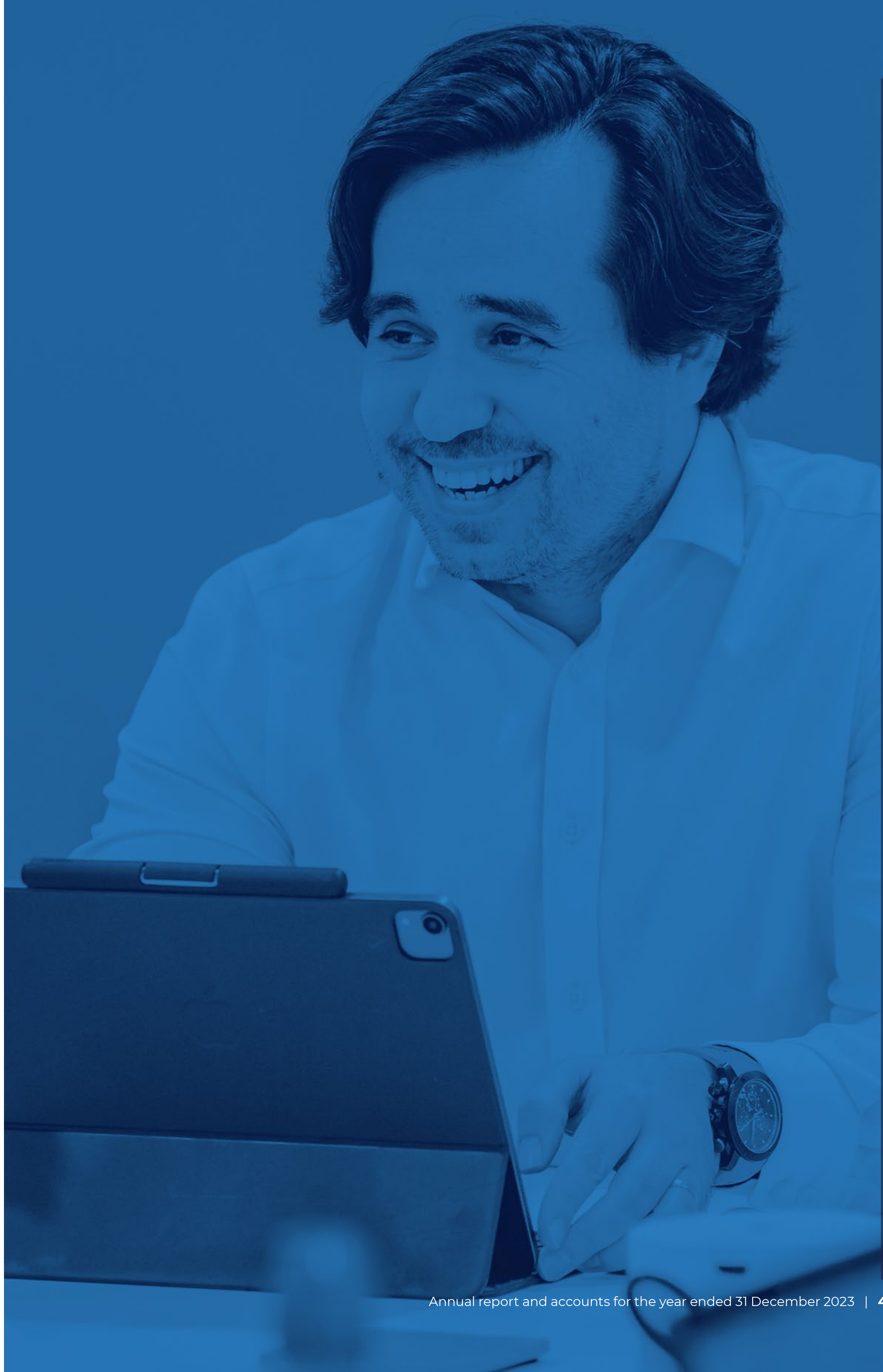
Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice),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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.





# Independent auditor's report to the members of Redwood Bank Limited

**For the year ended 31 December 2023**

# Independent auditor's report to the members of Redwood Bank Limited

## We have audited the financial statements of Redwood Bank Limited ('the Bank') for the year ended 31 December 2023, which comprise the Statement of Profit and Loss and Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion, the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

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

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

The judgement is based on an evaluation of the inherent risks to the Bank's business model and how those factors may affect the Bank's financial resources or ability to continue its operations for at least 12 months from the date of approval of the financial statements in order to conclude that it is appropriate to adopt the going concern basis of preparation. The Bank has been self-sustainable after achieving profitability for three consecutive years. Prior to this, the Bank had received rounds of funding from shareholders to drive growth. Increases in Base Rates have contributed to improved profitability; however, it is uncertain for how long this higher rate environment may continue. Losses to date have been low on the lending book; however, there is a risk that losses increase due to ongoing macroeconomic uncertainty. The Bank is also exploring strategic initiatives relating to raising capital for increased future growth. There is a risk that costs are incurred on these initiatives with no capital raised. The impact of each of these risks individually, or in combination, may cast doubt about the Bank's ability to continue as a going concern and therefore required significant focus in the audit.

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

- undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern;
- making enquiries of the Directors to understand the period of assessment considered by them, the assumptions they considered, the implication of those when assessing the Bank's future financial performance;
- assessing the sufficiency of the Bank's capital and liquidity taking into consideration the most recent Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Assessment Process ('ILAAP'), and evaluating the results of management stress testing, including consideration of principal risks on liquidity and regulatory capital;
- reviewing the Directors' going concern assessment and evaluating the appropriateness and reasonableness of management's key assumptions. This would include challenging management to prepare forecasts for downside scenarios and performing independent stress tests on scenarios including reverse stress testing;
- assessing the historical accuracy of forecasts prepared by management;
- considering the consistency of the Directors' forecasts with other areas of the financial statements and our audit;
- reading regulatory correspondence and minutes of meetings of the Risk Committee, the Audit and Compliance Committee and the Board of Directors;
- considering whether there were events subsequent to the balance sheet date that could have a bearing on the going concern conclusion; and
- evaluating the appropriateness of the Directors' disclosures in the financial statements in relation to the description of the Directors' assessment of going concern.

To address specific risks stated above we have performed the below procedures:

- making enquiries of the Directors to understand that the costs associated with the strategic initiatives have been appropriately captured in management's assessment of going concern;
- reviewing management's forecasts to ensure the costs associated with the strategic initiatives have been appropriately captured in management's assessment of going concern;
- challenging management to perform stress scenarios which include all one-off and ongoing costs associated with the strategic initiatives but with no additional capital being raised; and
- performing our independent stress testing on management's stress scenarios.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

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

### Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

| Key audit matter | How our scope addressed this matter |
|---|---|
| **Impairment of loans and advances to customers**<br><br>**£6,646,678 (2022: £5,635,850)**<br><br>Refer to note 2.6 (accounting policies), note 3 (accounting estimates and judgements) and note 17 of the financial statements.<br><br>Credit risk is an inherently judgmental area due to the use of subjective assumptions and a high degree of estimation in arriving at the year-end impairment provision. The Bank accounts for the impairment of loans and advances using an incurred loss model. Management calculates two types of impairment provisions:<br><br>• an individual provision is recognised for loans where there is an observable loss event;<br><br>and<br><br>• a collective provision on the performing portfolio is recorded to recognise credit events that have occurred but have not been identified at the year-end.<br><br>The individual provision includes loans that are considered defaulted due to arrears exceeding 90 days or having been assessed as unlikely to pay, which are assessed on a case-by-case basis.<br><br>Estimating the collective provision requires judgement in deriving the assumptions to be applied in the assessment. The collective provision is derived from a model that uses a combination of the Bank's experience and, due to the Bank's limited loss experience, external data. There is a risk that the collective provision is not reflective of the incurred losses at the end of the period. The uncertain and adverse economic conditions increase the likelihood of material misstatement. This increases the risk that defaults are not fully captured in the provision. Key assumptions in the collective provision include adjustments to property valuations when calculating the present value of future cash flows. These include the forced sale discount and future falls in value. Assumptions made within the internal scorecard used by management to determine probability of default (PD) are also key to the collective provision output. | Our audit procedures included, but were not limited to:<br><br>• assessing the appropriateness of the methodology used by management and the compliance with FRS 102;<br><br>• assessing the design and implementation, and testing the operating effectiveness, of key controls over the valuation of security, account monitoring, arrears monitoring and in the determination of impairment model assumptions;<br><br>• challenging the appropriateness and reasonableness of external data used in the collective provision model and checking the relevance of this data based on our understanding of the Bank's portfolio;<br><br>• agreeing key data elements within the impairment model, either on a sample basis or the entire population, to underlying source;<br><br>• reperforming calculations within the impairment model to test mathematical accuracy;<br><br>• testing the reasonableness of key assumptions used in the provisioning methodology by reperforming back testing and performing independent benchmarking analysis. These include adjustments to property valuations such as forced sale discounts, and the determination of PD;<br><br>• performing an independent recovery assessment on a sample of defaulted loans and engaging in-house Real Estate experts to assist in reviewing a sample of property collateral; and<br><br>• assessing the appropriateness of impairment provision disclosures in the financial statements.<br><br>**Our observations**<br><br>Based on the audit procedures performed, we found the resulting estimate of the loan impairment provision to be reasonable and in compliance with FRS 102. |

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

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

**Overall materiality**

£455,000 (2022: £433,000)

**How we determined it**

1% net assets (2022: 1% of net assets).

**Rationale for benchmark applied**

We have used net assets as our benchmark as the net assets of the business remains the key focus of users of the financial statements and most closely aligns to the key stakeholder focus of capital.

The net assets as at 31 December 2023 were £47.5 million. Although the final net assets were higher than the interim net assets of £45.5 million used in planning materiality, for convenience, we kept materiality at the original value, i.e. £455,000.

**Performance materiality**

Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole.

We set performance materiality at £228,000 (2022: £217,000) which represents 50% (2022: 50%) of overall materiality.

In determining the performance materiality, we considered several factors, including the public interest entity nature of the Bank. We concluded that a percentage towards the lower end of our normal range was appropriate.

**Reporting threshold**

We agreed with the Audit & Compliance Committee that we would report to them misstatements identified during our audit above £14,000 (2022: £13,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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

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

## Other information

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

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

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

## Matters on which we are required to report by exception

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

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

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

## Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 42, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

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

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

- gaining an understanding of the legal and regulatory framework applicable to the Bank and the industry in which it operates, and considering the risk of acts by the Bank which were contrary to the applicable laws and regulations, including fraud;
- inquiring of the Directors, management and, where appropriate, those charged with governance, as to whether the Bank is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- inspecting correspondence with the relevant licensing or regulatory authorities, primarily the PRA and the FCA;
- holding a bilateral meeting with the PRA to enhance our understanding of the regulator's focus and potential concerns related to the Bank;
- reviewing minutes of directors' meetings in the year and up until the date of approval of the financial statements; and
- discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

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

In addition, we evaluated the Directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls and determined that the principal risks related to posting manual journal entries to manipulate financial performance and management bias through judgements and assumptions in significant accounting estimates.

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

- making enquiries of the Directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud;
- addressing the risks of fraud through management override of controls by performing journal entry testing; and
- being skeptical to the potential of management bias through judgements and assumptions in significant accounting estimates.

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

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

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

## Other matters which we are required to address

Following the recommendation of the Audit & Compliance Committee, we were appointed by the Directors on 7 September 2022 to audit the financial statements for the year ended 31 December 2022 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2022 and 31 December 2023.

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

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

## Use of the audit report

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

Martin Orme

**Martin Orme**
(Senior Statutory Auditor) for and
on behalf of Mazars LLP
Chartered Accountants and
Statutory Auditor
30 Old Bailey
London
EC4M 7AU

12 April 2024



# Financial statements

**For the year ended 31 December 2023**

# Statement of profit and loss and comprehensive income

## for the year ended 31 December 2023

| | Note | 2023 | 2022 |
|---|---|---|---|
| | | £ | £ |
| Interest receivable | 4 | 46,123,616 | 28,087,329 |
| Interest payable | 5 | (17,294,646) | (7,219,223) |
| **Net interest income** | | 28,828,970 | 20,868,106 |
| Administrative expenses | 6 | (20,509,671) | (16,105,258) |
| Operating profit before impairment charge | | 8,319,299 | 4,762,848 |
| Impairment charge on loans and advances to customers | 17 | (2,782,364) | (2,496,977) |
| **Profit before tax** | | 5,536,935 | 2,265,871 |
| Tax charge | 10 | (1,332,686) | (468,257) |
| **Profit for the year** | | 4,204,249 | 1,797,614 |
| **Other comprehensive income:** | | | |
| Movement in available-for-sale investments | | 21,961 | 32,241 |
| **Other comprehensive income for the year, net of tax** | | 21,961 | 32,241 |
| **Total comprehensive income** | | 4,226,210 | 1,829,855 |

There were no recognised gains and losses for 2023 or 2022, other than those included in the statement of profit and loss and comprehensive income. The results for the current and preceding years relate entirely to continuing operations.

The accompanying notes form part of these financial statements.

# Statement of financial position

## as at 31 December 2023

| | Note | 2023 | 2022 |
|---|---|---|---|
| | | £ | £ |
| **Assets** | | | |
| Cash and balances at central banks | 12 | 109,250,259 | 84,018,745 |
| Treasury bills and gilts | 13 | 73,494,617 | 49,958,358 |
| Other assets and prepayments | 15 | 1,037,196 | 853,781 |
| Loans and advances to customers | 16 | 413,983,306 | 403,371,972 |
| Tangible fixed assets | 18 | 174,182 | 166,207 |
| Intangible fixed assets | 19 | 783,820 | 448,996 |
| Deferred tax assets | 10 | 331,990 | 1,442,426 |
| **Total assets** | | 599,055,370 | 540,260,485 |
| **Liabilities** | | | |
| Amounts due to banks | 20 | 38,067,988 | 37,862,456 |
| Customer deposits | 21 | 499,967,473 | 447,173,300 |
| Tax liabilities | 10 | 222,250 | - |
| Other liabilities and accruals | 22 | 4,245,490 | 2,898,770 |
| Subordinated debt | 23 | 9,000,000 | 9,000,000 |
| **Total liabilities** | | 551,503,201 | 496,934,526 |
| **Issued capital and reserves:** | | | |
| Called up share capital | 24 | 111 | 111 |
| Share premium reserve | 25 | 47,922,405 | 47,922,405 |
| Available-for-sale reserve | 25 | - | (21,961) |
| Retained earnings | 25 | (370,347) | (4,574,596) |
| **Total equity** | | 47,552,169 | 43,325,959 |
| **Total equity and liabilities** | | 599,055,370 | 540,260,485 |

The financial statements including the notes on pages 56 to 90, were approved and authorised for issue by the Board of Directors on 12 April 2024 and were signed on its behalf by:

**Ashraf Piranie**
Chief Financial Officer

Company registered number: 09872265
The accompanying notes form part of these financial statements.

# Statement of changes in equity

## for the year ended 31 December 2023

| | Share capital | Share premium | Available -for-sale reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| **At 1 January 2022** | 111 | 47,922,405 | (54,202) | (6,372,210) | 41,496,104 |
| Profit for the year | - | - | - | 1,797,614 | 1,797,614 |
| Other comprehensive income for the year | - | - | 32,241 | - | 32,241 |
| **Total comprehensive income for the year** | - | - | 32,241 | 1,797,614 | 1,829,855 |
| **At 31 December 2022** | 111 | 47,922,405 | (21,961) | (4,574,596) | 43,325,959 |
| At 1 January 2023 | 111 | 47,922,405 | (21,961) | (4,574,596) | 43,325,959 |
| Profit for the year | - | - | - | 4,204,249 | 4,204,249 |
| Other comprehensive income for the year | - | - | 21,961 | - | 21,961 |
| **Total comprehensive income for the year** | - | - | 21,961 | 4,204,249 | 4,226,210 |
| **At 31 December 2023** | 111 | 47,922,405 | - | (370,347) | 47,552,169 |

The accompanying notes form part of these financial statements.

# Statement of cash flows

## for the year ended 31 December 2023

| | Note | 2023 £ | 2022 £ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | 4,204,249 | 1,797,614 |
| **Adjustments for** | | | |
| Amortisation of intangibles | 19 | 216,413 | 133,808 |
| Depreciation of tangible assets | 18 | 96,581 | 104,682 |
| Impairment charge on loans and advances to customers | 17 | 2,782,364 | 2,496,977 |
| Increase in customer deposits | | 52,794,173 | 9,134,687 |
| Increase in other liabilities | | 1,346,720 | 1,072,022 |
| Increase in other assets | | (183,415) | (201,534) |
| Increase in interest payable on TFSME | | 205,532 | 250,709 |
| Net increase in loans to customers | | (13,393,698) | (36,070,258) |
| Finance cost for subordinated debt | | 585,000 | 585,000 |
| Fair value change of treasury bills and gilts | | 21,961 | 32,241 |
| Income tax | 10 | 1,332,686 | 468,257 |
| **Cash generated/(utilised) from operations** | | 50,008,566 | (20,195,795) |
| Interest paid for subordinated debt | | (585,000) | (585,000) |
| **Net cash from/(used in) operating activities** | | 49,423,566 | (20,780,795) |
| **Cash flows from investing activities** | | | |
| Purchases of tangible fixed assets | 18 | (104,556) | (88,663) |
| Purchases of intangible assets | 19 | (551,237) | (400,735) |
| Acquisition of treasury bills and gilts | 13 | (44,402,384) | (9,165,232) |
| Proceeds on sale/maturity of treasury bills and gilts | 13 | 20,866,125 | 9,145,225 |
| **Net cash used in investing activities** | | (24,192,052) | (509,405) |
| **Net cash increase/(decrease) in cash and cash equivalents** | | 25,231,514 | (21,290,200) |
| Cash and cash equivalents at the beginning of year | | 84,018,745 | 105,308,945 |
| **Cash and cash equivalents at the end of the year** | | 109,250,259 | 84,018,745 |

The accompanying notes form part of these financial statements.

# Notes to the financial statements

**For the year ended 31 December 2023**

# Notes to the financial statements

## for the year ended 31 December 2023

## 1. General information

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

## 2. Accounting policies

### 2.1 Basis of preparation of financial statements

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

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

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

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

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

### 2.2 Going concern

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

For the year ended 31 December 2023, the Bank recognised a profit before tax of £5.5m. The Bank's total assets as at 31 December 2023 were £599.1m. The Bank has £182.7m of liquidity resources, of which £42.0m are encumbered as at 31 December 2023. The liquidity resources comprise cash and cash equivalents, and other highly liquid assets.

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

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

### 2.3 Interest income and interest expense

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

Fees that have been charged but not yet recognised in the statement of profit and loss are recognised as deferred fee income and offset against the lending balances in the statement of financial position.

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

Interest income and expense presented in comprehensive income include:

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

### 2.4 Intangible assets

An intangible asset is recognised when:

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

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

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

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

### 2.5 Tangible fixed assets

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

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

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

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

### 2.6 Financial instruments

**Recognition**

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

**Classification**

Financial assets

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

*Loans and advances to customers*

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

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

*Undrawn commitments*

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

*Treasury bills and gilts*

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

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

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

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

Financial liabilities

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

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

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

*Measurement*

Amortised cost measurement

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

Fair value measurement

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

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

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

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

**Identification and measurement of impairment**

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



Objective evidence that financial assets are impaired includes:

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

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

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

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

### 2.7 Foreign currency translation

**Functional and presentational currency**

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

**Transactions and balances**

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

The Bank does not currently have any foreign currency exposures.

### 2.8 Cash and cash equivalents

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

### 2.9 Customer deposits

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

### 2.10 Share capital and equity

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

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

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

### 2.11 Operating leases: the Bank as lessee

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

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

### 2.12 Pensions

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

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

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

### 2.13 Long Term Incentive Plan

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

### 2.14 Taxation

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

*Current tax*

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

*Deferred tax*

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

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

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



## 3. Accounting estimates and judgements

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

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

**Effective interest rate**

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

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

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

A 10% decrease in expected life of loans results in an increase in income of £427k (2022: £225k) and an increase in expected life of 10% would result in a decrease in income of £340k (2022: £186k).

**Impairment of financial assets**

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

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

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

*Individual impairments*

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

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

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

- if the property valuation haircut increased by 5% impairments would increase by £814k.

*Collective impairment*

The Bank has built a model to assess the level of collective impairment provision required. The model uses a number of the key assumptions used similar to the individual assessment as well as a probability of default (PD), which is also modelled.

The Bank uses a credit grading model to estimate the PD of its lending. The credit grading model scorecard uses weighted qualitative and quantitative criteria, including debt service coverage ratio, loan-to-value and borrower experience, among other factors, to determine a credit score. The score is mapped to a Standard & Poor's PD curve to determine the loan specific PD. The loan specific PD is recalculated periodically based on changes in the borrower's circumstances and with uplifts applied to accounts in arrears and on the Bank's watchlist.

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

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

Details of provisions for impairment losses are shown in Note 17.

**Deferred tax**

It is considered appropriate to recognise a deferred tax asset of £331,990 as at 31 December 2023 (2022: £1,442,426), as the Bank has evidenced the ability to generate sufficient taxable profits in the future to utilise the temporary difference.

Under FRS 102, a deferred tax asset is recognised for deductible temporary differences and unused tax losses carried forward, to the extent that it is probable that future taxable profits will be available.

The Bank has performed an analysis of the recoverability of deferred tax assets. In doing so has considered the following:

- the availability of sufficient taxable temporary differences;
- the probability that the Bank will have sufficient taxable profits in the foreseeable future, in the same period as the reversal of the deductible temporary difference; and
- the availability of tax planning opportunities that allow the recovery of deferred tax assets.

In the current circumstances, the Bank's projections of future taxable profits may be affected by:

- trading performance;
- changes in forecast cash flows; and
- changes in the Bank's tax policy.

Some of these changes may reduce future taxable profits, whereas others may potentially increase them. When preparing projections of future taxable profits for the purposes of a deferred tax asset recognition test, the Bank has reflected expectations at the reporting date and has used assumptions that are consistent with those used for the going concern assessment.

The deferred tax asset has been recognised at 25%, the rate enacted at the time at which the carried forward losses are expected to be utilised.

**Interest receivable increased from £28m to:**

**£46m**

## 4. Interest receivable

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

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| Interest income | 43,069,689 | 26,100,307 |
| Fees receivable | 2,173,751 | 1,893,953 |
| Income from treasury assets amortisation and interest | 880,176 | 93,069 |
| | 46,123,616 | 28,087,329 |
| Analysis of revenue by country | | |
| United Kingdom | 46,123,616 | 28,087,329 |
| | 46,123,616 | 28,087,329 |

## 5. Interest payable

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| **Interest payable** | | |
| 35 Day notice accounts | 4,124,187 | 2,080,036 |
| 95 Day notice accounts | 6,573,471 | 2,945,625 |
| 1 Year bond | 3,550,799 | 1,044,317 |
| 2 Year bond | 726,160 | 18,038 |
| Subordinated debt | 585,000 | 585,000 |
| TFSME | 1,735,029 | 546,207 |
| | 17,294,646 | 7,219,223 |

## 6. Administrative costs

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| Staff costs (including Directors) | 13,971,050 | 11,159,238 |
| IT costs | 2,041,016 | 1,294,274 |
| Legal and professional fees | 1,982,327 | 1,509,348 |
| Depreciation and amortisation | 312,995 | 238,490 |
| Other costs | 2,202,283 | 1,903,908 |
| | 20,509,671 | 16,105,258 |

## 7. Auditor's remuneration

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| Fees payable to the Bank's auditor (excluding VAT): | | |
| Statutory audit | 322,000 | 340,000 |
| Other assurance service | 25,000 | - |
| | 347,000 | 340,000 |

## 8. Staff costs

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| Staff costs (including Directors) comprise: | | |
| *Fixed remuneration* | | |
| Wages and salaries | 9,860,521 | 8,232,656 |
| National insurance | 1,637,488 | 1,175,618 |
| Defined contribution pension cost | 807,084 | 663,058 |
| *Variable remuneration* | | |
| Cash bonus | 1,075,392 | 748,984 |
| Long Term Incentive Plan | 590,565 | 338,922 |
| | 13,971,050 | 11,159,238 |

Performance-related annual cash-based bonus schemes for all staff are calculated based on seniority and performance in the grant year. In 2023 the Bank recognised a cost and liability of £1,075,392 (2022: £748,984) in respect of the cash-based bonuses.

The Bank has also introduced cash-based Long Term Incentive Plans for key senior staff with the objective of promoting staff retention and aligning staff and shareholder objectives of achieving sustainable growth. Those staff included are awarded a grant as a percentage of annual salary, which is calculated based on seniority and performance in the grant year. The grants vest in December 2024 (payable in April 2025) and December 2025 (payable in April 2026) and are to be cash-settled with proportional adjustments for changes in the net asset value of the Bank. In 2023 the Bank recognised a cost of £590,565 (2022: £338,922) in respect of the cash-based Long Term Incentive Plans. The Bank carries a liability of £981,007 (2022: £338,922) for Long Term Incentive Plans. See Note 2.13 for further details.

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

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| Full time | 114 | 109 |
| Part time | 12 | 11 |
| Employees | 126 | 120 |



## 9. Directors' remuneration

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| Directors' salaries | 907,278 | 764,487 |
| Directors' variable remuneration | | |
| Cash bonus[1] | 203,556 | 131,111 |
| LTIP[2] | 246,222 | 85,000 |
| Directors' fees | 483,007 | 443,866 |
| Directors' defined contribution pension costs | 88,464 | 72,814 |
| Directors' private health insurance | 5,515 | 1,941 |
| | 1,934,042 | 1,499,219 |

During the year retirement benefits were accruing to three Directors (2022: three Directors) in respect of defined contribution pension schemes.

The highest paid director received total remuneration of £660,844 (2022: £566,904), including £103,282 (2022: £56,667) subject to deferral with respect to LTIP.

The value of the Bank's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £41,800 (2022: £37,750) and the Bank's contributions paid for private health insurance for the highest paid director amounted to £3,213 (2022: £1,376), both included in total remuneration above.

1. Payable during 2024
2. Vesting in 2024 (payable in April 2025) and 2025 (payable in April 2026)

**Average number of employees in 2023**

**126**

## 10. Taxation

The Bank recognised a tax charge of £1,332,686 through the statement of profit and loss in 2023 (2022: £468,257).

At 31 December 2023 the Bank has unused tax losses of £nil (2022: £5,044,420) available for offset against future taxable profits. The Bank has recognised a deferred tax charge in respect of the temporary differences in the year. For the temporary differences, the Bank has evidence, that on an on-going basis, it has the ability to generate profits against which it can be offset in the future.

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

| | 2023 £ | 2022 £ |
|---|---|---|
| Analysis of tax charge for the period | | |
| *Current tax* | | |
| UK corporation tax at 23.5% (PY: 19%) | 222,250 | - |
| *Deferred tax* | | |
| Origination and reversal of timing differences | 1,110,436 | 468,257 |
| Adjustments in respect of prior periods | - | - |
| Effect of changes in tax rates | - | - |
| Total deferred tax charge | 1,110,436 | 468,257 |
| Tax charge on profit on ordinary activities | 1,332,686 | 468,257 |
| Profit for the year | 5,536,935 | 2,265,871 |
| **Profit before income taxes** | 5,536,935 | 2,265,871 |
| Tax using Bank's domestic tax rate of 23.5% (2022: 19%) | 1,302,318 | 430,515 |
| Non-deductible expenses | 87,888 | 1,614 |
| Group relief claimed | (137,332) | - |
| Deferred tax adjustment in respect of prior period | 15,000 | - |
| Fixed asset movements | (14) | (2,971) |
| Change resulting from change in enacted tax rate to 25% | 64,826 | 39,099 |
| **Total tax charge through profit or loss** | 1,332,686 | 468,257 |
| Carried forward losses | - | 1,234,707 |
| Timing differences | 331,990 | 207,719 |
| **Total deferred tax assets** | 331,990 | 1,442,426 |

## 11. Risk management

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

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

**Credit risk**

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

*Credit exposure*

The Bank's maximum exposure to credit risk is the carrying value of its financial assets, without taking account of any underlying collateral, and contractual commitments, which represent agreements entered into but not advanced, as at 31 December 2023.

| | 2023 £ | 2022 £ |
|---|---|---|
| **Assets** | | |
| Cash and balances at central banks | 109,250,259 | 84,018,745 |
| Loans and advances to customers | 413,983,306 | 403,371,972 |
| Treasury bills and gilts | 73,494,617 | 49,958,358 |
| **Maximum exposure to credit risk** | 596,728,182 | 537,349,075 |

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

The Bank has recognised 17 loans (2022: 8) as impaired, with a total exposure of £23,868,967 (2022: £11,956,906). The Bank has further loans totalling £21,410,656 (2022: £19,429,780) that are in arrears but not impaired.

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

Loans where payment holidays and tailored support have been granted total £9,739,221 as at end of December 2023 (2022: £nil).

| | 2023 Loan balance £ | 2023 Value of collateral £ | 2022 Loan balance £ | 2022 Value of collateral £ |
|---|---|---|---|---|
| Impaired: | | | | |
| Past due and impaired | 21,629,410 | 21,147,863 | 11,956,906 | 15,352,881 |
| Not past due and impaired | 2,239,557 | 2,575,000 | - | - |
| Total | 23,868,967 | 23,722,863 | 11,956,906 | 15,352,881 |
| Not impaired: | | | | |
| Past due up to 3 months | 10,771,859 | 18,400,217 | 18,087,233 | 32,517,233 |
| Past due 3 to 6 months | 8,102,366 | 15,714,028 | 287,851 | 417,592 |
| Past due 6 to 12 months | 2,536,431 | 5,874,813 | 1,054,696 | 1,958,841 |
| Past due over 12 months | - | - | - | - |
| Past due but not impaired | 21,410,656 | 39,989,058 | 19,429,780 | 34,893,666 |
| Forborne: | | | | |
| Not past due and forborne | 9,739,221 | 14,513,025 | - | - |

At 31 December 2023, the Bank had an approved but not drawn credit pipeline of £39.3m (2022: £42.3m).

*Credit risk management*

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

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

*Concentration of credit risk*

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

| | 2023 % | 2022 % |
|---|---|---|
| **Lending by product type (value)** | | |
| Commercial real estate lending | 49 | 50 |
| Residential real estate lending | 51 | 50 |
| **Total** | 100 | 100 |

| | 2023 % | 2022 % |
|---|---|---|
| **Lending by geographical location (value)** | | |
| North East | 8 | 6 |
| Warrington and North West | 25 | 27 |
| West Midlands | 10 | 8 |
| Greater London and South East | 16 | 18 |
| Yorkshire and Humberside | 14 | 14 |
| East Midlands | 6 | 6 |
| South West | 5 | 5 |
| Hertfordshire, Bedfordshire, Buckinghamshire and East Anglia | 7 | 7 |
| Scotland | 5 | 6 |
| Wales | 4 | 3 |
| **Total** | 100 | 100 |

| | 2023 % | 2022 % |
|---|---|---|
| **Lending by loan size (value)** | | |
| 0 - £250K | 17 | 16 |
| £251K - £500K | 18 | 17 |
| £501K - £1,000K | 25 | 24 |
| £1,001K - £2,000K | 16 | 19 |
| £2,001K - £3,000K | 9 | 9 |
| £3,001K - £4,000K | 7 | 7 |
| > £4,000K | 8 | 8 |
| **Total** | 100 | 100 |

*Credit risk security*

All loan agreements with customers are secured by property.

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

For performing loans, the collateral value is the valuation of the property at drawdown indexed to present value through the use of established residential and commercial property price market indices unadjusted for any costs related to taking possession of the asset, selling the asset, and any impairment allowance. However, collateral for defaulted loans in excess of £500k, which are not currently in administration or receivership, has been revalued by a registered valuer, before the relevant sales discount, costs of taking possession and selling the asset and valuation stress rates applied. Those impaired loans in administration or receivership have been attributed their current marketing value.

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

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| **Lending by LTV ratio (value)** | | |
| Less than 50% | 56,833,414 | 68,712,614 |
| 50 - 75% | 261,608,193 | 269,562,472 |
| 75 - 100% | 90,129,910 | 69,413,493 |
| More than 100% | 13,450,470 | 3,118,106 |
| **Total loans and advances to customers** (excluding provisions for losses and deferred fees) | 422,021,987 | 410,806,685 |

*Credit risk – Treasury*

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

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

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| **Deposits by counterparty credit rating** | | |
| Deposits at central banks – Rated AA-* | 106,359,808 | 79,313,175 |
| Deposits at other banks – Rated A+* | 2,890,451 | 4,705,570 |
| UK gilts and treasury bills – Rated AA-* | 73,494,617 | 49,958,358 |
| **Total** | 182,744,876 | 133,977,103 |

* Ratings based on Fitch long-term credit rating.

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

**Liquidity risk**

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

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

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

The Bank's LCR at 31 December 2023 was 481% [unaudited] (2022: 352%), above the regulatory requirement of 100%, and the deposit to loans ratio was 119% [unaudited] (2022: 109%).

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

| | Carrying amount | Less than 3 months | 3 months to 1 year | Greater than 1 year but no more than 5 years | Greater than 5 years |
|---|---|---|---|---|---|
| **2023** | £ | £ | £ | £ | £ |
| **Assets** | | | | | |
| Cash and balances at central banks | 109,250,259 | 109,250,259 | - | - | - |
| Treasury bills and gilts | 73,494,617 | 29,024,375 | 20,187,500 | 25,212,500 | - |
| Loans and advances to customers | 422,021,987 | 10,902,587 | 6,023,159 | 31,369,472 | 379,491,906 |
| **Total assets** | 604,766,863 | 149,177,221 | 26,210,659 | 56,581,972 | 379,491,906 |
| **Liabilities** | | | | | |
| Customer deposits | 499,967,473 | 186,173,570 | 291,266,259 | 29,979,904 | - |
| Subordinated debt | 9,000,000 | 293,301 | 440,753 | 2,341,603 | 10,187,630 |
| Amounts due to banks | 38,067,988 | 496,641 | 20,737,670 | 19,214,288 | - |
| **Total liabilities** | 547,035,461 | 186,963,512 | 312,444,682 | 51,535,795 | 10,187,630 |
| **2022** | £ | £ | £ | £ | £ |
| **Assets** | | | | | |
| Cash and balances at central banks | 84,018,745 | 84,018,745 | - | - | - |
| Treasury bills and gilts | 49,958,358 | 15,785,760 | 5,041,377 | 29,131,221 | - |
| Loans and advances to customers | 410,806,685 | - | 2,602,063 | 4,375,906 | 403,828,716 |
| **Total assets** | 544,783,788 | 99,804,505 | 7,643,440 | 33,507,127 | 403,828,716 |
| **Liabilities** | | | | | |
| Customer deposits | 447,173,300 | 192,212,659 | 250,067,970 | 4,892,671 | - |
| Subordinated debt | 9,000,000 | - | - | - | 9,000,000 |
| Amounts due to banks | 37,862,456 | - | - | 37,862,456 | - |
| **Total liabilities** | 494,035,756 | 192,212,659 | 250,067,970 | 42,755,127 | 9,000,000 |

## Interest rate risk

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

The Bank's forecasts and plans take account of the risk of interest rate changes and are prepared and stressed in line with PRA guidance. The following table summarises the re-pricing periods for the Bank's assets and liabilities. Items are allocated to time periods by reference to the earlier of the next contractual change in interest rates and the maturity date. As part of the calculation of the interest rate risk exposure, the Bank employs capital allocation techniques. The interest rate sensitivity exposure of the Bank at 31 December 2023 was:

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

The interest rate sensitivity exposure of the Bank at 31 December 2022 was:

| 2022 | Within 3 Months | More than 3 but less than 6 months | More than 6 months but less than a year | More than 1 year but less than 5 years | More than 5 years | Non interest bearing |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| **Assets** | | | | | | |
| Cash and balances at non-central banks | - | - | - | - | - | 5,194,930 |
| Cash and balances at central banks | 79,313,175 | - | - | - | - | - |
| Loans and advances to customers | 393,886,788 | 2,144,587 | - | 13,138,548 | - | 1,535,441 |
| Treasury bills and gilts | 15,800,000 | - | 5,000,000 | 29,000,000 | - | |
| Other assets | - | - | - | - | - | 1,227,660 |
| **Total assets** | 488,999,963 | 2,144,587 | 5,000,000 | 42,138,548 | - | 7,958,031 |
| **Liabilities** | | | | | | |
| Amounts due to banks | (37,600,000) | - | - | - | - | - |
| Subordinated debt | - | - | - | - | (9,000,000) | - |
| Other liabilities | - | - | - | - | - | (10,561584) |
| Customer deposits | (192,118,399) | (199,000,470) | (49,613,696) | (4,961,756) | - | (1,745,679) |
| Total equity | - | - | - | - | - | (41,639,546) |
| **Total liabilities** | (229,718,399) | (199,000,470) | (49,613,696) | (4,961,756) | (9,000,000) | (53,946,809) |
| **Net interest rate risk gap** | 259,281,564 | (196,855,883) | (44,613,696) | 37,176,792 | (9,000,000) | (45,988,777) |

*Interest rate sensitivity analysis*

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

The Bank estimates that a +/- 200 bps movement in interest rates paid/received would have impacted the economic value of equity at 31 December 2023 as follows:

- +200 bps – £474k negative (2022: £709k positive)
- -200 bps – £554k positive (2022: £815k negative)

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

## Operational risk

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

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

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

Compliance with standards is supported by a programme of periodic reviews undertaken by Internal Audit.

The results of Internal Audit reviews are discussed in the Audit & Compliance Committee.

## Capital risk management

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

The Bank's total capital requirements ("TCR") are comprised of a minimum of 75% Tier 1 and a maximum of 25% Tier 2 regulatory capital (any Tier 2 in excess of 25% of TCR is considered ineligible for regulatory capital purposes). The Bank's regulatory capital buffers are satisfied entirely by CET1 capital. The total capital ratio sits at 19.4% [unaudited] (2022: 19.0%) and the Bank's regulatory capital requirements for CET1 and total capital requirements were met throughout the year.

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

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

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

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

**Own funds up by £5.6m to**

**£56.9m**

As at 31 December 2023, the Bank's capital base was made up of £56.9m of Tier 1 and Tier 2 capital (2022: £51.3m). The Bank had ineligible Tier 2 capital of £1.6m (2022: £2.2m) [unaudited]. The Bank's regulatory capital consists of the following:

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| **Own funds** | | |
| Ordinary share capital and share premium | 47,922,516 | 47,922,516 |
| Retained earnings | (370,347) | (4,574,596) |
| Available for sale reserve | - | (21,961) |
| Deductions: intangible assets | (783,820) | (448,996) |
| Deferred tax assets | - | (1,442,426) |
| Ineligible Tier 1 capital | (3,874) | (3,874) |
| **Total Tier 1 capital** | 46,764,475 | 41,430,663 |
| Collective loan loss provision | 1,124,076 | 889,925 |
| Subordinated debt | 9,000,000 | 9,000,000 |
| **Total Tier 2 capital** | 10,124,076 | 9,889,925 |
| **Own funds** | 56,888,551 | 51,320,588 |

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| **Capital reconciliation** | | |
| Equity as per statement of financial position | 47,552,169 | 43,325,959 |
| Regulatory adjustments: | | |
| Intangible assets | (783,820) | (448,996) |
| Collective loan loss provision | 1,124,076 | 889,925 |
| Subordinated debt | 9,000,000 | 9,000,000 |
| Deferred tax assets | - | (1,442,426) |
| Ineligible Tier 1 capital | (3,874) | (3,874) |
| **Own funds** | 56,888,551 | 51,320,588 |

## 12. Cash and balances at central banks

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| Cash at banks other than central banks | 2,890,451 | 4,705,570 |
| Cash at central banks | 106,359,808 | 79,313,175 |
| | 109,250,259 | 84,018,745 |

## 13. Treasury bills and gilts

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| Held to maturity financial assets at amortised cost | 73,494,617 | 39,165,044 |
| Held at fair value through other comprehensive income | - | 10,793,314 |
| | 73,494,617 | 49,958,358 |

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

Available-for-sale financial assets ("AFS") held at fair value through other comprehensive income comprised Treasury bills and gilts at the end of 2022. The remaining AFS assets matured in 2023. AFS assets were fair valued at the end of the period and any difference between carrying value and fair value was recognised through the statement of other comprehensive income. Interest was recognised at the effective interest rate.

The Bank has encumbered £42.0m (2022: £41.9m) of its gilts as collateral against the TFSME drawn (see Note 20).

## 14. Fair value

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

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

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

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

There have been no transfers between classifications in 2023 or 2022.

## 15. Other assets and prepayments

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| Prepayments and other assets | 761,970 | 724,489 |
| Accrued income | 275,226 | 129,292 |
| | 1,037,196 | 853,781 |



## 16. Loans and advances to customers

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| **Customer loans** | | |
| Secured loans including interest accruals | 422,021,987 | 410,806,685 |
| Less: deferred fee income | (1,392,003) | (1,798,863) |
| Less: provision for impairment losses on loans (see Note 17) | (6,646,678) | (5,635,850) |
| | 413,983,306 | 403,371,972 |

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

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| **Maturity analysis** | | |
| Less than one year | 2,184,041 | 2,602,063 |
| One to five years | 5,350,791 | 4,375,906 |
| More than five years | 414,487,155 | 403,828,716 |
| | 422,021,987 | 410,806,685 |
| Deferred fee income | (1,392,003) | (1,798,863) |
| Less: provision for impairment losses on loans (see Note 17) | (6,646,678) | (5,635,850) |
| | 413,983,306 | 403,371,972 |

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

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## 17. Loan loss provisions

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| **Collective loan provision:** | | |
| Balance at beginning of the year | 889,925 | 1,510,276 |
| Charge/(credit) for the year | 234,151 | (620,351) |
| Closing balance at the end of the year | 1,124,076 | 889,925 |

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| **Individual loan provision:** | | |
| Balance at beginning of the year | 4,745,925 | 1,628,597 |
| Write backs in the year | (123,937) | (612,957) |
| Charge for the year | 2,674,509 | 3,730,285 |
| Provisions utilised during the year | (1,773,895) | - |
| Closing balance at the end of the year | 5,522,602 | 4,745,925 |

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| Collective loan provision | 1,124,076 | 889,925 |
| Individual loan provision | 5,522,602 | 4,745,925 |
| Total loan loss provisions | 6,646,678 | 5,635,850 |

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| At 1 January | 5,635,850 | 3,138,873 |
| Charge for the year | 2,782,364 | 2,496,977 |
| Recovery | 2,359 | - |
| Provision utilised during the year | (1,773,895) | - |
| At 31 December | 6,646,678 | 5,635,850 |

## 18. Tangible fixed assets

| | Office equipment<br>£ | Computer equipment<br>£ | Other property plant and equipment<br>£ | Total<br>£ |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2022 | 26,079 | 175,935 | 422,324 | 624,338 |
| Additions | 22,609 | 48,122 | 17,932 | 88,663 |
| **At 31 December 2022** | 48,688 | 224,057 | 440,256 | 713,001 |
| Additions | - | 104,556 | - | 104,556 |
| **At 31 December 2023** | 48,688 | 328,613 | 440,256 | 817,557 |
| **Accumulated depreciation and impairment** | | | | |
| At 1 January 2022 | 23,890 | 133,702 | 284,520 | 442,112 |
| Charge for the year | 3,265 | 30,208 | 71,209 | 104,682 |
| **At 31 December 2022** | 27,155 | 163,910 | 355,729 | 546,794 |
| Charge for the year | 4,663 | 50,372 | 41,546 | 96,581 |
| **At 31 December 2023** | 31,818 | 214,282 | 397,275 | 643,375 |
| **Net book value** | | | | |
| At 1 January 2022 | 2,189 | 42,233 | 137,804 | 182,226 |
| At 31 December 2022 | 21,533 | 60,147 | 84,527 | 166,207 |
| At 31 December 2023 | 16,870 | 114,331 | 42,981 | 174,182 |

## 19. Intangible fixed assets

| | Website development | Computer software | Total |
|---|---|---|---|
| | £ | £ | £ |
| **Cost** | | | |
| At 1 January 2022 | 62,735 | 380,230 | 442,965 |
| Additions | 78,787 | 321,948 | 400,735 |
| **At 31 December 2022** | 141,522 | 702,178 | 843,700 |
| Additions | 40,051 | 511,186 | 551,237 |
| **At 31 December 2023** | 181,573 | 1,213,364 | 1,394,937 |
| **Accumulated amortisation and impairment** | | | |
| At 1 January 2022 | 54,370 | 206,526 | 260,896 |
| Charge for the year | 15,969 | 117,839 | 133,808 |
| **At 31 December 2022** | 70,339 | 324,365 | 394,704 |
| Charge for the year | 37,801 | 178,612 | 216,413 |
| **At 31 December 2023** | 108,140 | 502,977 | 611,117 |
| **Net book value** | | | |
| At 1 January 2022 | 8,365 | 173,704 | 182,069 |
| At 31 December 2022 | 71,183 | 377,813 | 448,996 |
| At 31 December 2023 | 73,433 | 710,387 | 783,820 |

## 20. Amount due to banks

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| TFSME | 38,067,988 | 37,862,456 |
| | 38,067,988 | 37,862,456 |

During 2020 and 2021 the Bank gained access to and drew down against the TFSME. The principal is repayable four years from drawdown. Total interest paid during the year in relation to the debt was £1,735,029 (2022: £546,207).

## 21. Customer deposits

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| 35-day notice deposits | 137,634,281 | 158,945,320 |
| 95-day notice deposits | 194,125,965 | 209,679,713 |
| 1 year Bond | 132,847,474 | 73,572,427 |
| 2 year Bond | 35,138,883 | 4,974,740 |
| Instant access | 151,500 | - |
| Other deposits | 69,370 | 1,100 |
| | 499,967,473 | 447,173,300 |

## 22. Other liabilities and accruals

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| Trade creditors | 384,836 | 76,124 |
| Other creditors | 716,489 | 705,804 |
| Accruals | 3,144,165 | 2,116,842 |
| | 4,245,490 | 2,898,770 |

## 23. Subordinated debt

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| Subordinated debt | 9,000,000 | 9,000,000 |
| | 9,000,000 | 9,000,000 |

During 2020, the Bank issued £9.0m of subordinated debt, drawn down in three tranches. The debt is repayable in 10 years from issue and currently bears a fixed interest rate of 6.5% p.a. – payable quarterly. Total interest paid during the year in relation to the debt was £585,000 (2022: £585,000). The debt is considered eligible as Tier 2 capital.

## 24. Share capital

Issued and fully paid

| | 2023 | 2023 | 2022 | 2022 |
|---|---|---|---|---|
| | Number | £ | Number | £ |
| **Ordinary shares at £0.001 each** | | | | |
| As at 1 January | 100,010 | 100 | 100,008 | 100 |
| shares issued | - | - | 2 | - |
| As at 31 December | 100,010 | 100 | 100,010 | 100 |
| **Ordinary B shares at £0.001 each** | | | | |
| As at 1 January | 7,525 | 8 | 7,525 | 8 |
| As at 31 December | 7,525 | 8 | 7,525 | 8 |
| **Ordinary C shares at £0.001 each** | | | | |
| As at 1 January | 3,235 | 3 | 3,235 | 3 |
| As at 31 December | 3,235 | 3 | 3,235 | 3 |
| | 110,770 | 111 | 110,770 | 111 |

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

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

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

## 25. Reserves

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| Share premium | 47,922,405 | 47,922,405 |
| Called up share capital | 111 | 111 |
| Available-for-sale reserve | - | (21,962) |
| Retained earnings | (370,347) | (4,574,596) |
| | 47,552,169 | 43,325,958 |

## 26. Analysis of changes in net debt

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

| | At 1 Jan 2022 | Cash flows | Acquired | Non-cash changes | At 31 Dec 2022 |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Cash and balances at central banks | 105,308,945 | (21,290,200) | - | - | 84,018,745 |
| Subordinated debt | (9,000,000) | - | - | - | (9,000,000) |
| At 31 December 2022 | 96,308,945 | (21,290,200) | - | - | 75,018,745 |

## 27. Country by country reporting

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

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

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

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| Turnover | 28,828,970 | 20,868,106 |
| Profit before tax | 5,536,935 | 2,265,871 |
| Corporation tax paid | - | - |
| Average number of employees | 126 | 120 |

Turnover is defined as total interest income less interest expense.

## 28. Undrawn commitments and contingent liabilities

The Bank had undrawn commitments of £39.3m (2022: £42.3m) and no contingent liabilities at 31 December 2023 or 31 December 2022.

## 29. Pensions

The Bank operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Bank in an independently administered fund.

The pension cost charge represents contributions payable by the Bank to the fund and amounted to £807,084 (2022: £663,058) during the year. The amount of pension contribution payable is £92,960 as at 31 December 2023 (2022: £84,923).

## 30. Commitments under operating leases

The Bank leases its head office in Letchworth Garden City, as well as its regional office in Warrington, under operating leases. The Bank signed new leases in 2019 for the Letchworth offices, which run for periods of five years, ending in 2024, and a new lease in 2022 for the Warrington office for a period of three years, ending in 2025.

At 31 December 2023 the Bank had future minimum lease payments under non-cancellable operating leases as follows:

| | 2023 £ | 2022 £ |
|---|---|---|
| Not later than 1 year | 166,011 | 193,604 |
| Later than 1 year and not later than 5 years | 34,680 | 200,691 |
| | 200,691 | 394,295 |

During the year £193,605 (2022: £167,432) was recognised as an expense in the statement of profit and loss in respect of operating leases.

## 31. Other financial commitments

The Bank has commitments under contracts, with key suppliers, to purchase intangible assets relating to computer software to the value of £387k (2022: £662k).

The Bank's lending pipeline commitments are disclosed in Note 11.

The Bank's operating lease commitments are disclosed in Note 30.

## 32. Transactions with Directors

The key management personnel of the Bank comprised the Executive and Non-Executive Directors of the Bank. The compensation of key management personnel is shown in Note 9.

There were no deposits for companies controlled by Directors of the Bank or companies/ associations where Directors of the Bank have influence and no loans outstanding to any director at 31 December 2023 (2022: £nil).

## 33. Related party transactions

As at 31 December 2023, the Bank held no deposits for companies under common control (2022: £nil).

The Bank leases its Warrington office from Warrington Borough Council, a significant shareholder of the Bank's parent company, RFPL. The lease is at market rates on an arm's length basis. Rent paid on this property for the year was £83,232 (2022: £57,059).

The Bank has issued subordinated debt to Warrington Borough Council and Thurrock Borough Council, both of which are shareholders in the Bank's parent company, RFPL. The total subordinated debt issued is £9.0m (2022: £9.0m) and interest paid totalled £585,000 (2022: £585,000).

Details of transactions with Directors is disclosed in Note 32.

## 34. Events after the reporting date

On 9 April 2024, subsequent to the year ended 31 December 2023, the Bank entered into a contingent commitment to pay up to £1.4m on behalf of an external party, R8, to a third party (EY LLP). The Bank's obligation to pay arises only if R8 fails to fulfil its payment obligations. The actual amount payable by the Bank would depend on the progress and completion of the RTO referred to in the Chairman's Statement. Payment would be due at the end of the project, expected in the third quarter of 2024, or at an earlier point if the RTO is aborted.

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

## 35. Controlling party

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