Recognise Bank

# Annual Report & Accounts

# 2024

Recognise Bank



## Recognise Bank's values are:

### Recognition

We celebrate milestones and successes. We are building a culture of appreciation.

### Empowerment

We encourage individuals to take ownership. We harness collective knowledge.

### Authentic

We bring our 'true selves' to work. We are open, honest and transparent.

### Customer focused

We actively listen and respond to customer needs. We always act in good faith.

### Teamwork

We embrace diversity and respect others' individuality. We foster a collaborative environment.

# Highlights

## Business development

- Loan book increased by 148% to £303m at year-end
- Further loan book diversification with successful entry into the Asset Finance market with strategic partner – year-end loan book includes £31m Asset Finance loans
- Personal and Business Savings balances increased by 106% to £412m at year-end
- New channel to access personal and business savers achieved through strategic partnership with deposit aggregator, Insignis Cash – year-end deposits include £34m from this channel
- Further £5m capital injection into the Bank during the year, taking total investment to over £101m
- Subscription Agreement signed on 1 November 2024 with the Bank's largest shareholder, Parasol V27 Limited, who will inject up to £25m in the Bank, with a first tranche of £20m being received on 1 November and a second tranche of £5m expected to be made in the third quarter of 2025, subject to certain criteria being met. The funds will be used to underpin a restructuring of the Bank.

## Financial results

**£9.0m loss**

Loss before tax (2023: loss before tax £13.0m after reorganisation and restructuring costs of £0.8m)

**£302.8m**

Loan book at 31 March 2024 (2023: £121.9m)

**£411.7m**

Deposits at 31 March 2024 (2023: £200.3m)

**Reports**

Pages 5 and 6 comprise the Chair's statement, pages 7 to 23 the Strategic report and pages 31 and 32 the Directors' report, all of which are presented in accordance with the Companies Act 2006. The liabilities of directors in connection with these reports shall be subject to the limitations and restrictions provided by such law. These reports are intended to provide information to shareholders and are not designed to be relied upon by any other party or for any other purpose.

**Disclaimer**

This annual report and accounts may contain certain statements about the future outlook for Recognise Bank Limited and its subsidiaries. Although we believe our expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

# Overview

Recognise Bank

## Recognise Bank Limited ("Recognise Bank", "the Bank" or "the Company")

Recognise Bank is a UK licensed bank that focuses on serving both the UK SME market and personal and business savers. As a relationship-led SME lending bank it is committed to offering customised lending and savings solutions to meet the changing finance needs of UK businesses and the savings requirements of both personal and business customers.

As part of its planned restructuring, the Bank intends to actively move towards higher margin lending products, initially in property finance.

## Climate change: definitions of Scope 1-3 emissions under the UK government SECR regulations

Scope 1: Direct GHG emissions that occur from sources owned or controlled by the reporting company, i.e., emissions from owned or controlled boilers, furnaces, vehicles, etc.

Scope 2: Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company.

Scope 3: All other indirect GHG emissions (not included in Scope 2) that occur in the value chain of the reporting company, broken down into: Upstream emissions – that occur in the life cycle of a material/product/service up to the point of sale by the producer, such as from the production or extraction of purchased materials; and Downstream emissions – that occur from the distribution, storage, use, and end-of-life treatment of the organisation's products or services. The GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard categorises Scope 3 emissions into 15 categories. 'Financed' emissions resulting from a reporting company's loans and investments fall under Scope 3 downstream emissions, specifically under Scope 3 category 15 (investments).

## Abbreviations and glossary

| | |
|---|---|
| AIM | Alternative Investment Market |
| ALCO | Asset and Liability Committee of Recognise Bank |
| BRC | Board Risk Committee of Recognise Bank |
| CAML | Credit Asset Management Limited |
| CBES | Climate Biennial Exploratory Scenario |
| CCI | Credit Cycle Index |
| CCO | Chief Commercial Officer |
| CET | Common Equity Tier |
| CRO | Chief Risk Officer |
| EAD | Exposure at Default |
| ECL | Expected Credit Loss |
| EIR | Effective Interest Rate |
| EPC | Energy Performance Certificate |
| ERC | Executive Risk Committee of Recognise Bank |
| ESG | Environmental, social and governance |
| FCA | Financial Conduct Authority |
| FiT | Forward-in-Time |
| GDPR | General Data Protection Regulation |
| GDP | Gross Domestic Product |
| GHG | Greenhouse Gas |
| ICAAP | Internal Capital Adequacy Assessment Process |
| IFRS | International Financial Reporting Standards |
| ILAAP | Internal Liquidity Adequacy Assessment Process |
| IRRBB | Interest Rate Risk in the Banking Book |
| KPI | Key Performance Indicator |
| LGD | Loss Given Default |
| MLRO | Money Laundering Reporting Officer |
| PD | Probability of Default |
| PCAF | Partnership for Carbon Accounting Financials |
| PRA | Prudential Regulation Authority |
| RCSAs | Risk and Control Self-Assessments |
| SECR | Streamlined Energy and Carbon Reporting |
| SICR | Significant Increase in Credit Risk |
| TCFD | Task Force on Climate-Related Financial Disclosures |

# Awards and commendations received by Recognise Bank

Recognise Bank is proud to be acknowledged for its ongoing commitment to providing exceptional financial services to both personal and business customers. Over the past twelve months, our dedication to innovation and customer satisfaction has been reflected in a series of prestigious industry award nominations and acknowledgements.

## Winner, Best Monthly Interest Savings Provider, 2024 Moneynet Personal Finance Awards

Recognise Bank is delighted to announce its receipt of the Best Monthly Interest Savings Provider award at the 2024 Moneynet Personal Finance Awards. This recognition underscores our unwavering commitment to offering competitive savings rates and fostering trust with our personal savings customers. It represents a significant achievement, building upon the Highly Commended recognition we received from Moneynet in the previous year.

## Commended, Best Business Variable Rate Deposit Account Provider, 2024 Business Moneyfacts Awards

Recognise Bank was further honoured to be shortlisted and commended for Best Business Variable Rate Deposit Account Provider at the 2024 Business Moneyfacts Awards. This acknowledgement serves as a testament to our dedication to delivering exceptional financial services to our valued business customers.

## Shortlisted, Best Savings Account Provider, 2024 British Bank Awards

Recognise Bank is thrilled to have been shortlisted as a finalist for Best Savings Provider in the prestigious 2024 British Bank Awards, known within the industry as the 'Oscars in Financial Services'. Hosted by Smart Money People, these awards celebrate the pinnacle of achievement within the banking sector. To be recognised as a finalist is a significant accomplishment, representing a first for Recognise Bank.

These recognitions serve as a validation of our commitment to excellence. We remain dedicated to continuously improving our services and offerings to ensure we exceed the expectations of our customers.

# Recognise Bank customer stories

Recognise Bank has continued to support a wide variety of businesses with different lending requirements over the last twelve months. Below are some highlights:

## Facilitating a bridging loan for an innovative Canary Wharf co-living project

Recognise Bank provided a Bridging Loan amounting to £7,500,000 to support the costs associated with a visionary project in the centre of London's financial district. The redevelopment is set to encompass 795 units, a residents' lounge, cinema room, fitness studio, and gym. The funds from the Recognise Bank Bridging Loan will play a pivotal role in advancing this ambitious project.

Mark Slatter, of Olympian Homes, shared his satisfaction with Recognise Bank's service, saying, "Working with Recognise has been a great experience as they have been flexible but also acted quickly and very professionally. This facility will allow us to commence site investigation works, progress the scheme design to BSA Gateway 2 and demolish the existing structure in preparation for seeking an equity partner to build out the project. Many thanks to the team at Recognise for their support."

## Providing a £1.5million loan in just 28 days

The bridge loan facilitated the acquisition of a part-vacant modern office building situated on one of the premier business parks in Harrogate. Utilising title indemnity insurance and using the VAS valuation panel manager, the deal swiftly progressed from credit approval to completion in just 28 days, demonstrating Recognise Bank's commitment to expeditious and efficient service.

The Recognise team worked closely with Broker Gareth Rees of GDP Funding on this deal who commented, "This collaboration highlights the value of strong partnerships and efficient execution. The Recognise team performed brilliantly on this deal, exceeding our client's expectations and we look forward to further collaborations with Recognise in the future."

## 3 loans, 3 families, 1 brokerage

Recognise Bank ended 2023 with the provision of three bridging loans to three separate Cumbrian families introduced by a key brokerage – Lakeland Commercial Finance, based in Kendal.

Steve Dunne, Director at Lakeland Commercial said, "It was great to work with Recognise Bank across these three deals and will have no hesitation in partnering with the Bank in the future to accommodate our client requirements."

## Sustainable solutions to modern challenges, for a historic company

In September 2023, Recognise Bank announced its successful provision of a £5 million bridging loan to Darenth River Ballast Company Ltd. Darenth River, a company with a rich history spanning nearly a century, has embarked on an exciting venture to enhance land investments inherited across generations. This strategic financing will play a pivotal role in supporting the establishment of an advanced waste transfer station.

Mark Barrie of Azets, the introducer responsible for facilitating the deal, expressed his gratitude towards Recognise Bank's exceptional team. "The team at Recognise Bank were superb, from start to finish. The client is delighted with the whole process and the end result. I would certainly recommend Recognise Bank and the team who were outstanding! A real credit to the organisation."

# Chair's statement

As many of you will be aware, I became Chair of the Bank, subject to regulatory approval, on 1 November 2024, taking over from Phil Jenks, who will leave the Bank at the end of November.

Recognise Bank made progress in growing its business during the year, capitalising on the corporate restructuring in January 2023 and the subsequent capital raises in February and October 2023.

In addition to achieving an increase in its loan book of 148% to £303m and in deposits of 106% to £412m over the year, the Bank improved its financial performance, with the loss for the year reducing to £9m. Whilst losses have decreased as the balance sheet has grown, they remain higher than we would wish and progress since the year end has been affected by the continuing discussions on securing the capital required to support the future evolution of the Bank.

It is encouraging that the Bank continued to see high customer satisfaction scores as well as repeat business above the industry norms during the year, which indicate that our strategy of being best in class is succeeding. This is shown by the awards received during the year as well as our customer approval rates.

## Capital raise

Since the year end we have secured a further capital commitment from our majority shareholder Parasol V27 Limited ("PV27") - £20m in cash has been subscribed on 1 November 2024 and a further commitment of £5m is scheduled for October 2025 in a format to be agreed at that time.

As set out in the letter dated 4 November 2024 sent to shareholders, the Board intends to offer each shareholder (other than PV27) the opportunity to participate in a catch up subscription round on the same terms as the subscription from PV27.

## Restructuring

The additional capital underpins a restructuring of the Bank which will position it initially as a provider of structured property finance solutions but with the longer-term aim of building out a broader SME proposition. The restructuring will take 12 to 18 months and will result in a Bank that is achieving a return on equity at or above 10%, thereby generating capital to fuel the next stage of growth which will see returns improve towards the mid-teens range.

The Board anticipates taking a charge of up to £4m over the next twelve months to support the various initiatives within the restructuring programme.

## Board changes

As mentioned above, I have become the Non-Independent Chair. Moorad Choudhry is resigning as an Independent NED at the end of November to take on another NED role. Four new Independent NEDs are being appointed in November to ensure appropriate independent governance going forward. Christopher Kraft has been appointed as a non-independent non-executive director in place of Ruth Parasol who will instead become his alternate.

Simon Bateman, our new CEO, will replace Jean Murphy on the Board when she leaves the Bank.

## Management changes

As part of the restructuring, which will be implemented over the next few months, Simon Bateman was appointed as CEO designate on 4 November 2024, bringing significant financial services experience with a particular focus on technology and operations. He will take up his role as CEO subject to regulatory approval. He will be joined by Simon Wilson as our new Chief Risk Officer with effect from 1 December 2024, whose appointment is also subject to regulatory approval.

Simon Bateman is replacing Jean Murphy who will be staying with the Bank until 31 December 2024 to facilitate the handover. Additional members of the Executive Committee will be leaving the Bank in due course after new members have been appointed to take over their roles, including our current CFO, CCO and CPO, thus allowing the Bank to put in place arrangements for a smooth transition of roles.

I should like to take this opportunity to pay tribute on behalf of the Board to the leadership provided by Phil Jenks since 2019 when he was first appointed as Chair. I would also like to thank all other members of the Board and the Executive Committee who will be leaving as part of the restructuring for their contributions in establishing the Bank. In particular, I would note the key role played by Jean Murphy in strengthening the Bank's business during her period as CEO.

Overview / Chair's statement / continued

## Outlook

Whilst it is disappointing that the Bank has yet to achieve sustainable profitability, the steps now being taken should allow it to do so with a cost base that is appropriately aligned to the balance sheet trajectory, whilst maintaining a risk appetite that is appropriate for our level of capital resources.

I look forward to reporting positive progress towards these objectives in our next Annual Report.

**Steve Pateman**
**Chair**

22 November 2024

# Strategic report

## Financial summary

The consolidated results before tax of the businesses in the Bank are shown below:

| | 2024<br>£'000 | 2023<br>£'000 |
|---|---|---|
| Loss before tax | (9,007) | (12,975)[(a)] |

(a) Including one-off reorganisation and restructuring costs of £836,000.

The key indicators of development for the Bank during the year were:

| | 2024<br>£'000 | 2023<br>£'000 |
|---|---|---|
| Loan book at year end | 302,814 | 121,922 |
| Deposits at year end | 411,667 | 200,251 |

The Bank made substantial progress during the year following the increases in February and October 2023 of its capital base, which provided the springboard for further growth in its loan book. The loan portfolio increased by 148% from £121.9m to £302.8m at the year-end. Following the Bank's diversification on its entry into the Asset Finance market in April 2023, the loan book at the year-end included £31.4m Asset Finance loans. The impairment provision at the year-end increased to 1.2% of the gross loan book, up from 0.4% in 2023. This is primarily due to impairments on two loan exposures in legacy portfolios: the loan book overall continues to perform well.

Net operating income increased by 98% from £6.4m to £12.7m, reflecting both the increased loan book and a move towards higher value lending products, staying safely within the Bank's risk appetite. With strict cost controls in place throughout the year, operating expenses excluding impairment provisions increased by only 4% from £18.7m in 2023 (excluding one-off costs) to £19.4m. Headcount at the year-end was 69, excluding directors.

These two factors, together with a receipt of £0.8m from HMRC following the submission of R&D tax claims for 2021 and 2022, led to a substantial reduction in the loss before tax to £9m.

The Bank had a strong liquidity position at the year-end, as deposits increased by 106% from £200.3m to £411.7m. As part of our continuing treasury strategy to build funding across different maturities, the Bank offered 2-year and 3-year Fixed Rate Deposits in June 2023 which attracted £144.1m in the period to 30 September 2023.

### Current activities

The additional income generated by the growth in the loan book over the year to 31 March 2024 is coming through in the current year. The Bank's reported results will improve as the Bank moves towards profitability.

Since the year-end we have continued to work with our existing strategic partners, both in loans and savings, to generate new business and deposits.

The Asset Finance element of our loan book continued to grow over the period, with a further £9.2m generated in the 7 months to 31 October 2024. Our overall loan book on 31 October 2024 at £302.7m was very similar to that on 31 March 2024.

Deposits from retail and business savers increased by £24.9m to £436.6m at 31 October 2024, with the primary growth being in easy access deposits coming through our strategic partner, Insignis Asset Management Limited ('Insignis Cash'). We have recently begun to offer term deposits through Insignis Cash, so further diversifying our offerings to savers.

In May 2024, we received £0.5m from HMRC following submission of the R&D tax claim for 2023.

# Review of the businesses

## Activities during the year

The increase in the Bank's capital base in February 2023 enabled it to expand its business significantly over the year, building on the foundations already in place.

The Bank used an integrated value-based strategic planning approach during the year that, building on the Bank's existing strengths of a knowledgeable, experienced lending team and a cloud-based banking platform, identified how the Bank can best deliver its aim of becoming the UK's leading digital bank for the SME sector over the coming years. Implementation of the updated strategy contributed to the strong growth in both the loan book and deposits during the year.

The Bank continued to build a balanced loan book during the year increasing its exposure in shorter-term property secured bridging finance as well as residential buy to let term loans supporting professional landlords owning larger property portfolios, which complemented its existing commercial property lending. Demand for commercial property loans was significantly lower over this reporting period.

Lending opportunities are sourced through the Bank's business development team whose focus is on building long-term relationships with a network of brokers introducing new borrowers as well as direct loan origination from individual business development managers' own long-standing contacts. This origination channel is complemented by co-lending arrangements that have been established in the bridging sector to broaden the Bank's origination reach in this growing market.

The Bank has also sought to diversify its offering as part of its aim to extend its funding support of the SME community to promote the prosperity and growth of individual businesses. This diversification has been achieved during the year by entering the Asset Finance market in April 2023 through a Forward Flow arrangement with an established and experienced asset finance lender. Management of the Asset Finance book was brought in-house on 31 October 2024. Asset Finance loans are provided for business-critical assets such as commercial vehicles, plant and machinery.

As part of our strategic marketing plans, we undertook tactical advertising in trade publications to promote brand awareness as well as attending industry events, including The Finance Professional Show, the FIBA Annual Conference, Mortgage Business Expo and NACFB Commercial Finance Expo.

The Bank continued to attract savings from both business and personal savers during the year by offering competitive rates. We began partnering with Insignis Cash, a deposit aggregator, in December 2023, when our savings accounts became available on the Insignis Cash platform. These savings accounts, available initially only to business savers, became available to both personal and business customers in mid-March 2024 and have been popular with depositors. Overall savings balances more than doubled during the year with the portfolio at the year-end split 40:60 between business and personal savers. The liquidity position at the year-end was healthy, providing a platform for future growth.

The Bank continues to be committed to the SME sector and to being a digital bank offering relevant products and services to meet the changing finance needs of UK businesses and the savings requirements of both personal and business customers. It is building a bank that can offer customised lending and savings solutions to the SME sector which, although the backbone of the UK economy, continues to be under-served by the incumbent, traditional banks.

## A Digital Bank for SMEs

The Bank made progress on delivering its digital roadmap programme during the year to support the continuing growth of the Bank's activities and deliver a better experience for customers, colleagues and the business. The programme includes building a diversified and innovative product suite, developing cutting edge data analytics, and launching a proprietary credit decisioning engine.

The Bank submitted R&D claims to HMRC in respect of software development projects undertaken in the three years to 31 March 2023. It received payment of £760k during the year in respect of the claims for the two years to 31 March 2022 and £526k in May 2024 for the claim relating to the year ended 31 March 2023.

Strategic report / Review of the businesses / continued

## Capital

Following the capital raise of £25m in February 2023 which underpinned the Bank's growth during the year, the Bank obtained a further equity capital injection of £5m in October 2023 from the Bank's major investor, Parasol V27 Limited ("PV27"), to support its capital base.

Under the Subscription Agreement with PV27 signed on 1 November 2024, PV27 will inject up to £25m in the Bank, further increasing our capital base. The first tranche of £20m was received on 1 November and will be used to underpin a restructuring of the Bank and actively move the business to higher margin lending products, initially in property finance. The Board intends to offer other shareholders the opportunity to participate in a catch up subscription on the same terms as offered to PV27 for the first tranche.

## Regulatory

The Bank continues to fulfil all its regulatory obligations.

The Bank implemented the new Consumer Duty rules and guidelines during the year and, in furtherance of the importance the Bank places on acting fairly with its customers, Richard Gabbertas, Chair of the Audit Committee, has been appointed as its Consumer Duty champion by the Board.

# Risk management

## Our Approach

The Bank aims to manage the risks inherent in its day-to-day business activities through a combination of disciplined and diligent risk management alongside a proactive, risk aware culture where all colleagues understand their role in managing risk.

Our approach to Risk Management continues to evolve to reflect the changing risk landscape and notable activities this year include:

- investment in strengthening our cyber security controls, partnering with a globally recognised security managed services provider to complement our existing technologies with additional 24x7x365 support;
- successful embedding of Consumer Duty across the Bank, including the appointment of a Board 'champion';
- proactive, thematic credit reviews – regular thematic reviews of different aspects of the Bank's lending book are carried out by the Credit team and presented for discussion at Credit Committee and Board Risk Committee ('BRC'). Areas covered include, inter alia, specific lending products, larger loans, loans secured against retail properties, and loans secured against properties which analysis suggests may have fallen in value;
- enhanced corporate governance including revised Terms of Reference for the Board and Executive Committee ('ExCo') as well as revised Board and ExCo papers, supporting improved decision making; and
- reinforcing a positive risk culture via a series of informal and formal training sessions for all colleagues.

The Board believes five key components support effective risk management:

i. Risk Appetite

ii. Risk Management Strategy

iii. Risk Management Framework

iv. Governance

v. Culture

Further detail is provided on each of these areas below:

### i. Risk Appetite

The Risk Appetite Statement, which is approved by the Board, includes qualitative and quantitative measures of risk within which the Bank is willing to operate. Each risk appetite category is owned and reviewed regularly by a member of the Executive team and is independently reviewed by the Chief Risk Officer ('CRO'), with the position measured against risk appetites reported monthly to the Board.

### ii. Risk Management Strategy

The CRO leads a bank-wide annual reassessment of the risk management capability needed to support the business over the next 12 to 18 months and sets out any actions required to improve and develop the Risk Management Framework. This Risk Management Strategy is then subject to approval by the BRC, with progress on implementing any actions also reported regularly to the BRC.

### iii. Risk Management Framework

Recognise Bank operates the three lines of defence model:

- The first line of defence accepts, manages, and declines risks; owns the risks and implements controls and/or other methods to mitigate the risks, as required; and operates within the Board approved Risk Appetite Statements and supporting limits.
- The second line of defence (Risk and Compliance teams) supports the Board in establishing and maintaining the Risk Management Framework; provides independent challenge to the business; provides assurance through a risk and compliance monitoring and testing plan; provides independent reporting to the Board against risk appetite; and reports to the BRC.
- The third line of defence (Internal Audit) reviews the internal control environment, including culture and governance, and reports to the Audit Committee.

### Enterprise risk management

All business areas maintain risk and control self-assessments ('RCSAs') within an enterprise risk management system which records relevant risks and controls. RCSAs are subject to approval by members of the Bank Executive Committee ('Executives') and are subject to re-certification and approval at regular intervals which are set depending on the risk.

Material risks based on these RCSAs are reported to the Executive Risk Committee ('ERC') monthly and to the BRC on an exception basis (ie those risks which are outside risk appetite).

### Emerging risks

All colleagues, particularly Executives, are tasked with identifying emerging risks and ensuring these are adequately captured in the enterprise risk management system. The Bank maintains a risk radar which includes emerging risks identified from regulatory and industry publications. A list of the principal risks faced by the Bank and our approach to managing them is given below.

### Scenario testing

The Bank runs an annual programme of adverse scenarios, such as a cyber attack, to test the adequacy of controls and to self-assess our ability to remain within impact tolerances for Important Business Services using severe but plausible stress scenarios. The results of these tests, including any lessons learned, are shared with the Board on a regular basis.

## iv. Governance

The Board has overall responsibility for ensuring the Bank operates in a safe and sound manner and for establishing an organisational structure to discharge this duty.

The BRC is responsible for oversight of the Risk Management Framework. The Board Audit Committee is responsible for oversight of a risk based internal audit programme to provide assurance on the Bank's internal control environment.

Oversight is provided through the following committees that have been established by the Board as part of the risk management framework:

| Forum | Responsibilities |
|---|---|
| Board Risk Committee | Responsible for oversight of the Risk Management Framework of the Bank, including reviewing and approving Risk Appetite Statements, stress and scenario testing; key policies, principal risks and mitigants, the annual Compliance Monitoring Plan, overseeing exception reporting and approving management action plans. |
| Board Audit Committee | Responsible for oversight of the internal control environment of the Bank, including culture, risk awareness, and the effectiveness of internal controls. It oversees the Internal Audit function, reviewing and approving the annual Internal Audit plan and receiving the Internal Audit reports, and the annual Whistleblowing Report. |
| Executive Risk Committee | The Executive Risk Committee supports the BRC and is responsible for the oversight of all risk matters, including key documents relating to the Risk Management Framework of the Bank, other than those covered by the Asset and Liability Committee and Credit Committee, and for providing challenge to them. |
| Asset and Liability Committee | The Asset and Liability Committee ('ALCO') is responsible for oversight of the Bank's funding and liquidity risks, and for interest rate risk. It provides reports to the BRC to assist it in overseeing those risks. |
| Credit Committee | The Credit Committee is responsible for oversight of the credit risk profile of the Bank, including responsible lending, stress testing of the books, monitoring the credit risk profile and credit concentration, and monitoring arrears and loans in default. |
| Model Risk Committee | The Model Risk Committee is responsible for oversight of the use of, and reliance on, models in the Bank. |
| Business Change and Implementation Committee | The Business Change and Implementation Committee is responsible for approving and overseeing the implementation of all new products and services and any material changes to existing products and services. |

Strategic report / Risk management / continued

## v. Culture

The Bank understands the need for an open and clear risk management approach and the risk culture in the Bank is designed to facilitate:

- strong risk awareness across the organisation;
- a reward structure that aligns with risk appetite and reinforces the risk management culture;
- risk-aware decision making in line with strategic goals;
- clarity in roles and responsibilities within the three lines of defence; and
- risks being identified, quantified, managed and reported in a timely fashion.

All employees are provided with risk training as part of their induction and have on-going refresher training.

## Risk and Compliance functions

The Risk function, led by the CRO, and the Compliance function, led by the General Counsel, Chief Compliance Officer & MLRO, are responsible for oversight of risks in the Bank. This is achieved by:

- providing support and advice to the first line of defence;
- establishing the risk framework;
- monitoring the performance of the business against those risks; and
- reviewing action plans where risk appetite is, or is at risk of, being exceeded.

## All colleagues

All colleagues have a responsibility for risk identification and management. This includes the identification and assessment of risks, working openly and cooperatively with the second and third lines of defence and addressing recommendations or findings on a timely basis.

Each business area is responsible for maintaining clear processes, and managers are responsible for ensuring their staff have appropriate skills and/or experience and training for their roles.

## Principal risks and uncertainties

The objective of the Board is to set policies to manage and mitigate risk within acceptable levels whilst maintaining the Bank's ability to achieve its strategic objectives. The Risk Appetite Statement covers the Principal Risks identified in the table below.

| Risk Description | Key Mitigants and Controls | Commentary |
|---|---|---|
| **Strategic -** The risk that either the business model is not viable, or that the strategy will not be implemented successfully – with the outcome that the Bank does not achieve its strategic aims. | Regular forecasting which takes into account forecast economic circumstances, the actual outcomes to date compared to assumptions and which is subject to Board approval. | The Bank regularly reviews its strategy and during the last financial year has diversified both its sources of liquidity, through the use of a deposit aggregator, and its asset base through diversification into asset finance. The Bank has continued to invest in its digital capabilities to minimise the time required to decide on and execute lending decisions. |
| **Capital** - The Bank has (or will have) insufficient capital to address risks to which it is exposed – with the impact that the Bank may have to implement its Recovery Plan and/or Solvent Wind Down Plan. | Regular reporting of the actual and forecast capital positions of the Bank, including actual and forecast positions against capital risk appetite.<br><br>The Bank has capital contingency plans that set out the management of capital under business as usual, when the capital risk is increased, and if we are outside capital risk appetite. These are reviewed and approved by the Board annually. | As the Bank is not yet profitable, capital is a key risk for the Bank. We regularly review the position and closely monitor the capital run rate including headroom over regulatory and management buffers. |

Strategic report / Risk management / continued

| Risk Description | Key Mitigants and Controls | Commentary |
|---|---|---|
| **Liquidity** - The Bank has (or will have) insufficient liquidity resources to address liquidity risks to which it is exposed – with the impact that the Bank must implement its Recovery Plan. | Regular monitoring and reporting of actual and forecast liquidity positions, including the actual and forecast positions against liquidity risk appetite.<br><br>The Bank has a Recovery Plan that includes details on the management of liquidity under business as usual, when the risk is increased, and if we are outside liquidity risk appetite. It is reviewed and approved by the Board annually. | The Bank takes deposits from individuals and SMEs and has been successful in raising funds to support its lending and liquidity. A proportion of that funding is in fixed term deposits or notice accounts to reduce liquidity risk. |
| **Credit** - Risk that borrowers do not meet their obligations to a degree greater than anticipated – with the impact that current or future credit losses are greater than anticipated.<br><br>Risk that a cohort of borrowers is adversely impacted by a stress to a geographical area/ sector such that losses are greater than anticipated – with the impact that current or future credit losses are greater than anticipated. | Loans are subject to detailed underwriting that takes into account affordability, borrower experience, and the ability to maintain repayments under stress. The majority of our loan book is lending against real estate, which is directly secured by property collateral.<br><br>Lending and loan book quality is reported regularly and is subject to quarterly second line reviews that are reported to the BRC.<br><br>Lending is subject to stress testing using parameters that are at least as severe as the Bank of England annual scenario. | The Bank continues to originate loans at a robust credit quality. The risk rating of over 95% of the customer lending book is either Good or Strong and average LTVs on property lending remain robust.<br><br>The ECLs on our loan book are within our risk appetite. Lending staff work closely with borrowers to provide support and manage the risk of loss to the Bank. |
| **Third Party Risk** - The risk that the failure of a third party to perform impacts adversely on the Bank with the consequence that the Bank is unable to meet its obligations, there is customer harm, or the Bank suffers material loss. | The Bank operates a Third Party Policy that is subject to annual review and approval by the BRC.<br><br>Third parties are subject to assessment as Critical, Important or Other at inception. Depending on their classification they are subject to enhanced due diligence. The due diligence is repeated regularly: at least annually for Critical and Important third parties, and more regularly if the assessment deems that appropriate. | Our Critical and Important third parties are within risk appetite, and we are making a number of enhancements to our management of Third Parties to increase consistency and efficiency. |
| **Operational Resilience** - The risk that the Bank is subject to a disruptive event that results in material cost and/or significant customer harm and/or is one from which the Bank cannot recover. | The Bank operates an Operational Resilience Policy that is subject to annual review and approval by the Board.<br><br>The Bank stress tests severe but plausible scenarios and tests its ability to remain within Board approved Impact Tolerances for its Important Business Services.<br><br>The Bank performs regular self-assessments on Operational Resilience, reporting to the Board.<br><br>The Bank monitors a range of operational resilience indicators and reports to the Board monthly. | In line with regulatory expectations we have critically reviewed our Important Business Services and our ability to remain within impact tolerances.<br><br>The Bank is confident that it meets and will continue to meet regulatory expectations by the March 2025 deadline for implementing the Operational Resilience framework. The Bank has a regular schedule of scenario testing throughout the year with results reported to the Board. |

Strategic report / Risk management / continued

| Risk Description | Key Mitigants and Controls | Commentary |
|---|---|---|
| **Data** - The risk that the Bank is in breach of data protection regulations. | We have a Data Privacy Policy that is subject to annual review and approval by the BRC. We have processes and procedures which are designed and implemented so as to achieve compliance with that policy.<br><br>There is an annual review by the Data Protection Officer reporting to the BRC. | The last report by the Data Protection Officer concluded positively.<br><br>All employees are appropriately trained in GDPR and data protection matters. |
| **Cyber** - The risk that the Bank is subject to a successful cyber attack. | In the past year, we have made substantial investments to strengthen our existing controls. This has involved collaborating with a Managed Security Service Provider (MSSP) to establish a 24x7x365 Security Operations Centre. Additionally, we have enhanced our security posture with state-of-the-art solutions, enabling us to effectively identify, detect, prevent, respond to, and recover from potential threats.<br><br>The Bank employs a range of controls, including administrative, physical, and logical measures, to establish a defence-in-depth strategy against cyber threats in accordance with the risk appetite outlined by the board.<br><br>Regular exercises are conducted to test our response capabilities and identify areas for improvement. Additionally, we conduct monthly phishing simulations, sending emails to all employees that simulate real-life social engineering tactics employed by cybercriminals.<br><br>The Bank conducts RCSAs that are approved by executives. The second line conducts a programme of challenges to calibrate the RCSAs and ensure their suitability and effectiveness. | The risk of cyber attacks is on the rise, particularly with the proliferation of Generative AI and advancements in the digital landscape. Given the frequent targeting of financial services, the Bank regularly reviews its cyber strategy and tools, aligning them with both the Bank's overarching strategy and the evolving threat landscape.<br><br>Identified risks undergo assessment in accordance with the Bank's risk appetite, and appropriate actions are taken on a risk-by-risk basis. |
| **Operational** - The risk that a failed or inadequate process or human error results in a material loss or customer harm. | The Bank operates RCSAs which are approved by Executives. The second line undertakes a programme of challenges to calibrate the RCSAs and ensure they are fit for purpose.<br><br>All risks with a net score above a set level are reported to the Executive Risk Committee and BRC, together with any remediation plan. | Where risks are identified, these are monitored closely. All residual risks outside appetite are escalated to the BRC and risk owners are required to have an appropriate risk mitigation plan. |

Strategic report / Risk management / continued

| Risk Description | Key Mitigants and Controls | Commentary |
|---|---|---|
| **Conduct** - The risk that the Bank causes harm to some or all of its customers. This includes the failure to apply Consumer Duty principles to interactions with customers, or to identify and respond appropriately to customers in vulnerable circumstances. | The Bank has a Conduct Risk Policy that is subject to annual review and approval by the BRC. We have processes and procedures which are designed and implemented so as to achieve compliance with that policy.<br><br>A Conduct Risk dashboard is reported to the Executive Risk Committee monthly and to the BRC on an exception basis. | Experience indicates that the Bank is operating within its conduct risk appetite.<br><br>The Bank successfully implemented its Consumer Duty Programme and continues to monitor how it provides good customer outcomes. |
| **Compliance** - The risk that the Bank does not comply with its regulatory and legal obligations. | The Bank has a Compliance Risk Policy that is subject to annual review and approval by the BRC. We have processes and procedures which are designed and implemented so as to achieve compliance with that policy.<br><br>A Compliance Monitoring Plan is reviewed and approved annually by the BRC, with progress against it and the outcomes of the reviews being reported to the BRC and the Executive Risk Committee. | The Compliance Monitoring Plan has been updated and reflects more real time compliance advisory services to challenge and support the first line. |
| **Financial Crime** - The risk that the Bank is used to undertake and/or launder the proceeds of financial crime or to facilitate the financing of terrorism. | We have an Anti-Money Laundering and Counter Terrorist Financing Policy ('AML and CTF Policy') that is subject to annual review and approval by the BRC. We have processes and procedures which are designed and implemented so as to achieve compliance with that policy.<br><br>There is an annual review by the Money Laundering Reporting Officer ('MLRO') reporting to the BRC, as well as monthly updates.<br><br>The MLRO reviews compliance with the AML and CTF Policy across the lending and deposit taking portfolios, reporting to the Executive Risk Committee. | The Bank has recently augmented its monitoring and screening capabilities with new screening providers as it plans for future growth. |
| **Interest Rate Risk** - The risk that a change in market interest rates results in a material loss in value to the Bank. | The Bank's primary mitigation method is to monitor and offset gross interest rate exposures within its balance sheet (eg by matching interest rate risk on an asset against a liability with a similar repricing date).<br><br>The Bank also measures exposure to the standardised interest rate shocks, reporting to ALCO monthly. | The Bank has, throughout the year, operated within the IRRBB risk appetite. |

Strategic report / Risk management / continued

| Risk Description | Key Mitigants and Controls | Commentary |
|---|---|---|
| **Climate Risk** - The risk that loan assets are adversely impacted by climate change (eg flooding).<br>The risk that loan assets are adversely impacted by the transition to a low carbon economy. | Climate Risk impact of loans made by the Bank is assessed individually during the loan underwriting process.<br>The Bank measures and reports the loan book by EPC rating and flood risk. | In 2023, the Bank completed its first climate change scenario analysis and stress test. This analysis considered the Bank's exposure to physical and transition risks across three CBES scenarios and time horizons.<br>Following this exercise we have agreed a partnership with third party carbon accounting experts and we expect to be in a position to estimate and report our Scope 1-3 emissions (aligned to the PCAF and GHG protocol) in the next financial year. |
| **Regulatory Reporting** - The risk that the Bank fails to submit a report, does not report on time, or submits inaccurate regulatory reports. | The Bank has a Regulatory Reporting Policy that is subject to review and approval by ExCo.<br>Regulatory returns are subject to review and approval before submission, including reconciliation with management accounts and rationalisation of the movement in key indices. | Regulatory reporting deadlines have been met.<br>Re-submissions are monitored and this is within risk appetite. |

# Climate change

At Recognise Bank, we understand the critical role financial institutions play in driving a sustainable future and are committed to integrating environmental, social and governance (ESG) principles into our core business strategy, operations, and portfolio management.

The Bank's approach to managing climate change forms a fundamental part of our ESG strategy and continues to evolve in line with changing regulatory expectations, emerging industry standards and our growing balance sheet.

The following sections outline our plans and progress made to date across the four pillars of the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.

## Governance

The Board has overall responsibility for all ESG matters, including the Bank's strategic approach to climate change and the management of climate-related risks and opportunities. The oversight and management of these risks and opportunities is integrated into the Bank's governance structure, with aspects of climate governance delegated to Board and Executive level committees.

The Board delegates responsibility for managing climate-related risks to the BRC, which provides oversight of key decisions and monitors the Bank's performance across all metrics relating to our agreed climate-related Risk Appetite Statement.

Executive responsibility for the oversight of climate-related financial risks has been assigned to the CRO and is included in both his Statement of Responsibility and the Responsibility Map. The CRO chairs the Executive Risk Committee (ERC) which reports regularly to the BRC on a range of risks, including those related to climate change.

A dedicated ESG Working Group has been established with representation from key business functions across the Bank. This group oversees the planning and implementation of the Bank's climate and wider ESG initiatives and reports regularly to the Executive Risk Committee on progress against the agreed strategy.

The Bank has integrated ESG considerations, including environmental impact and climate change, into our processes, policies and procedures, such as our credit decisioning process, third party supplier assessment and product approval policy.

## Strategy

Our climate strategy aims to support the UK's transition to a sustainable economy by focusing our efforts on four key pillars across which we can have the most impact, aligned to our wider business strategy:

### 1. Finance the transition

As a lender, we are conscious that our most significant impact comes from our Scope 3 financed emissions. However, by targeting our lending towards businesses and projects that aim to have a positive impact on the environment, we believe this also represents our biggest opportunity.

We have identified opportunities to support customers with green lending products and are actively planning our first product launch. This may include extending additional discounted financing to our existing property-backed borrowers for energy efficiency upgrades, as well as increasing the number of electric vehicles funded via our Asset Finance proposition.

### 2. Support customers on their sustainability journey

Many of our SME customers have not had the time or resources to quantify their carbon impact or embed sustainability into their business. As a trusted partner to these businesses, we plan to support them to make progress in these areas through educational content, partnerships, and community engagement.

ESG considerations are already embedded into client conversations and present an opportunity to engage customers around sustainability and give them the confidence to commit to a transition plan that is right for their business.

### 3. Reduce our operational impact

While the Bank's operational impact across our offices in London and Manchester is likely to be limited, we recognise the need for improved measurement across our Scope 1-3 emissions. We will work with third party carbon measurement experts to establish a baseline measurement for Scope 1-3 emissions, including financed emissions.

Strategic report / Climate change / continued

Once these measurements have been established, the Bank will set reduction targets and identify improvement areas to build on the sustainable business practices we have already put in place, such as recycling in all offices.

### 4. Manage climate-related risk

The Bank has a well-established approach to managing climate-related risks and continues to regularly review these risks against our defined climate risk appetite. This is supported by scenario and stress testing which has to date found limited impact on the Bank arising from the financial impact of climate change.

The Bank has identified the principal climate-related physical risks and transition risks across short, medium and long-term horizons, as outlined below, and has identified key mitigants that it can adopt:

- regular measurement against the risk appetite, supported by the climate change stress testing model, which is outsourced to Deloitte;
- a strong underwriting process, including the assessment of climate change impacts on collateral being charged to the Bank;
- a suite of climate change metrics reported to the Credit Committee, including lending and the book EPC rating and flood risk; and
- regular customer and broker engagement to understand their needs and any changes in sentiment.

## Risk management

Climate change represents an inherent risk to the Bank, with potential impact on the economy, asset values, customer affordability and business operations. We consider climate-related risks across three categories:

- **Physical Risks:** These are the direct consequences of a changing climate, such as damage to/ decrease in the value of assets or business disruption due to severe weather events or longer-term changes in precipitation or temperature, resulting in increased flooding or subsidence.
- **Transition Risks:** These stem from the shift towards a low-carbon economy. The impact of the transition may affect a borrower's ability to meet its obligations as they fall due or reduce the demand for the Bank's products due to a changing customer appetite for sustainable lending.
- **Litigation Risks:** As climate change impacts become more severe, businesses could face legal challenges for failing to adequately address their environmental footprint or for misleading investors about their climate risks.

The Bank recognises the risk climate change presents and monitors climate-related risk as a principal risk.

### Risk appetite

A climate-related risk appetite statement has been developed and has been approved by the Board. It has been integrated into relevant processes and policies across the Bank, such as our credit underwriting process and third party supplier policies.

The Bank does not lend to borrowers in relation to fossil fuels, hazardous chemicals and explosives, mining and forestry/logging (other than as part of a green natural environment project).

Climate-related risks are considered as part of the lending decision process. The factors currently considered include the energy efficiency (EPC) and the flood risk to the property: we plan to expand the factors considered using third party supplier climate risk data.

The Credit Committee, ERC and BRC review and approve performance against the Bank's risk appetite limits, including those related to climate change.

### Risk Management Framework

Climate-related financial risks are covered in the Bank's Risk Management Policy and Risk Management Framework, across the Bank's three lines of defence model (as described on page 10).

Strategic report / Climate change / continued

## Scenario analysis and stress testing

In 2023, the Bank completed its first climate change scenario analysis and stress test in conjunction with Deloitte. This analysis considered the Bank's exposure to physical and transition risks across three CBES scenarios and time horizons and concluded that at present there is limited impact on the Bank arising from the financial impact of climate change.

The Bank has identified the continuing need to undertake regular climate change stress testing and will reconsider the impact on capital, taking into account regulatory guidance on capital for climate change financial risks and market practice as it emerges.

# Metrics and targets

The Bank monitors EPC and flood risk ratings for all property collateral to understand our potential exposure to transition and physical risks associated with climate change.

The following graphs show the EPC and flood risk ratings for these properties as at 31 March 2024.

| | **% of properties** | |
|---|---|---|
| **EPC Rating** | **2024** | **2023** |
| A to C | 25 | 20 |
| D to E | 59 | 70 |
| Below E | 2 | 1 |
| No ratings[(a)] | 14 | 9 |

(a) Properties with exemptions or where there is no building on the property.

| | **% of properties** | |
|---|---|---|
| **Flood Risk** | **2024** | **2023** |
| Very low | 35 | 24 |
| Low | 41 | 65 |
| Medium | 4 | 4 |
| High | 1 | 4 |
| No rating[(a)] | 19 | 3 |

(a) Includes properties where there is no building on the property and new properties not yet registered on the Environment Agency website.

Recognise did not meet the threshold under the SECR reporting requirement for emissions as of year-end 2023 and so has not reported its Scope 1 and 2 carbon emissions in 2024. However, the Bank recognises that developing metrics and targets is critical to its ability to monitor progress against its agreed climate strategy.

The Bank has engaged Greenly, a leading carbon accounting platform, to enable us to estimate and report our Scope 1-3 emissions (aligned to the PCAF and GHG protocol) next year.

The Bank has offices in London and Manchester. Electricity consumption in its London Head Office was 40,300 KWh, down 24% from 53,100 KWh in 2023 when there was an office relocation. Using the latest government combined emissions factor for grid electricity, this equates to 9.1 Tonnes $CO_2$. Its Manchester office is a serviced office where the Bank does not have responsibility for energy costs.

The Bank does not operate a company car scheme. Staff who undertake work-related travel can claim expenses. During the year to 31 March 2024, the Bank has met expenses claims for 5,100 miles (2023: 6,800 miles) of work-related fuel expenses. This excludes journeys by train or air, where there was no incremental use of fuel.

# Going concern

The directors' assessment of going concern has included a detailed review of the base case and stressed Group cash flow forecasts for the period to 31 December 2025.

In making their going concern assessment the directors have considered:

- the capital structure and liquidity of the Group over the period;
- the principal and emerging risks facing the Group and its systems of risk management and internal control;
- uncertainties in the UK economic outlook and actions the Group could take to mitigate the impact on Recognise Bank;
- the raising of capital by the Bank to support the growth of the Bank in serving the SME market;
- the capital and liquidity forecasts of the Bank, undertaking stress scenarios which include the effects of incurring greater losses from loan defaults and wider stress in the financial markets and economy impacting cash inflows and outflows; and
- any potential change in capital requirements mandated by the PRA following the significant changes described in the Chair's statement on page 5.

The Board has also considered the Board and management changes and associated handover arrangements outlined in the Chair's statement on page 5.

The Board assesses its future capital and liquidity requirements regularly and, as part of its overall strategy, develops plans to access new funding as and when required. The Bank prepares annual budgets that include budgeted cash forecasts and funding requirements which have been reviewed by the Board and form part of the submission made by Recognise Bank to the PRA.

## Risk factors

The main financial risk in the forecast cash flows is the potential impact on the Bank's capital of credit losses that could arise in the modelled stressed market environment. The main non-financial risk arises from the operational risks attaching to the transition of Board and Executive membership linked to the evolution of the Bank's business model and described in the Chair's Statement on page 5.

## Conclusion

After consideration of the capital and liquidity forecasts following the commitment of a further £25m capital from the majority shareholder, together with related stresses, and the specific risk factors identified above, the directors are satisfied that the Bank and the Group have and will maintain sufficient financial resources to enable them to continue operating for the foreseeable future and therefore continue to adopt the going concern basis in preparing the annual report and accounts.

# Section 172 statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, amongst other matters to:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

## Decision making

An example of how the directors have had regard to the matters set out in the section 172 statement and acted to promote the interests of the Company for the benefit of its members as a whole is given below.

During the year, the Board has promoted the continuing development of the Bank by supporting measures that strengthen the resilience of the business. With the directors' encouragement of the Bank's on-going development of relationships with strategic partners, both in relation to lending and attracting deposits, the Bank is extending its reach within both the SME business community and retail depositors and with the development of new business channels, is better placed to offer customised lending and savings solutions.

## Culture

The Board is committed to a culture of openness and transparency in relation to its stakeholders, including its staff, supported by a comprehensive framework of key policies and practices. This is underpinned by the Bank's values and behaviours which serve as the guiding principles shaping the culture, decisions and actions of both the Board and staff. The values and behaviours (see inside cover) have been refreshed and streamlined this year, aligning each with the Bank's strategic goals.

The Board believes that diversity, equality and inclusion are intrinsic to the success of the business, promoting good employee relations and enhancing the service provided to customers. This is reflected in the Bank's policies, including a new Recruitment Policy which ensures a fair, transparent and consistent process.

## Stakeholder engagement

The Board recognises the importance of building strong relationships with stakeholders in order to help the Bank deliver its strategy and promote the development of the business over the long term. The members of the executive team report to the Board on the effectiveness of and outputs from, stakeholder engagement, so that the Board can take the views of stakeholders into account when making decisions.

The key stakeholders are considered to be shareholders, regulators (in particular the PRA and FCA), customers and employees, as well as the wider community and environment.

Given the size of the business and the small number of employees, employee engagement continues to be undertaken by ExCo, with any issues being escalated to the Board. The Board will continue to keep this under review to ensure the mechanisms in place remain effective and appropriate.

Information about the appointment, skills and knowledge of the directors in relation to their statutory duties and other matters where appropriate is given in the Governance statement on page 27.

The importance of each stakeholder group and some ways in which the Board has engaged with the Group's stakeholders during the year are outlined below.

Strategic report / Section 172 statement / continued

## Shareholders

Shareholders are essential to the Company's ability to access capital to support its strategic objectives and ensure the long-term success of the business.

Through the Chair and Bank executives, the Board maintains a continuing dialogue with existing shareholders in the context of increasing the Bank's future capital base to enable its long-term development.

The Company also communicates with its shareholders through:

- annual reports;
- its website; and
- Annual General Meeting.

The Bank continues to support a matched bargain trading facility that operates through the Asset Match platform, as an electronic off-market dealing facility. The facility enables minority shareholders to trade in the Company's shares by matching buyers and sellers through periodic auctions (see Shareholder information on inside back cover). Full details are available on the Company's website at www.recognisebank.co.uk.

## Regulators

The Bank operates only with the support and approval of its regulators.

The Bank seeks to maintain an open and active dialogue with its regulators and strives to meet and exceed the regulators' requirements at all times: this is a fundamental premise underlying the Bank's Regulatory Reporting Policy.

The Bank is operating under the Senior Managers and Certification Regime.

## Customers

Customers are the focus of the Bank's business.

The Bank is committed to providing a customer-focused service to the SME market through its relationship-led business model as a full-service digital bank, offering relevant products and services to meet the changing needs of customers. The four customer stories on page 4 show how the Bank has been able to respond to and support businesses with differing requirements during the year.

Following the introduction of the new Consumer Duty rules issued by the FCA, the Board has demonstrated its commitment to ensuring that dealing fairly with customers continues as a main priority of the business by appointing Richard Gabbertas, the Chair of the Audit Committee, as the Bank's Consumer Duty Champion.

## Employees

The Bank's employees are essential to the Bank's ability to operate.

The Board believes in creating an open culture where all colleagues can thrive, feel supported and valued, and are able to develop and grow their careers. The Bank is undertaking a review of its organisational structure to ensure that everyone understands where they fit into the business and its strategy and to provide clear career paths and opportunities.

A comprehensive employee engagement survey was carried out at the end of 2023 which provided strong results. This has provided a baseline engagement level which will continue to be monitored through annual surveys.

The Bank continues to focus on equality, with 42% of leadership roles held by females. We have renewed our membership of Women in Banking and Finance this year which provides support and networking opportunities for individuals in the Bank.

An ESG Working Group is in place to monitor and report specific targets and benchmarks that have been agreed by the Board for the Environment, Social and Governance aspects of the business.

The Bank continues to follow a hybrid working model which promotes a healthy work-life balance.

Strategic report / Section 172 statement / continued

## Environment

The Bank recognises climate change as a serious global issue with potentially significant implications for customers, employees, suppliers and partners of the Bank.

The Bank has an Environment and Sustainability Policy that it applies in its business. As stated in the section on Climate Change on page 17, following completion of the first climate change scenario analysis last year, the Bank identified a continuing need to undertake regular climate change stress testing. The Bank is working with Greenly, a leading carbon accounting platform and expects to be in a position to estimate and report its Scope 1 -3 emissions (aligned to the PCAF and GHG protocol) next year.

The Bank continues to consider how it may promote positive environmental and sustainability activity.

## Preparation of Strategic report

This Strategic report has been prepared to allow the shareholders to assess the Bank's strategy and the potential for that strategy to succeed. The Strategic report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties underlying such forward-looking statements.

Signed on behalf of the Board

**Steve Pateman**
**Chair**

22 November 2024

# Board of Directors

## Philip Jenks

Independent Non-executive Director (Independent Chair until 1 November 2024)

**Appointment**

1 May 2019

Philip has had a long and successful career in banking, including as a Non-executive Director for Leeds Building Society between 2011 and 2020. He was an Independent Non-executive Director and then Chair at Chartercourt Financial Services Group during its successful banking licence application. In 2015 Philip was involved in the launch of Charter Savings Bank, followed by its successful IPO in 2017. Philip is also a non-executive director of Chetwood Financial Limited.

In addition to being Chair of Recognise Bank Limited until 1 November 2024, Philip chairs the Remuneration, Nominations & Independent Oversight Committee and is a member of the Audit Committee.

Philip will step down at the end of November to be replaced by Steve Pateman, subject to regulatory approval.

## Jean Murphy

Executive Director

**Appointment**

4 August 2022

Jean has over 25 years' experience of banking and capital markets for several leading global institutions as well as being an experienced investor and entrepreneur. Most recently she founded a successful wealth management business catering to wealthy families and individuals in Europe and the US investing across multiple asset classes globally. She previously held senior roles at a number of international banks, including Director of Private Banking at Morgan Stanley and Executive Director of Goldman Sachs Wealth Management Division and was also involved in building a wealth management business founded by former partners of Goldman Sachs.

Jean is also on the boards of Barts Charity, a 900-year-old charity supporting care excellence in East London and world-leading medical research, and of the Old Vic Endowment Trust. Jean graduated from Cambridge University with a degree in Computer Science and Philosophy.

Jean will step down by the end of the year to be replaced by Simon Bateman, subject to regulatory approval.

## Moorad Choudhry

Independent Non-executive Director

**Appointment**

17 June 2019

Moorad was latterly Treasurer, Corporate Banking Division at The Royal Bank of Scotland, and is Honorary Professor at University of Kent Business School. During a 30-year career in the City of London, Moorad's positions included Head of Treasury at KBC Financial Products, Vice President in structured finance services at JPMorgan Chase and government bond primary dealer at ABN Amro Hoare Govett Limited. Moorad is also a non-executive director of The Loughborough Building Society.

Moorad is a Fellow of the Chartered Institute for Securities and Investment, and a Freeman of the Worshipful Company of International Bankers. He is author of The Principles of Banking (John Wiley & Sons 2012).

Moorad is a member of the Audit, Risk and the Remuneration, Nominations & Independent Oversight Committees.

Moorad will step down at the end of November 2024.

Board of Directors / continued

## Richard Gabbertas

Independent Non-executive Director

**Appointment**

1 February 2019

Richard studied economics and law before qualifying as a chartered accountant and joining KPMG in 1980, becoming a partner in 1995. He spent 23 years in the Financial Services Practice and led the Regional Financial Services Practice, providing audit and advisory services to a range of household names, from established FTSE 100 banks and building societies, through to new entrants. He has extensive knowledge of financial services and a deep understanding of banking regulation. Richard is Chairman of the Audit Committee at the Arbuthnot Latham banking group.

Richard is Chair of the Audit Committee and is also a member of the Risk and the Remuneration, Nominations & Independent Oversight Committees. He is the Bank's Consumer Duty Champion and Whistleblowing Champion.

## Simon Wainwright

Senior Independent Non-executive Director

**Appointment**

1 February 2019

Simon has 40 years' experience in global banking and insurance. He is Executive Vice President and Head of Europe, Middle East and Africa at global reinsurer Reinsurance Group of America (RGA). Prior to this, Simon held several senior positions at HSBC, including CEO, HSBC Ireland; Head of Business Banking, UK; and COO, Commercial, Corporate and Structured Finance. Simon is also a non-executive director of National Counties Building Society. He holds degrees from The London Institute of Banking and Finance, Oxford Brookes Business School and Henley Business School, and is also a Chartered Director, IOD.

Simon is the chair of the Risk Committee and is a member of the Remuneration, Nominations & Independent Oversight Committee.

## Ruth Parasol

Non-Independent Non-executive Director

**Appointment**

9 October 2020 until 1 November 2024, following which she remains as the alternate for Christopher Kraft

Ruth is one of the world's most successful female entrepreneurs and an astute investor. With a self-made portfolio of over $1bn, she and her international team excel in real estate, asset management and private equity.

A British citizen and multi-national, Ruth was raised in California. She graduated from law school in 1993 and was immediately drawn to the Information Highway boom of early Silicon Valley. An internet pioneer in 1995 in fintech and gaming she was an early adopter and founder of back-office India-based software development. She has a deep-rooted passion for innovation and applied technology to solve problems.

Ruth was the first woman to IPO her company, Party Gaming Plc, onto the LSE FTSE 100 in 2005 for then record valuations. Party Gaming Plc was at the time the world's largest online poker room.

Ruth is the Principal Benefactress of The Parasol Foundation Trust which she established in Gibraltar in 2004. Working with her close-knit Gibraltar based team it has awarded over £40m to date to a range of initiatives in the UK, Gibraltar, Israel and the USA. She is determined to create opportunities for women to achieve their potential, particularly in STEM (science, technology, engineering and medicine) but also in the arts and sport.

Ruth is a long-time resident of Gibraltar and has lived in Israel. She divides her time between Gibraltar and London where her children attend school.

Board of Directors / continued

## Steve Pateman

Non-Independent Non-executive Director (Chair since 1 November 2024)

**Appointment**

19 January 2024

Steve has over 40 years of experience in several banking disciplines: after a number of years at the Royal Bank of Scotland where he led the Corporate, Commercial and Business Banking Divisions, he joined Santander UK taking responsibility for their UK banking activities and joining the Board. In 2016, he became CEO of Shawbrook and after the business was taken private, joined Hodge as CEO of its banking and life assurance businesses. After a brief spell as CEO of the Arora Group, he led the project to secure a banking licence for StreamBank, standing down as CEO in December 2023.

Steve is a Non-Executive Director at Bank of Ireland, AHH Investment Management and Thin Cats and is currently serving the final year of a 3-year term as President of the Chartered Banker Institute. Steve holds an honorary doctorate from the University of Kent.

Steve became the Non-Independent, Non-executive Chair on 1 November 2024, subject to regulatory approval.

## Christopher Kraft

Non-Independent Non-executive Director

**Appointment**

1 November 2024

Christopher is Chief Commercial Officer at atomos (formerly Sanlam Wealth), a position he has held since March 2022. Previously, he was Chief Operating Officer of True Potential LLP, a financial service and technology firm servicing the IFA market in the UK. Prior to joining True Potential LLP in 2019, Christopher spent 10 years at Perella Weinberg Partners, a leading global independent investment banking firm, covering the wealth and asset management market in the UK and Europe. Christopher started his career at Lehman Brothers in London.

Christopher holds a Master's Degree from École Supérieure de Commerce de Paris (ESCP Business School).

# Governance statement

While the Bank is not required to comply with the FRC's Code of Corporate Governance ('the Code'), it has had regard to its provisions when developing its corporate governance arrangements, as set out below. A copy of the Code, which is issued by the Financial Reporting Council, is available from the Financial Reporting Council's website https://www.frc.org.uk/

## ROLE OF THE BOARD

The Board's role is to ensure the long-term success of the business by implementing the Bank's strategy and business plan, overseeing its affairs and providing constructive challenge to management as it does this. In addition, the Board oversees governance, internal controls and risk management. The Board has clearly defined responsibilities set out in a formal schedule of reserved matters which includes:

- setting the Bank's strategy;
- approving any major changes to the Bank's structure or share capital;
- approving the annual report and accounts and shareholder communications;
- ensuring a sound system of internal controls and risk management;
- approving major contracts;
- determining the remuneration policy (on the recommendation of the Remuneration, Nominations & Independent Oversight Committee); and
- making appointments to the Board and other offices.

To assist the Board in carrying out its functions, the Board has delegated certain responsibilities to its Audit, Risk and Remuneration, Nomination & Independent Oversight committees, all of which operate within a scope and remit defined by specific terms of reference determined by the Board and reviewed regularly. Further details including the composition and role of each of these committees are provided on pages 10, 28 and 30.

The Strategic Report contains a Section 172 statement which summarises the Board's engagement with the Bank's stakeholders and the ways in which these have been taken into account in the Board's decision making.

## ROLE OF THE CHAIR

The Chair is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items. The Chair promotes a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between non-executive directors and Bank executives.

Jean Murphy, Chief Executive Officer of Recognise Bank and Marina Gosling, Chief Financial Officer support the Chair and are responsible for managing day-to-day operations and implementing the Bank's strategy.

## THE BOARD

The Board currently comprises seven directors of whom four are independent. Biographical details of directors together with details of their significant commitments are set out on pages 24 to 26 of this report. The Board therefore has a majority of independent non-executive directors.

## THE DIRECTORS

The directors possess a wide range of skills, knowledge and experience relevant to the leadership of the Bank, including banking, financial, regulatory, technology and industry experience as well as the ability to provide constructive challenge to the views and actions of executive management in meeting agreed goals and objectives.

Governance statement / continued

## BOARD PROCEDURES

Board meetings are an important way in which the directors discharge their duties, particularly under section 172 of the Companies Act 2006. The Board meets at least ten times each year with additional meetings scheduled when required.

At each meeting, the Board receives regular business updates as well as financial, strategic, performance and governance updates.

Following each sub-committee meeting, the Chairs of the Audit, Risk and Remuneration, Nominations & Independent Oversight Committees provide updates to the Board on the key issues and topics discussed, as well as any matters for escalation or the Board's approval.

Ahead of each board and sub-committee meeting, agendas are agreed in advance by the relevant Chair, and papers are circulated to provide Board and sub-committee members with sufficient time to consider the matters to be discussed.

There is an agreed procedure for directors to take independent professional advice, if necessary, at the Bank's expense. This is in addition to them having access to advice from the company secretary.

## CONFLICT OF INTEREST

Directors' declarations of interest is a regular Board agenda item. A register of directors' interests (including any actual or potential conflicts of interest) is maintained and reviewed regularly to ensure all details are kept up to date. Authorisation from the company secretary is sought prior to a director taking on a new appointment or if any new conflicts or potential conflicts arise.

## BOARD EVALUATION

An evaluation including an independent governance review was conducted initially in January 2023 and again in September 2023 to assist Recognise Bank in its next phase of growth and development, including longer-term succession plans for the Board and senior executives at the Bank.

## APPOINTMENT, TENURE AND RE-ELECTION

The Board may appoint a director as it thinks fit. The appointment of any new director is made on the basis of assessing the candidate's merits and measuring his or her skills and experience against the criteria for the role.

The Bank will follow its Diversity, Equality and Inclusion Policy when any future appointments to the Board are made. The Bank is committed to ensuring that the Bank's directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives. The Board will always look to appoint the best candidate for the role advertised and will not discriminate on any grounds including gender, race, ethnicity, religion, sexual orientation, age or physical ability.

All non-executive directors continue to dedicate sufficient time to meet their Board responsibilities.

It is the intention of the Board that the Chair should not remain in post beyond nine years from the date of first appointment to the Board.

The Board has considered and reviewed the effectiveness of each non-executive director, taking into account the results of previous Board evaluations and any factors that may affect, or could appear to affect, a director's judgement and, where relevant, independence. The Board confirms that each non-executive director continues to demonstrate the necessary commitment and to be a fully effective member of the Board.

The Bank considers the annual re-election of directors to be good corporate governance and has therefore chosen to follow this practice. On the basis of the effectiveness review of the Board and individual directors, noted above, the Board will endorse the re-election of relevant directors at the annual general meeting. It is the intention to appoint four new independent non-executive directors in November 2024 to facilitate the timely departures from the Board of Phil Jenks and Moorad Choudhry.

## AUDIT COMMITTEE REPORT

The current members of the Audit Committee are Richard Gabbertas (Chair), Philip Jenks and Moorad Choudhry. Richard Gabbertas has relevant experience as a chartered accountant and as a senior auditor at a top four Audit firm.

Other individuals, including the other directors and representatives from the finance function, are invited by the committee to attend meetings from time to time.

Governance statement / continued

## FINANCIAL RESULTS

The Audit Committee reviewed the full year financial results before they were considered by the Board, including the going concern statement, and the information to support it. The committee is responsible for considering and reporting on any significant issues that arise in relation to the audit of the financial statements and considered the following significant issues that had been identified:

- Going concern, having regard to the assumptions made by the Bank in preparing detailed forecasts on both 'most likely' and 'reasonable worst case' scenarios for the period of at least 13 months from November 2024 and the main risk factors that apply.
- Provision for impairment on loans in accordance with IFRS 9, which requires the impact of future events on expected credit losses to be assessed in determining the provision for impairment. Other relevant factors are criteria used to assess the staging of individual exposures and the risk profile of individual loan categories. These all increase both the level of judgement required and the inherent subjectivities.
- Recognition of revenue (interest income) where there is a risk that revenue may be overstated.

The above risks were discussed with the auditors at the Audit Committee.

## EXTERNAL AUDITORS

The Audit Committee considered the scope and findings of the external audit as well as the independence and objectivity of the external auditors. Recognise Bank Limited has been a public interest entity ('PIE') since 10 November 2020 and the external auditors do not provide non-audit services to the Bank that are impermissible under the relevant FRC guidance. The audit fees for the year under review appear in note 9 on page 65.

The Audit Committee normally meets with the external auditors without management being present at least once a year at the time of the approval of the full year results.

PricewaterhouseCoopers LLP have been the external auditors of the Bank and its subsidiaries in both 2023 and 2024. The appointment of PricewaterhouseCoopers LLP is reviewed by the Committee each year, taking into account relevant legislation, guidance and best practice. As part of its deliberations, the Committee considered the effectiveness of the audit process for the current year by discussing the results of the external audit, including PricewaterhouseCoopers LLP's views on material accounting issues and key judgements and estimates, considering the robustness of the audit process, reviewing the quality of the people and service provided by PricewaterhouseCoopers LLP and assessing their independence and objectivity. The Committee was satisfied with the effectiveness of the external audit process.

## INTERNAL AUDIT

Recognise Bank has appointed Deloitte to provide its fully outsourced internal audit function.

In addition to providing quarterly updates on the status of the Internal Audit Plan, Deloitte prepares an annual report summarising Internal Audit findings and identifying themes and areas for future focus in respect of governance, risk management and culture. In the Audit Committee's opinion there were no material adverse findings that arose from Internal Audit's work. The Audit Committee has reviewed the work of the Internal Auditors and believes it to be effective.

## BOARD REVIEW OF INTERNAL CONTROLS AND RISK MANAGEMENT

There is an ongoing process, which is kept under regular review by the Board, for identifying, evaluating and managing, rather than eliminating, significant risks faced by the Bank. The Board believes that the Bank's system of internal controls outlined below continues to be appropriate for the business.

The directors acknowledge their responsibility for the Bank's system of internal and financial controls, including suitable monitoring procedures, in order to provide reasonable, but not absolute, assurance on the maintenance of proper accounting records and the reliability of the financial information used in the business. The Board has reviewed the effectiveness of the system of internal controls which operated during the period covered by this directors' report and accounts.

Governance statement / continued

The key controls are:

- clearly defined organisational responsibilities and limits of authority;
- established procedures for authorisation of capital expenditure and investment of cash resources;
- production of monthly management accounts which are compared with budget together with a review of detailed KPIs and explanation of key variances;
- monthly bank and key control account reconciliations;
- payment authorisation controls;
- the maintenance of detailed risk registers which include analysis of all the key risks facing the Bank, including emerging risks. These are reviewed and assessed by the Board Risk Committee and the full Board; and
- the monitoring and control of credit risks by the Credit Committee that sets loan sanctioning limits for the Bank's lending businesses.

The respective responsibilities of the directors and the auditors in connection with the financial statements are explained on pages 33 and 38. The directors' statement on going concern is on page 20.

The Section 172 statement is on pages 21 to 23.

The directors confirm that they consider the annual report and accounts, taken as a whole, to be fair, balanced and understandable and provide the information necessary for shareholders to assess the Bank's position and performance, business model and strategy.

## REMUNERATION, NOMINATIONS & INDEPENDENT OVERSIGHT COMMITTEE

The Remuneration, Nominations & Independent Committee comprises Philip Jenks (Chair), Simon Wainwright (Senior INED), Richard Gabbertas, Moorad Choudhry and a nominated representative of the majority shareholder. Other non-executive directors are invited to attend meetings of the committee.

The role of the Remuneration, Nominations & Independent Oversight Committee is to:

- develop the policy on remuneration for executive directors and senior management and determine specific remuneration packages for executive directors. No director is involved in discussions or decisions on their own remuneration. The remuneration of the non-executive directors is determined by the Board;
- review the structure, size and composition of the Board and its sub-committees, ensuring there is a balance of skills, experience and knowledge;
- conduct the evaluation of the performance of the Board and sub-committees as well as that of individual directors;
- manage the process for the appointment of new directors to the Board;
- monitor succession planning for both the Board and management, taking into account the challenges and opportunities facing the Bank and the skill and expertise likely to be needed in future; and
- oversee any actual or perceived conflict of interest relevant to the Bank.

By order of the Board

**G M Kingsbury**
**Company Secretary**

22 November 2024

# Directors' report

This is the Directors' report for the year to 31 March 2024.

## RESULTS AND DIVIDENDS

The results for the Group are set out on page 40.

No dividends were declared during the year (2023: nil).

## EVENTS SINCE THE YEAR END

Information on post balance sheet events is set out in note 31.

## FUTURE DEVELOPMENTS IN THE BUSINESS

Information on future developments is included in the Strategic report.

## FINANCIAL RISK

Risk management, including financial risk management, is reported on in pages 10 to 16 of this annual report.

## PRINCIPAL ACTIVITIES

Recognise Bank focuses on providing banking and associated financial services to the UK SME market. The Bank has no branches.

## DIRECTORS

Details of directors who served during the year are as follows:

- Moorad Choudhry
- Richard Gabbertas
- Bryce Glover – resigned 28 April 2023
- Philip Jenks
- Jean Murphy
- Ruth Parasol – alternate from 1 November 2024
- Steven Pateman – appointed 19 January 2024
- Simon Wainwright

In addition to the above, Vikrant Udeshi was an alternate director to Ruth Parasol until 20 June 2023 when he resigned and was replaced by Nyreen Bossano-Llamas on that date. Nyreen Bossano-Llamas resigned on 1 November 2024.

Christopher Kraft was appointed as a Non-Independent Non-executive director on 1 November 2024 in place of Ruth Parasol who became his alternate from that date.

Except as shown above, there have been no changes in directors up to the date of signing the accounts.

Biographical details of the current directors are given on pages 24 to 26.

## SHARE CAPITAL

Details of the share capital of the Bank in issue during the financial year and changes to it can be found in note 25.

## DIRECTORS' INDEMNITIES AND INSURANCE

The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, the Company may indemnify any director or former director in respect of liabilities (and associated costs and expenses) incurred in connection with the performance of their duties as a director of the Company or any subsidiary and may purchase and maintain insurance against any such liability. The Company maintained directors' and officers' liability insurance throughout the year.

Directors' report / continued

## POLITICAL DONATIONS

No political donations were made in the year (2023: nil).

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The statement of directors' responsibilities is set out on page 33 of this annual report.

## SECTION 172 STATEMENT

The Section 172 statement is set out on pages 21 to 23 of this annual report.

## FINANCIAL INSTRUMENTS

Details of the financial instruments to which the Group is a party are included in note 4 to the financial statements.

## AUDIT INFORMATION

In accordance with section 418 Companies Act 2006, each of the directors confirms that:

i. so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and

ii. they have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of such information.

## INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP have expressed their willingness to continue in office and a resolution proposing their reappointment as auditors will be put to members at the annual general meeting to be held on 14 January 2025.

## ANNUAL GENERAL MEETING

The Bank will hold its Annual General Meeting at 2.00pm on Tuesday 14 January 2025 at its London office. The notice of meeting will be sent to shareholders in mid-December 2024.

By order of the Board

**G M Kingsbury**
**Company Secretary**

22 November 2024

# Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, annual 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 Group and Company financial statements in accordance with UK adopted international accounting standards.

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 Group and the Company and of the profit or loss of the Group for that period.

In preparing these 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 they have been prepared in accordance with UK adopted international accounting standards, 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 Group and 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.

## WEBSITE PUBLICATION

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained on the website.

By order of the Board

**Steve Pateman**
**Chair**

22 November 2024

# Independent Auditors' report to the members of Recognise Bank Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, Recognise Bank Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2024 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2024 (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 March 2024; the consolidated statement of comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company or its controlled undertakings in the period under audit.

### Our audit approach

#### Overview

Audit scope

- As part of designing our audit, we determined materiality and assessed the risks of material misstatement to the financial statements of the group and the company. Audit procedures have been performed over all material account balances.

Key audit matters

- Loans and advances to customers (group and company)

Materiality

- Overall group materiality: £1,417,000 (FY23: £1,317,000) based on 0.3% of total assets.
- Overall company materiality: £1,346,000 (FY23: £1,340,000) based on 0.3% of total assets.
- Performance materiality: £850,000 (FY23: £658,000) (group) and £807,000 (FY23: £670,000) (company).

#### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Independent Auditors' report / continued

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Loans and advances to customers (group and company)* | |
| As at 31 March 2024 loans and advances to customers amounted to:<br>• £302.8m net of expected credit losses ('ECL') of £3,579k (group)<br>• £302.7m net of expected credit losses of £3,547k (company)<br><br>Loans and advances primarily comprise commercial property, professional buy-to-let, bridging loans and asset finance loans provided to small and medium enterprise customers. These loans are initially recognised at fair value inclusive of transaction costs such as broker costs and up-front fees received and are subsequently measured at amortised cost using the effective interest rate method.<br><br>The loans and advances to customers balance is the most significant asset held on the group and company balance sheets, and testing the existence, accuracy and valuation of the loan portfolio is an area where significant time and focus was required during our audit. It is therefore considered to be a key audit matter.<br><br>Relevant disclosures are included within: Note 2.9.2 (b) Loans, trade and other receivables; Note 4.2 Financial risk management; and Note 16 Loans and advances to customers. | We obtained an understanding of the loans and advances to customers business process and assessed the design and implementation of relevant controls. The audit was substantive in nature and included the following substantive procedures:<br><br>Agreed key loan data points within the core banking system to executed loan agreements for a sample of loans. This included confirming original principal amounts, interest rate, origination and maturity date, geographical location and other borrower information.<br><br>For all loan products apart from asset finance we used data auditing techniques to recalculate closing balances using account-level transactions and information. We compared results to management's closing balances for each account.<br><br>We also matched all cash payments and receipts in the account level transaction listing to bank statement and independently recalculated the related interest charged.<br><br>For asset finance we performed equivalent tests but for a sample of loans rather than the full population.<br><br>Tested all external bank reconciliations and tested material reconciling items, where identified.<br><br>Tested the reconciliation between the loan system and the general ledger as at 31 March 2024.<br><br>In respect of the valuation of individually impaired stage 3 loans we obtained evidence to support the assumptions made over future recoveries (for example regarding collateral valuation), including considering developments subsequent to the balance sheet date.<br><br>In respect of the valuation of loans that were not individually impaired we focussed our testing on confirming that the loans were correctly excluded from stage 3 (for example by validating that there were no unidentified overdue payments on the loan portfolio at year end) and by validating the accuracy of the loan to value ratios for a sample of loans. This testing included agreeing security values to third party reports at origination, as well as obtaining third party evidence to support the collateral valuation updates made subsequent to origination. |

Independent Auditors' report / continued

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

All of the group's activities are carried out within the United Kingdom. The group is formed of Recognise Bank Limited and its subsidiary Credit Asset Management Limited. The principal activities of the group are the provision of loans to the small to medium enterprise customer segment and the issuance of customer deposits.

Our risk assessment performed as part of our planning of the audit gave consideration to relevant internal and external factors, including economic risk, climate change, relevant accounting and regulatory developments, as well as the Group's growth strategy.

Based on group materiality, we performed audit procedures over all material account balances and financial information of the company and its subsidiary. Our audit procedures on the company and its subsidiary provided us with sufficient audit evidence as a basis for our audit opinion on the group financial statements as a whole. We performed all of the work to support the group and company audit opinion and did not involve any other component audit teams.

## The impact of climate risk on our audit

As part of our audit, we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures included consideration of physical and transition risks arising within the loan portfolio and the consistency of the disclosures in relation to climate change to the information obtained throughout the audit. We did not identify any material impact as a result of climate risk on the company's financial statements.

## Materiality

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 in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Financial statements - Group | Financial statements - Company |
|---|---|---|
| Overall materiality | £1,417,000 (FY23: £1,317,000). | £1,346,000 (FY23: £1,340,000). |
| How we determined it | 0.3% of total assets (limited to 95% of the Group materiality for the Company) | |
| Rationale for benchmark applied | We do not consider a profit or revenue-based benchmark appropriate given the bank is in its initial growth stage. A balance sheet benchmark is commonly used for banks and organisations in a start-up phase where financial stability and capital adequacy is a primary focus of stakeholders. Total assets is also a typical benchmark for a public interest entity. | |

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £33,500 to £1,346,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 60% (FY23: 50%) of overall materiality, amounting to £850,000 (FY23: £658,000) for the group financial statements and £807,000 (FY23: £670,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the lower end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £70,000 (group audit) (FY23: £65,800) and £67,000 (company audit) (FY23: £62,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Independent Auditors' report / continued

## Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Obtained management's assessment supporting the going concern assumption and performed a risk assessment to identify critical factors that could impact the going concern basis of preparation, including the current and forecast financial performance, regulatory metrics and the sector in which the Group operates. As part of our risk assessment, we reviewed and considered the Group's strategic plan, ICAAP and ILAAP, regulatory correspondence and management reports provided to key governance forums;
- Confirmed the receipt of additional capital in November 2024, and considered the impact of this, and the related changes to the Group's strategy, on the going concern assessment. We also assessed the impact of the planned changes in Board and executive management.
- Evaluated the reasonableness of the Group's forecasts under a base and stress scenario, including testing key assumptions and performing sensitivity analysis using our understanding of the Group and its financial and operating performance obtained during the course of our audit. We focussed on the regulatory capital position, considering the impact of reasonable changes in key assumptions and the ability of management to take actions to mitigate the stresses applied;
- Involved our regulatory experts in the audit to support our testing of the stressed forecasts;
- We considered management's ability to accurately forecast financial performance by comparing past business plans to actual results;
- Tested the Bank's current loan delinquency and loan collateral that indirectly supports the projected variability of capital ratios under a stress scenario;
- Met with the Bank's lead regulator, the Prudential Regulation Authority to obtain their view of the Group including in respect of their capital and liquidity positions; and
- Assessed the appropriateness of the going concern disclosures made in the Annual Report and Accounts.

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 group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

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

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

Independent Auditors' report / continued

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2024 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 group's and the company'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 group or the company or to cease operations, or have no realistic alternative but to do so.

### Auditors' 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 auditors' 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.

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Financial Conduct Authority (FCA) or Prudential Regulatory Authority (PRA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate reported financial performance and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Performing enquiries of the Audit Committee, senior management (including risk and compliance), and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud.
- Review of key correspondence with regulatory authorities in relation to compliance and regulatory matters.
- Incorporating unpredictability into the nature, timing and extent of our testing.
- Identifying and testing selected journal entries including those posted by unexpected users, those posted to unusual account combinations and those that include certain keywords.
- Assessing the reasonableness and appropriateness of key judgements and assumptions used in accounting estimates, including an assessment for the presence of management bias.

Independent Auditors' report / continued

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

### Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 6 October 2022 to audit the financial statements for the year ended 31 March 2023 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 March 2023 to 31 March 2024.

**Luke Hanson (Senior Statutory Auditor)**
**for and on behalf of PricewaterhouseCoopers LLP**
**Chartered Accountants and Statutory Auditors**
London
22 November 2024

# Consolidated statement of comprehensive income

for the year ended 31 March 2024

| | Notes | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| Interest income | | 25,554 | 9,206 |
| Interest expense | | (13,153) | (3,007) |
| **Net interest income** | 6 | 12,401 | 6,199 |
| Fee and commission income | 7 | 408 | 175 |
| Fee and commission expense | 7 | (102) | (7) |
| **Net operating income** | | 12,707 | 6,367 |
| **Other income** | | | |
| Other income | 12 | 777 | 1 |
| **Operating expenses** | | | |
| Staff costs | 8 | (10,453) | (11,914) |
| Other operating expenses | 9 | (8,277) | (6,802) |
| Depreciation and amortisation | 10 | (635) | (789) |
| Net impairment (loss)/gain on financial assets | 11 | (3,126) | 162 |
| **Loss before tax** | | (9,007) | (12,975) |
| Tax expense for the year | 13 | – | – |
| **Loss after tax and total comprehensive loss for the financial year, attributable to equity shareholders** | | (9,007) | (12,975) |

The notes on pages 47 to 79 are an integral part of these consolidated financial statements.

# Consolidated balance sheet

as at 31 March 2024

| | Notes | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 15 | 164,682 | 139,080 |
| Loans and advances to customers | 16 | 302,814 | 121,922 |
| Property, plant and equipment | 18 | 165 | 230 |
| Intangible assets | 19 | 1,832 | 1,095 |
| Right-of-use assets | 20 | 171 | 372 |
| Other assets | 21 | 867 | 690 |
| **Total assets** | | 470,531 | 263,389 |
| **Liabilities** | | | |
| Deposits from customers | 22 | 411,667 | 200,251 |
| Borrowings | 23 | 73 | 170 |
| Lease liabilities | 20 | 188 | 413 |
| Other liabilities | 24 | 4,154 | 4,189 |
| **Total liabilities** | | 416,082 | 205,023 |
| **Equity** | | | |
| Share capital | 25 | 62,530 | 57,530 |
| Share premium | 25 | 38,722 | 38,722 |
| Other reserves | 26 | 90 | – |
| Accumulated losses | | (46,893) | (37,886) |
| **Total equity** | | 54,449 | 58,366 |
| **Total equity and liabilities** | | 470,531 | 263,389 |

The notes on pages 47 to 79 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 40 to 79 were approved by the Board and authorised for issue on 22 November 2024.

They were signed on its behalf by

**Steve Pateman**

**Chair**

# Company balance sheet

as at 31 March 2024

| | Notes | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 15 | 164,292 | 138,354 |
| Loans and advances to customers | 16 | 302,710 | 121,441 |
| Investment in subsidiaries | 17 | 349 | 3,349 |
| Property, plant and equipment | 18 | 165 | 230 |
| Intangible assets | 19 | 1,832 | 1,095 |
| Right-of-use assets | 20 | 171 | 372 |
| Other assets | 21 | 970 | 3,221 |
| **Total assets** | | 470,489 | 268,062 |
| **Liabilities** | | | |
| Deposits from customers | 22 | 411,667 | 200,251 |
| Loans and advances from subsidiary | 23 | 517 | 5,000 |
| Lease liabilities | 20 | 188 | 413 |
| Other liabilities | 24 | 3,985 | 4,097 |
| **Total liabilities** | | 416,357 | 209,761 |
| **Equity** | | | |
| Share capital | 25 | 62,530 | 57,530 |
| Share premium | 25 | 38,722 | 38,722 |
| Other reserves | 26 | 90 | – |
| Accumulated losses | | (47,210) | (37,951) |
| **Total equity** | | 54,132 | 58,301 |
| **Total equity and liabilities** | | 470,489 | 268,062 |

The Company's loss after tax for the financial year amounts to £9,258,724 (2023: loss £12,782,781).

The notes on pages 47 to 79 are an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 22 November 2024.

They were signed on its behalf by
**Steve Pateman**
**Chair**

# Consolidated statement of changes in equity

| | Share capital £'000 | Share premium £'000 | Accumulated losses £'000 | Other reserves £'000 | Total equity £'000 |
|---|---|---|---|---|---|
| **Balance at 1 April 2022** | 30,578 | 32,513 | (24,926) | 226 | 38,391 |
| Loss for the year | – | – | (12,975) | – | (12,975) |
| Total comprehensive loss | – | – | (12,975) | – | (12,975) |
| Contributions by and distributions to owners: | | | | | |
| Transfer from Other reserves | – | – | 226 | (226) | – |
| Acquisition – loan to Employee Benefit Trust | – | – | (211) | – | (211) |
| Issue of ordinary shares (Note 25) | 26,952 | 6,209 | – | – | 33,161 |
| Total contributions by and distributions to owners | 26,952 | 6,209 | 15 | (226) | 32,950 |
| **Balance at 31 March 2023/1 April 2023** | 57,530 | 38,722 | (37,886) | – | 58,366 |
| Loss for the year | – | – | (9,007) | – | (9,007) |
| Total comprehensive loss | – | – | (9,007) | – | (9,007) |
| Contributions by and distributions to owners: | | | | | |
| Share-based payments (Note 26) | – | – | – | 90 | 90 |
| Issue of ordinary shares (Note 25) | 5,000 | – | – | – | 5,000 |
| Total contributions by owners | 5,000 | – | – | 90 | 5,090 |
| **Balance at 31 March 2024** | 62,530 | 38,722 | (46,893) | 90 | 54,449 |

# Company statement of changes in equity

| | Share capital £'000 | Share premium £'000 | Accumulated losses £'000 | Other reserves £'000 | Total equity £'000 |
|---|---|---|---|---|---|
| **Balance at 1 April 2022** | 30,578 | 32,513 | (25,394) | 226 | 37,923 |
| Loss for the year | – | – | (12,783) | – | (12,783) |
| Total comprehensive loss | – | – | (12,783) | – | (12,783) |
| Contributions by and distributions to owners: | | | | | |
| Transfer from Other reserves | – | – | 226 | (226) | – |
| Issue of ordinary shares (Note 25) | 26,952 | 6,209 | – | – | 33,161 |
| Total contributions by and distributions to owners | 26,952 | 6,209 | 226 | (226) | 33,161 |
| **Balance at 31 March 2023/1 April 2023** | 57,530 | 38,722 | (37,951) | – | 58,301 |
| Loss for the year | – | – | (9,259) | – | (9,259) |
| Total comprehensive loss | – | – | (9,259) | – | (9,259) |
| Contributions by and distributions to owners: | | | | | |
| Share-based payments (Note 26) | – | – | – | 90 | 90 |
| Issue of ordinary shares (Note 25) | 5,000 | – | – | – | 5,000 |
| Total contributions by owners | 5,000 | – | – | 90 | 5,090 |
| **Balance at 31 March 2024** | 62,530 | 38,722 | (47,210) | 90 | 54,132 |

# Consolidated statement of cash flows

for the year ended 31 March 2024

| | Notes | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Loss for the year before tax | | (9,007) | (12,975) |
| **Adjustments for non-cash items:** | | | |
| Depreciation and amortisation | 10 | 635 | 789 |
| Interest earned during the year | | (25,554) | (9,206) |
| Interest expense during the year | | 13,153 | 3,007 |
| Interest expense on leases | 20 | 22 | 29 |
| Impairment allowance | | 3,126 | (162) |
| Restructuring costs | | – | 836 |
| Movement in loan to Employee Benefit Trust | | – | (211) |
| **Changes in operating activities:** | | | |
| Interest received | | 24,496 | 9,374 |
| Interest paid | | (4,824) | (2,252) |
| Increase in loans and advances | | (182,960) | (21,747) |
| Increase in deposits from customers | | 203,087 | 104,533 |
| Increase in other assets | | (177) | (881) |
| Increase in other liabilities | | 55 | 660 |
| **Net cash generated from operating activities** | | 22,052 | 71,794 |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | 18 | (52) | (259) |
| Purchase of intangible assets | 19 | (1,054) | (571) |
| **Net cash used in investing activities** | | (1,106) | (830) |
| **Cash flow from financing activities** | | | |
| Repayment of external funding | | (97) | (105) |
| Finance lease related payments | 20 | (247) | (225) |
| Gross proceeds from the issue of ordinary shares | 25 | 5,000 | 31,504 |
| Costs of share issue | 25 | – | (20) |
| **Net cash generated from financing activities** | | 4,656 | 31,154 |
| Net increase in cash and cash equivalents | | 25,602 | 102,118 |
| Cash and cash equivalents on acquisition of subsidiary | 17 | – | 729 |
| Cash and cash equivalents brought forward | 15 | 139,080 | 36,233 |
| **Net cash and cash equivalents** | | 164,682 | 139,080 |
| **Composition of cash and cash equivalents** | | | |
| Cash at bank | 15 | 164,682 | 139,080 |

# Company statement of cash flows

for the year ended 31 March 2024

| | Notes | 2024 £'000 | 2023 £'000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Loss for the year before tax | | (9,259) | (12,783) |
| **Adjustments for non-cash items:** | | | |
| Depreciation and amortisation | 10 | 635 | 789 |
| Interest earned during the year | | (25,487) | (9,112) |
| Interest expense during the year | | 13,153 | 2,970 |
| Interest expense on leases | 20 | 22 | 29 |
| Impairment allowance | | 3,339 | 76 |
| Dividend income from subsidiary | | – | (468) |
| **Changes in operating activities:** | | | |
| Interest received | | 24,429 | 9,210 |
| Interest paid | | (4,824) | (2,245) |
| Increase in loans and advances | | (183,505) | (22,804) |
| Increase in deposits from customers | | 203,087 | 104,533 |
| Increase in other assets | | (77) | (248) |
| (Decrease)/increase in other liabilities | | (22) | 745 |
| **Net cash generated from operating activities** | | 21,491 | 70,692 |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | 18 | (52) | (259) |
| Surplus funds sent from subsidiary | 29 | 800 | 1,000 |
| Purchase of intangible assets | 19 | (1,054) | (571) |
| **Net cash (used in)/generated from investing activities** | | (306) | 170 |
| **Cash flow from financing activities** | | | |
| Finance lease related payments | 20 | (247) | (225) |
| Gross proceeds from the issue of ordinary shares | 25 | 5,000 | 31,504 |
| Costs of share issues | 25 | – | (20) |
| **Net cash generated from financing activities** | | 4,753 | 31,259 |
| Net increase in cash and cash equivalents | | 25,938 | 102,121 |
| Cash and cash equivalents brought forward | 15 | 138,354 | 36,233 |
| **Net cash and cash equivalents** | | 164,292 | 138,354 |
| **Composition of cash and cash equivalents** | | | |
| Cash at bank | 15 | 164,292 | 138,354 |

The Company's significant non cash transactions are disclosed in Note 29 to these financial statements.

# Notes to the financial statements

## 1 General information

Recognise Bank Limited is a private company limited by shares that is incorporated in the United Kingdom under the Companies Act 2006. The address of its registered office is Augustine House, 6A Austin Friars, London, England, EC2N 2HA.

Recognise Bank Limited ("Recognise Bank" or "the Company" or "the Bank") has operated as a fully authorised bank since September 2021 when restrictions set by the PRA were lifted after all mobilisation conditions were met, allowing the Bank to accept savings deposits.

These consolidated and company financial statements have been approved for issue by the Board of Directors on 22 November 2024.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and company financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated and company financial statements have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The consolidated and company financial statements have been prepared under the historical cost convention.

The Company has taken advantage of section 408 of the Companies Act 2006, and the Income Statement of the parent company is not presented.

#### Functional and presentational currency

The consolidated and company financial statements are presented in sterling, which is also the Bank's functional currency, with amounts rounded to the nearest thousand (£'000), unless otherwise stated. Foreign currency transactions are translated into the functional currency using the spot exchange rates prevailing at the dates of the transactions or valuation where items are remeasured.

Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in the consolidated statement of comprehensive income.

#### Going concern

The financial statements of the Group and the Company have been prepared on a going concern basis.

The directors consider the going concern basis to be appropriate following their assessment of the Bank's financial position and its ability to meet its obligations as and when they fall due. The Bank's going concern position is further discussed in the Strategic report on page 20.

In making their going concern assessment the directors have considered the following:

- the capital structure and liquidity of the Bank over the period of 12 months from the date of signing these financial statements;
- the principal and emerging risks facing the Bank and its systems of risk management and internal control;
- uncertainties in the UK economic outlook and actions the Bank could take to mitigate the impact on Recognise Bank;
- the raising of capital by the Company to support its growth in serving the SME market;
- the capital and liquidity forecasts of the Bank, undertaking stress scenarios which include the effects of incurring greater losses from loan defaults and wider stress in the financial markets and economy impacting cash inflows and outflows; and
- any potential change in capital requirements mandated by the PRA following the significant changes described in the Chair's statement on page 5.

The Board has also considered the Board and management changes and associated handover arrangements outlined in the Chair's statement on page 5.

The Board assesses its future capital and liquidity requirements regularly and, as part of its overall strategy, develops plans to access new funding as and when required. The Bank prepares annual budgets that include budgeted cash forecasts and funding requirements which have been reviewed by the Board and form part of the submission made by Recognise Bank to the PRA.

### 2.2 Adoption of new standards and interpretations

The following new standards and interpretations were adopted for the first time in these financial statements:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Amendments to IAS 12 Taxation, relating to Deferred tax related to assets and liabilities arising from a single transaction;

Notes to the financial statements / continued

# 2 Summary of significant accounting policies continued

- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates.

There was no impact on the Bank financial statements following the adoption of the above standards and interpretations.

### Standards in issue but not yet effective

At the date of authorisation of these financial statements, the following standards which have not been applied in these financial statements were in issue but not yet effective. These standards are effective for annual periods beginning on or after 1 January 2024 unless otherwise stated. There is no material impact anticipated from the implementation of the below mentioned amendments/standards.

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16);
- Non-current Liabilities with Covenants (Amendments to IAS 1);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28);
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7);
- Lack of Exchangeability (Amendments to IAS 21);
- IFRS 18 Presentation and Disclosure in Financial Statements;
- IFRS 19 Subsidiaries without Public Accountability: Disclosures.

## 2.3 Consolidation

### 2.3.1 Subsidiaries

Where the Bank has control over an investee, it is classified as a subsidiary. The Bank controls an investee if all three of the following elements are present: power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

### 2.3.2 Intercompany transactions

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. In the Company's financial statements, intercompany balances which arise on transfer of non-financial assets are considered when assessing impairment at each balance sheet date.

### 2.3.3 Loss of control and change in ownership

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related non-controlling interests and other components of equity. Any interest retained is measured at fair value when the control is lost.

## 2.4 Business Combinations

The Bank uses the acquisition method of accounting to account for business combinations, including those of businesses under common control. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Bank in exchange for control of the acquiree. Acquisition related expenses are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interests in the fair value of the net identifiable assets, liabilities and contingent liabilities recognised.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportional share of the acquiree's net assets. The Group treats transactions with the non-controlling interest as transactions with equity owners of the Group. For purchases from non-controlling interests the difference between the consideration paid and the relevant share of net assets acquired is recorded in equity.

## 2.5 Intangible assets

Software licence and development costs include third party and internal costs incurred in relation to the core banking platform developed by Recognise Bank. Core banking platform costs include the development of software, application development and implementation costs.

Research costs and costs to maintain existing performance are expensed in the consolidated statement of comprehensive income as incurred.

Costs, including internal costs, that are directly attributable to the design, development and testing of identifiable and unique software products controlled by the Group are capitalised as an intangible asset and amortised from the point at which the asset is ready for use.

Notes to the financial statements / continued

Software licence and development costs are stated at historical cost less accumulated amortisation and impairment losses. Amortisation is provided to write off the cost by equal annual instalments over their estimated useful economic lives as follows:

| | |
|---|---|
| Core banking platform | 5 years straight-line |
| Software licenses | 5 years or the period of the software licence if less, straight-line |

The Bank reviews these assets for impairment at least annually or more frequently when events or changes in economic circumstances indicate that impairment may have taken place.

## 2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment by equal annual instalments over their estimated useful economic lives as follows:

| | |
|---|---|
| Office furniture & equipment | 3 years straight-line |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

## 2.7 Impairment of non-financial assets

The carrying value of non-financial assets is reviewed on an on-going basis to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of property, plant and equipment is the greater of its fair value less costs to sell and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

## 2.8 Investments in subsidiaries – company financial statements

Investments in subsidiaries are accounted for at cost less impairment. Impairment testing is performed where there is an indication of impairment, by comparing the recoverable amount of the relevant investment with its carrying amount.

## 2.9 Financial assets and liabilities

### 2.9.1 Initial recognition and measurement

The Group recognises financial assets and liabilities when it becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue with the exception of financial assets at fair value through profit and loss ("FVPL"), where these costs are charged to the income statement.

### 2.9.2 Classification and business model assessment

IFRS 9 requires financial assets and liabilities to be measured at amortised cost, fair value through other comprehensive income ("FVOCI") or FVPL.

The Group classifies financial assets in the following categories: financial assets at FVPL, financial assets at FVOCI and financial assets at amortised cost. Management determines the classification of its financial instruments at initial recognition.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to collect contractual cashflows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are classified as sole payments of principal and interest ("SPPI") on the principal amount outstanding.

Financial assets are classified as FVPL where they do not meet the criteria to be measured at amortised cost or FVOCI or where financial assets are designated as FVPL.

Financial liabilities are measured at amortised cost or FVPL.

#### (a) Cash and balances at central bank

Cash and cash equivalents comprise cash in hand and call deposits with maturity of three months or less from the date of inception, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

#### (b) Loans, trade and other receivables

Loans, trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment under IFRS 9.

#### (c) Finance leases receivable

Where the Group leases out equipment under a lease or hire purchase agreement and there is a transfer of substantially all the risks and rewards of ownership to the lessee, the lease is accounted for as a finance lease and recorded as loans and advances to customers.

Notes to the financial statements / continued

# 2 Summary of significant accounting policies continued

Finance leases are recognised at an amount equal to the gross investment in the lease, which comprises the lease payments receivable and any unguaranteed residual value, discounted at its implicit interest rate.

The Group accounts for impairment of finance leases and hire purchase agreements under IFRS 9.

### (d) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost: any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

### (e) Deposits from customers

Financial liabilities at amortised cost are non-derivative financial liabilities with fixed or determinable payments. These liabilities are recognised when cash is received from the depositors and carried at amortised cost using the effective interest rate method. The fair value of these liabilities repayable on demand is assumed to be the amount payable on demand at the balance sheet date.

### (f) Other liabilities

Other liabilities are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

### (g) Intra-group balances – company financial statements

Intra-group loans and similar balances between group companies are held at amortised cost.

### (h) Loan commitments

A loan commitment is a commitment to make a loan in the future at a specified rate. These commitments represent agreements to lend in the future subject to the terms and conditions of the agreements, so that the amount and timing of future cashflows are uncertain.

The Group accounts for impairment on firm loan commitments under IFRS 9.

### 2.9.3 Derecognition - Financial assets and liabilities

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the Balance Sheet.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. There have not been any instances where assets have been only partially derecognised.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, expire, are modified or exchanged.

## 2.9.4 Identification and measurement of the impairment of financial assets

Under IFRS 9, entities are required to account for expected credit losses (‘ECL’) at the time of initial recognition of the financial asset and to account for changes in ECL at each reporting date to reflect changes in credit risk since initial recognition. The provisions for impairment under IFRS 9 are disclosed in Note 11.

### (a) Impairment of loans and advances to customers

The general approach in IFRS 9 has been used with the Group using the IFRS 9 three-stage expected credit loss (‘ECL’) approach for measuring impairment – Stage 1, Stage 2 and Stage 3.

The Group recognises ECLs from default events expected within 12 months of the reporting date if there has not been a significant increase in credit risk (‘SICR’) since the initial recognition of the financial instrument (Stage 1) and lifetime ECLs for financial instruments where there has been a SICR since initial recognition (Stage 2) or which are credit impaired (Stage 3). Where financial instruments are credit impaired, as determined from the quantitative and qualitative criteria set out below, specific provisions are made on an individual basis in accordance with laid-down policies.

Specific provisions on individual financial instruments are assessed by reference to information available on the recoverability of amounts owed. This may include a deterioration in the credit rating of the debtor and an assessment of expected likely cash flows as well as consideration of the strength of personal guarantees or other security held.

When assessing ECL, entities are required to consider both information about current conditions and reasonable forecasts about future expectations.

This process includes, inter alia, the estimation of the probability of default (‘PD’), exposure at default (‘EAD’) and loss given default (‘LGD’) and the assessment of increases in credit risks, in the context of the future economic scenarios that may apply to the financial assets.

Notes to the financial statements / continued



Relevant factors include:

- whether there has been a SICR since initial recognition;
- definition of default and credit-impaired assets; and
- forward looking information to be used in calculating ECLs.

The Group considers both quantitative and qualitative information when considering if there has been a SICR. The receipt of information on existing or future adverse changes affecting a customer, in conjunction with an expert credit risk assessment, would result in such an assessment, which is made at individual agreement level.

A financial instrument is defined to be in default when it meets one or more of the following criteria:

- Quantitative criteria: an agreement is in default when contractual payments are more than 90 days past due.
- Qualitative criteria: contractual payments are less than 90 days past due but, having regard to known circumstances such as an insolvency arrangement, it is judged unlikely that future payments will be made in full.

The definition of default is applied consistently to model the items used in the calculation of ECLs – the probability of default, exposure at default and loss given default.

Under IFRS 9, the Group is required to consider other forward-looking scenarios in addition to the base economic scenario. The final ECL is calculated by applying a weighted probability to the result of each scenario.

The Bank currently uses a model for assessing the IFRS 9 provisions, which has been developed with a third party managed service provider for the credit portfolio held by Recognise Bank.  Its subsidiary, Credit Asset Management Limited, whose lease and loan portfolio is in run-off, uses an internally-developed model.

### (b) Impairment of intra-group loans and similar balances

Loans and similar balances between the Company and its subsidiaries are considered individually when assessing their expected credit losses under IFRS 9.

## 2.9.5 Write-off

A loan is written off (either partially or in full) against the related provision when the proceeds from realising any available security have been received, there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof, and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised directly in the income statement.

## 2.10 Leases

At inception of a contract the Group assesses whether a contract is, or contains, a lease. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At commencement or modification, the Group recognises right-of-use assets and lease liabilities, except for lease terms of less than 12 months or leases of low value items.

Right-of-use assets and lease liabilities are initially recognised at the net present value of future lease payments, discounted at the rate implicit in the lease or, where not available, the Group's incremental borrowing cost. Subsequent to initial recognition, the right-of-use asset is depreciated on a straight-line basis over the term of the lease.

Future rental payments are deducted from the lease liability, with interest charged on the lease liability using the incremental borrowing cost at the time of initial recognition. The Group recognises lease liability payments within financing activities in the Statement of Cash Flows.

The Group assesses the likely impact of early terminations in recognising the right-of-use asset and lease liability where an option to terminate early exists.

Leases of low value assets or with terms of 12 months or less are recognised on an accruals basis directly in the income statement.

## 2.11 Share Warrants

A warrant is an instrument that entitles the holder to buy an underlying security of the issuing company at an exercise price within a certain time frame.  The appropriate accounting for the warrants is determined by reviewing the terms and conditions to understand whether the warrants have characteristics of:

- an equity instrument; or
- a derivative financial liability ("financial liability").

As guided by accounting for warrants under IAS 32, equity classification applies to instruments where a fixed amount of cash (or liability), denominated in the issuer's functional currency, is exchanged for a fixed number of shares (often referred to as the "fixed for fixed" criteria). A warrant that fails to meet equity classification is classified as a derivative financial liability that is measured at fair value, with changes in value recorded in the income statement.

## 2.12 Share capital

Ordinary shares are classified as equity. Share premium costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

Notes to the financial statements / continued

# 2 Summary of significant accounting policies continued

## 2.13 Interest income and expense

Interest income and expense is recognised using the effective interest rate method. Interest income arises from Bank's loan products where the interest rate is contractually set at a fixed or variable (floating) interest rate throughout the term of the loan.

Fee and commission income and broker expenses which are integral to the origination of the financial instrument are included in interest income.

Interest expense comprises funding costs and interest expensed on customer deposits.

## 2.14 Commission and fees

Fee and commission income which is not integral to the origination of the financial instrument is recognised as the related services are performed.

Service and other fees are expensed as the service is received.

## 2.15 Operating expenses

Operating expenses are recognised in the income statement upon utilisation of the service or as incurred.

## 2.16 Employee Benefit Trust (EBT)

The assets and liabilities of the EBT are held separately from the Bank and are fully consolidated in the consolidated balance sheet. The costs of purchasing own shares held by the EBT are shown as a deduction against equity in the Group balance sheet. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the consolidated income statement.

## 2.17 Corporation tax

Tax on the result for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income and equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

Deferred income tax assets are recognised to the extent that it is likely that future taxable profits will be available against which the temporary differences can be utilised.

# 3 Judgements and estimates

The preparation of financial information in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The bases of the estimates and judgements on key items are given below.

### (a) Provisions for impairment of financial assets - Estimate

The IFRS 9 model that is being used by Recognise Bank to calculate the provision under IFRS 9 has been developed with a third party managed service provider. Calculations within the model are performed at an account level using a bottom-up approach, which facilitates the best estimate of the provision required. A scenario-based approach is used to forecast the probability weighted unbiased expectation of future losses.

*Forward looking macro-economic scenarios*
As IFRS 9 is a forward-looking measure of impairment, economic scenarios were used to build economic models. Economic Scenarios, obtained from a third party supplier, are combined with econometric models to forecast the Credit Cycle Index (CCI) over the next 15 years. Data from the third party was used to create suitable indices that most closely represent the types of customers that Recognise Bank serves.

Multiple economic variables such as GDP, CPPI, HPI, BoE interest rates and the aggregated 1-month PD time series are used in the econometric models to forecast the Credit Cycle Index (CCI), which we refer to in the model as the Z-index. The Z-index is used to condition the PD values of each counterparty over time to the expected path of the credit cycle.

Four macroeconomic scenarios were modelled as follows:

- Forecast
- Moderate
- Severe
- Upside

Notes to the financial statements / continued



The GDP paths in the four scenarios vary across the future periods. In the Forecast and Moderate scenarios there is a fall in GDP followed by a recovery. The GDP path for the Forecast scenario has a long run average of 0.5% starting from the third quarter of 2025. In the Severe scenario GDP has a flat forecast of 0.3%.

The effect of these scenarios on the ECL is shown below. The table summarises by how much the total provision would decrease/(increase) if a weighting of 100% was applied to each scenario in turn.

| | 31 March 2024 £'000 | 31 March 2023 £'000 |
|---|---|---|
| Forecast | 28 | 21 |
| Moderate | (44) | (19) |
| Severe | (646) | (457) |
| Upside | 95 | 53 |

*Assumptions in the model components*
Assumptions were made for each component within the model (PD, LGD, EAD) to ensure the model produces results that are plausible and reliable. The assumptions were calibrated in workshops with expert input from management and supported by benchmarking data from industry peers.

*Probability of Default (PD)*
Through-the-Cycle (TtC) PD, which refers to the long-run default rate across the economic cycle or under average economic conditions, and asset correlation (p), which describes how sensitive the portfolio is to a change in the economic cycle, serve as input in calculating the Forward-in-Time (FiT) PD. These parameters were calibrated with expert input from management to best suit the characteristics of Recognise Bank's portfolio.

*Exposure at Default (EAD)*
A categorised schedule that considers interest, fees and arrears is used for amortising elements of the credit portfolio while the periodic payments on interest only loans are assumed to equal the interest charge. The model assumes no prepayments on loans will be made. It is also assumed that the probability of instantly repaying the loan in full and closing the account in a non-default state is 0%.

*Expected Credit Losses (ECL)*
IFRS 9 rules require that the ECL for each scenario is risk weighted to provide an overall weighted ECL figure. The ECL figure varies depending upon the weightings applied and determines the provision to be recognised at the balance sheet date. The weightings approved at ALCO are shown below.

| | 31 March 2024 £'000 | 31 March 2023 £'000 |
|---|---|---|
| Forecast | 56% | 56% |
| Moderate | 20% | 20% |
| Severe | 4% | 4% |
| Upside | 20% | 20% |

The credit portfolio as at 31 March 2024 was £302.8m (2023: 121.9m). As at 31 March 2024, application of the model generated Stage 1 and Stage 2 IFRS 9 impairment provision of £361k (2023: Stage 1 provision of £219k).

Stage 3 loans were individually assessed for impairment resulting in a provision of £3,197k as at 31 March 2024.

Management has applied expert judgement to assess an appropriate amount for the IFRS 9 Stage 3 provision. The weighted approach for the possible recovery outcome was adopted with the estimated loss ranging between nil in case of full refinancing achieved to £2,698k in the case of a quick sale of property and other collaterals.

There were no loan agreements assessed under Stage 2 or Stage 3 as at 31 March 2023.

Notes to the financial statements / continued

# 4 Financial instruments and risk management

## 4.1 Financial instruments

| | Total carrying amount | |
|---|---|---|
| At amortised cost | 2024 £'000 | 2023 £'000 |
| **Group** | | |
| **Assets** | | |
| Cash and cash equivalents | 164,682 | 139,080 |
| Loans to customers[(a)] | 302,814 | 121,922 |
| Other debtors | 36 | 139 |
| **Total** | 467,532 | 261,141 |
| **Liabilities** | | |
| Deposits from customers[(a)] | 411,667 | 200,251 |
| Borrowings | 73 | 170 |
| Lease liabilities | 188 | 413 |
| Other liabilities | 3,496 | 3,407 |
| **Total** | 415,424 | 204,241 |
| **Company** | | |
| **Assets** | | |
| Cash and cash equivalents | 164,292 | 138,354 |
| Loans to customers[(a)] | 302,710 | 121,441 |
| Other debtors | 33 | 2,670 |
| **Total** | 467,035 | 262,465 |
| **Liabilities** | | |
| Deposits from customers[(a)] | 411,667 | 200,251 |
| Loans and advances from subsidiary | 517 | 5,000 |
| Lease liabilities | 188 | 413 |
| Other liabilities | 3,340 | 3,343 |
| **Total** | 415,712 | 209,007 |

(a) The fair value of the Bank's loans and advances and customer deposits at 31 March 2024 is estimated at £315.8m and £415.9m, respectively (31 March 2023: £122.3m and £198.0m, respectively). The fair value of loans to customers and deposits from customers, for the purpose of this disclosure, is calculated by discounting expected cash flows using the current market interest rates.

At 31 March 2024 and 31 March 2023, the carrying amounts of cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation. The fair value of advances and other balances with related parties which are short term or repayable on demand are equivalent to their carrying amount.

The fair value estimates have been categorised as Level 3 within the fair value measurement hierarchy required by IFRS 7 'Financial Instruments: Disclosures'.

Notes to the financial statements / continued

## 4.2 Financial risk management

The financial risks faced by the Bank include credit risk, liquidity risk and market risk (including price risk, foreign exchange risk and interest rate risk). The Board reviews and agrees policies for managing each of these risks. The Bank does not use derivative financial instruments for hedging or trading purposes.

### Credit risk

Credit risk is the risk of the financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The scale of risk to the Bank is set out in the table below:

| | 2024 | |
|---|---|---|
| **Credit risk exposures (all Stage 1, unless otherwise stated)** | **Group £'000** | **Company £'000** |
| **On-balance sheet** | | |
| Cash and balances at central banks | 164,682 | 164,292 |
| Loans and advances to customers (net of ECLs) | | |
| Stage 1 | 283,873 | 283,769 |
| Stage 2 | 17,390 | 17,390 |
| Stage 3 | 1,551 | 1,551 |
| Other assets | 36 | 33 |
| **Off-balance sheet** | | |
| Loan commitments and other credit related liabilities | 13,870 | 13,870 |
| **As at 31 March** | 481,402 | 480,905 |

| | 2023 | |
|---|---|---|
| **Credit risk exposures (all Stage 1, unless otherwise stated)** | **Group £'000** | **Company £'000** |
| **On-balance sheet** | | |
| Cash and balances at central banks | 139,080 | 138,354 |
| Loans and advances to customers (net of ECLs) | | |
| Stage 1 | 121,906 | 121,441 |
| Stage 2 | 16 | – |
| Stage 3 | – | – |
| Other assets | 139 | 2,670 |
| **Off-balance sheet** | | |
| Loan commitments and other credit related liabilities | 19,940 | 19,940 |
| **As at 31 March** | 281,081 | 282,405 |

The Bank's exposure to credit risk is influenced mainly by the individual characteristics of each customer loan, or receivable. Each new customer is analysed individually for creditworthiness before payment is made. The conduct of customer accounts is reviewed regularly.

Exposure to credit risk is managed in part by obtaining collateral security and corporate and personal guarantees, as management considers necessary. Property bridging loans are secured over the property for which the loan is advanced and personal guarantees are also obtained.

The Bank establishes an allowance for impairment on the basis set out in Notes 2 and 3.

Notes to the financial statements / continued

# 4 Financial instruments and risk management continued

The table below represents an analysis of the loan to values of the loan exposures secured by property:

| | 2024 Group | | 2024 Company | |
|---|---|---|---|---|
| | Loan balance £'000 | Collateral £'000 | Loan balance £'000 | Collateral £'000 |
| Less than 60% | 149,631 | 409,225 | 149,631 | 409,225 |
| Stage 1 | 140,210 | 387,240 | 140,210 | 387,240 |
| Stage 2 | 9,421 | 21,985 | 9,421 | 21,985 |
| Stage 3 | – | – | – | – |
| 60%-80% | 112,627 | 167,446 | 112,627 | 167,446 |
| Stage 1 | 105,220 | 156,899 | 105,220 | 156,899 |
| Stage 2 | 7,407 | 10,547 | 7,407 | 10,547 |
| Stage 3 | – | – | – | – |
| More than 80% | 6,644 | 7,023 | 6,644 | 7,023 |
| Stage 1 | 4,624 | 5,138 | 4,624 | 5,138 |
| Stage 2 | 562 | 685 | 562 | 685 |
| Stage 3 | 1,458 | 1,200 | 1,458 | 1,200 |
| **As at 31 March** | 268,902 | 583,694 | 268,902 | 583,694 |

| | 2023 Group | | 2023 Company | |
|---|---|---|---|---|
| | Loan balance £'000 | Collateral £'000 | Loan balance £'000 | Collateral £'000 |
| Less than 60% | 53,206 | 136,321 | 53,206 | 136,321 |
| Stage 1 | 53,206 | 136,321 | 53,206 | 136,321 |
| Stage 2 | – | – | – | – |
| Stage 3 | – | – | – | – |
| 60%-80% | 62,682 | 94,954 | 62,682 | 94,954 |
| Stage 1 | 62,682 | 94,954 | 62,682 | 94,954 |
| Stage 2 | – | – | – | – |
| Stage 3 | – | – | – | – |
| More than 80% | – | – | – | – |
| Stage 1 | – | – | – | – |
| Stage 2 | – | – | – | – |
| Stage 3 | – | – | – | – |
| **As at 31 March** | 115,888 | 231,275 | 115,888 | 231,275 |

As at 31 March 2024, loan to value percentages were based on indexed values. As at 31 March 2023, loan to value percentages were based on origination values: these values were not considered to have changed significantly since origination.

Notes to the financial statements / continued

The following tables provide information on the credit quality of the loan book.

Portfolio analysis by the credit risk grade as at 31 March 2024:

| **Group** | **Stage 1 £'000** | **Stage 2 £'000** | **Stage 3 £'000** | **Total £'000** |
|---|---|---|---|---|
| **Gross loans and advances** | | | | |
| Strong | 28,110 | 848 | – | 28,958 |
| Good | 254,934 | 11,717 | – | 266,651 |
| Satisfactory | 1,196 | 4,840 | – | 6,036 |
| Weak | – | – | 4,748 | 4,748 |
| **Gross loans and advances at 31 March 2024** | 284,240 | 17,405 | 4,748 | 306,393 |
| **Allowances for ECLs** | | | | |
| Strong | (11) | – | – | (11) |
| Good | (344) | (5) | – | (349) |
| Satisfactory | (12) | (10) | – | (22) |
| Weak | – | – | (3,197) | (3,197) |
| **Allowances for ECLs at 31 March 2024** | (367) | (15) | (3,197) | (3,579) |

| **Company** | **Stage 1 £'000** | **Stage 2 £'000** | **Stage 3 £'000** | **Total £'000** |
|---|---|---|---|---|
| **Gross loans and advances** | | | | |
| Strong | 28,110 | 848 | – | 28,958 |
| Good | 254,798 | 11,717 | – | 266,515 |
| Satisfactory | 1,196 | 4,840 | – | 6,036 |
| Weak | – | – | 4,748 | 4,748 |
| **Gross loans and advances at 31 March 2024** | 284,104 | 17,405 | 4,748 | 306,257 |
| **Allowances for ECLs** | | | | |
| Strong | (11) | – | – | (11) |
| Good | (312) | (5) | – | (317) |
| Satisfactory | (12) | (10) | – | (22) |
| Weak | – | – | (3,197) | (3,197) |
| **Allowances for ECLs at 31 March 2024** | (335) | (15) | (3,197) | (3,547) |

Notes to the financial statements / continued

# 4 Financial instruments and risk management continued

Portfolio analysis by the credit risk grade as at 31 March 2023:

| Group | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Gross loans and advances** | | | | |
| Strong | 23,791 | – | – | 23,791 |
| Good | 92,749 | – | – | 92,749 |
| Satisfactory | 5,732 | 37 | – | 5,769 |
| Weak | – | – | 130 | 130 |
| **Gross loans and advances at 31 March 2023** | 122,272 | 37 | 130 | 122,439 |
| **Allowances for ECLs** | | | | |
| Strong | (11) | – | – | (11) |
| Good | (338) | – | – | (338) |
| Satisfactory | (17) | (21) | – | (38) |
| Weak | – | – | (130) | (130) |
| **Allowances for ECLs at 31 March 2023** | (366) | (21) | (130) | (517) |

| Company | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Gross loans and advances** | | | | |
| Strong | 23,791 | – | – | 23,791 |
| Good | 92,137 | – | – | 92,137 |
| Satisfactory | 5,732 | – | – | 5,732 |
| Weak | – | – | – | – |
| **Gross loans and advances at 31 March 2023** | 121,660 | – | – | 121,660 |
| **Allowances for ECLs** | | | | |
| Strong | (11) | – | – | (11) |
| Good | (191) | – | – | (191) |
| Satisfactory | (17) | – | – | (17) |
| Weak | – | – | – | – |
| **Allowances for ECLs at 31 March 2023** | (219) | – | – | (219) |

Notes to the financial statements / continued

The Bank monitors concentrations by loan product and geographical distribution of exposures to manage the risk of overexposure to any one market segment.

The table below shows the concentration in the loan book based on the type of and collateral held for each loan:

| | 2024 Group | | 2024 Company | |
|---|---|---|---|---|
| | Loan balance £'000 | Collateral £'000 | Loan balance £'000 | Collateral £'000 |
| **Concentration by Product** | | | | |
| Bridging | 108,897 | 302,149 | 108,897 | 302,149 |
| Commercial | 68,100 | 125,602 | 68,100 | 125,602 |
| Professional buy-to-let | 91,905 | 155,943 | 91,905 | 155,943 |
| Working Capital | 69 | – | 69 | – |
| Professional Practice | 2,834 | – | 2,834 | – |
| Asset Finance | 31,009 | 42,343 | 30,905 | 42,343 |
| **As at 31 March** | 302,814 | 626,037 | 302,710 | 626,037 |
| **Concentration by Location** | | | | |
| East Midlands | 11,478 | 20,292 | 11,478 | 20,292 |
| East of England | 18,019 | 52,661 | 18,019 | 52,661 |
| London | 96,048 | 229,902 | 96,048 | 229,902 |
| North East | 14,744 | 28,213 | 14,744 | 28,213 |
| North West | 57,352 | 109,870 | 57,352 | 109,870 |
| South East | 44,834 | 93,858 | 44,834 | 93,858 |
| South West | 10,259 | 20,964 | 10,259 | 20,964 |
| Scotland | 870 | 1,189 | 870 | 1,189 |
| Wales | 2,708 | 4,620 | 2,708 | 4,620 |
| West Midlands | 11,122 | 19,845 | 11,122 | 19,845 |
| Yorkshire & Humberside | 1,468 | 2,280 | 1,468 | 2,280 |
| Asset Finance | 31,009 | 42,343 | 30,905 | 42,343 |
| Unsecured loans | 2,903 | – | 2,903 | – |
| **As at 31 March** | 302,814 | 626,037 | 302,710 | 626,037 |

Notes to the financial statements / continued

# 4 Financial instruments and risk management continued

| | 2023 Group | | 2023 Company | |
|---|---|---|---|---|
| | Loan balance £'000 | Collateral £'000 | Loan balance £'000 | Collateral £'000 |
| **Concentration by Product** | | | | |
| Bridging | 19,097 | 41,770 | 19,097 | 41,770 |
| Commercial | 60,370 | 129,853 | 60,370 | 129,853 |
| Professional buy-to-let | 36,422 | 59,652 | 36,422 | 59,652 |
| Working Capital | 151 | – | 151 | – |
| Professional Practice | 5,401 | – | 5,401 | – |
| Asset Finance | 481 | – | – | – |
| **As at 31 March** | 121,922 | 231,275 | 121,441 | 231,275 |
| **Concentration by Location** | | | | |
| East Midlands | 5,083 | 8,685 | 5,083 | 8,685 |
| East of England | 3,250 | 6,790 | 3,250 | 6,790 |
| London | 31,071 | 71,930 | 31,071 | 71,930 |
| North East | 3,552 | 5,907 | 3,552 | 5,907 |
| North West | 26,850 | 46,230 | 26,850 | 46,230 |
| South East | 36,928 | 75,415 | 36,928 | 75,415 |
| South West | 1,288 | 2,210 | 1,288 | 2,210 |
| Wales | 866 | 1,803 | 866 | 1,803 |
| West Midlands | 1,029 | 2,170 | 1,029 | 2,170 |
| Yorkshire & Humberside | 5,970 | 10,135 | 5,970 | 10,135 |
| Unsecured loans | 6,035 | – | 5,554 | – |
| **As at 31 March** | 121,922 | 231,275 | 121,441 | 231,275 |

## Foreign exchange risk

The foreign exchange risk for the Bank is immaterial as financial instruments held by the Bank are denominated in sterling.

## Liquidity risk

The Bank manages liquidity risk to ensure it has sufficient funds to meet its financial obligations as they become due. At 31 March 2024 and 31 March 2023, the Bank did not have a bank overdraft facility.

Notes to the financial statements / continued

The total gross contractual undiscounted cash flows of financial liabilities, including interest payments are:

| At 31 March 2024 | On demand £'000 | Less than 3 months £'000 | 3 to 12 months £'000 | 1 to 5 years £'000 | > 5 years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Deposits from customers | 111,545 | 14,187 | 85,814 | 226,676 | – | 438,222 |
| Borrowings | – | – | 67 | 6 | – | 73 |
| Lease liabilities | – | – | 141 | 56 | – | 197 |
| Other liabilities | – | 3,496 | – | – | – | 3,496 |
| **Company** | | | | | | |
| Deposits from customers | 111,545 | 14,187 | 85,814 | 226,676 | – | 438,222 |
| Loans and advances from subsidiary | 517 | – | – | – | – | 517 |
| Lease liabilities | – | – | 141 | 56 | – | 197 |
| Other liabilities | – | 3,340 | – | – | – | 3,340 |

| At 31 March 2023 | On demand £'000 | Less than 3 months £'000 | 3 to 12 months £'000 | 1 to 5 years £'000 | > 5 years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Deposits from customers | 88,019 | 9,050 | 67,454 | 39,305 | – | 203,828 |
| Borrowings | 11 | 31 | 58 | 87 | – | 187 |
| Lease liabilities | – | 13 | 174 | 226 | – | 413 |
| Other liabilities | – | 3,407 | – | – | – | 3,407 |
| **Company** | | | | | | |
| Deposits from customers | 88,019 | 9,050 | 67,454 | 39,305 | – | 203,828 |
| Loans and advances from subsidiary | 4,000 | – | 1,000 | – | – | 5,000 |
| Lease liabilities | – | 13 | 174 | 226 | – | 413 |
| Other liabilities | – | 3,343 | – | – | – | 3,343 |

## Interest rate risk

The Bank has interest-bearing assets and liabilities at fixed or variable (floating) interest rates. Changes in the interest on variable (floating) loans will arise from changes in the underlying Bank of England base rate or market rate. The Bank mitigates interest rate risk primarily by using existing balance sheet items to offset gross interest rate exposures (e.g. the interest rate risk on an asset is matched against a liability with a similar repricing date). Asset and Liability Committee is responsible for identifying, managing and controlling all balance sheet risks in accordance with Recognise Bank's chosen business strategy.

The Bank measures economic value of equity (EVE) sensitivity and net interest income (NII) sensitivity to quantify its interest rate risk exposure. The Bank considers a parallel 200 basis points (bps) movement to be appropriate for evaluating sensitivity to interest rate risk. As at 31 March 2024 the Bank estimates that a +/- 200bps movement in interest rates would have impacted:

- the economic value of equity by +£681k/-£604k respectively (2023: -£1,660k/+£1,852k);
- net interest margin by +£1,768k/-£2,722k using the 75% beta scenario where for administered products 75% of the change in market rate is passed on.

Notes to the financial statements / continued

# 4 Financial instruments and risk management continued

## Financial instruments fair values

The Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions.

The Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2: inputs are other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: inputs are unobservable inputs for the asset or liability

No financial assets at fair value were held throughout the years to 31 March 2024 and 31 March 2023.

# 5 Capital Management

The Bank maintains an actively managed capital base to cover risks inherent in the business. The primary objectives of capital management are to ensure the Bank complies with both external and internal capital requirements and maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Bank's regulatory capital comprises Common Equity Tier 1 capital.

The Bank has prepared detailed budgets which include an assessment of its future capital requirements, with further capital raising from institutional and other investors planned in the future.

The Bank manages its capital structure and adjusts this in the light of changes in economic conditions, the risk characteristics of its activities and regulatory requirements. The adequacy of the Bank's capital is monitored using, amongst others, the rules and ratios established by the PRA.

The table below shows the Bank's CET1 capital ratios.

| **Capital Ratios (unaudited, unless stated)** | **2024 £'000** | **2023 £'000** |
|---|---|---|
| CET 1 Capital Instruments | 54,449 | 58,577 |
| Deductions - Intangible Assets | (1,832) | (1,095) |
| CET 1 Capital after deductions (audited) | 52,617 | 57,482 |
| Own Funds | 52,617 | 57,482 |
| CET1 Capital Ratio | 26.37% | 65.14% |
| Total Capital Ratio | 26.37% | 65.14% |

Notes to the financial statements / continued

# 6 Net interest income

| | 2024<br>£'000 | 2023<br>£'000 |
|---|---|---|
| Loans and advances to customers | 17,963 | 7,159 |
| Cash and cash equivalents | 7,591 | 2,047 |
| Interest income | 25,554 | 9,206 |
| Deposits from customers | (13,153) | (2,970) |
| Wholesale funding | – | (37) |
| Interest expense | (13,153) | (3,007) |
| Net interest income | 12,401 | 6,199 |

All revenues arise in the United Kingdom.

# 7 Fees and commission

| | 2024<br>£'000 | 2023<br>£'000 |
|---|---|---|
| Lending income | 408 | 175 |
| Fee and commission income | 408 | 175 |
| Lending expense and arrangement fees | (94) | (5) |
| Other fees | (8) | (2) |
| Fee and commission expense | (102) | (7) |
| Net fees and commission | 306 | 168 |

# 8 Employee numbers and costs

The average number of persons employed by the Group (including directors) during the year, was as follows:

| Group | 2024 | 2023 |
|---|---|---|
| Recognise Bank Limited | 73 | 71 |
| Credit Asset Management Limited | – | 2 |
| Total | 73 | 73 |

Notes to the financial statements / continued

## 8 Employee numbers and costs continued

The aggregate payroll costs of these employees were as follows:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Wages and salaries | 8,868 | 9,404 |
| Social security costs | 1,125 | 1,488 |
| Pensions | 351 | 306 |
| Other payroll related costs | 109 | 716 |
| | 10,453 | 11,914 |

The key management personnel of the Bank are the directors and, with effect from 1 April 2023, members of ExCo, all of whose emoluments are included in the aggregate payroll costs above.

The emoluments of the directors in respect of services to the Bank were as follows:

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Wages and salaries | 1,269 | 1,990 |
| Social security costs | 185 | 335 |
| Pensions | 22 | 21 |
| Other payroll related costs | 90 | 400 |
| | 1,566 | 2,746 |

The total emoluments of the highest paid director (including £350,000 for payment in lieu of notice) were £567,438 (2023: £578,312). In addition, aggregate social security costs were £79,438 (2023: £84,823).

The aggregate emoluments for the year of the members of ExCo, excluding those who were also directors, were £2,232,000 (including £242,000 for payments in lieu of notice). In addition, aggregate social security costs were £310,000 and pension costs were £62,000.

## 9 Other operating expenses

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Consultancy charges | 2,394 | 1,395 |
| IT and software expenses | 2,214 | 1,448 |
| Irrecoverable VAT | 1,222 | 942 |
| Outsourced costs | 1,167 | 1,015 |
| Property related expenses | 305 | 437 |
| Group management charges | – | 90 |
| Group restructure costs | – | 836 |
| Other miscellaneous costs | 975 | 639 |
| | 8,277 | 6,802 |

Notes to the financial statements / continued

| **Auditors' remuneration** | **2024 £'000** | **2023 £'000** |
|---|---|---|
| Fees payable to the Bank's auditors for the audit of the consolidated and Bank's annual financial statements[(a)] | 377 | 413 |
| | 377 | 413 |

(a) 2023: £413,000 includes £98,000 paid to the previous auditors, BDO LLP, in respect of the 2022 audit.

## 10 Depreciation and amortisation

| | **2024 £'000** | **2023 £'000** |
|---|---|---|
| Depreciation on tangible fixed assets | 117 | 99 |
| Amortisation of intangible assets | 317 | 456 |
| Amortisation of right-of-use assets | 201 | 234 |
| | 635 | 789 |

## 11 Net impairment (loss)/gain on financial assets

| | **2024 £'000** | **2023 £'000** |
|---|---|---|
| (Increase)/decrease in IFRS 9 provision for expected credit losses | (3,126) | 162 |
| | (3,126) | 162 |

## 12 Other income

| | **2024 £'000** | **2023 £'000** |
|---|---|---|
| Other income[(a)] | 777 | 1 |
| | 777 | 1 |

(a) 2024: £777,000 comprises primarily a receipt from HMRC following submission of R&D claims for 2021 and 2022.

Notes to the financial statements / continued

## 13 Tax expense for the year

| | 2024 £'000 | 2023 £'000 |
|---|---|---|
| UK Corporation Tax | | |
| Current tax on the result for the year | – | – |
| Factors affecting the tax charge for the year | | |
| Loss on ordinary activities before taxation | (9,007) | (12,975) |
| At standard rate of corporation tax in the UK of 25% (2023: 19%) | (2,252) | (2,465) |
| Effects of: | | |
| Short term timing differences | 19 | (31) |
| Permanent timing differences | (164) | 216 |
| Movement on unrecognised deferred tax asset | 2,397 | 2,280 |
| Tax charge for the year | – | – |

On 1 April 2023, UK corporate tax rate increased from 19% to 25%.

## 14 Dividends

No dividends were paid and recognised during either the current or prior year. The directors do not recommend payment of a final dividend (2023: nil).

## 15 Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2024 £'000 | 2023 £'000 | 2024 £'000 | 2023 £'000 |
| Cash at bank | 164,682 | 139,080 | 164,292 | 138,354 |
| | 164,682 | 139,080 | 164,292 | 138,354 |

There was £50,000 restricted cash (2023: £50,000) within both the Group and Company cash balances. Restricted cash represents a minimum deposit balance held with a bank.

Notes to the financial statements / continued

# 16 Loans and advances to customers

| Group | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Gross loans and advances at 1 April 2023** | 122,272 | 37 | 130 | 122,439 |
| Originations | 221,908 | – | – | 221,908 |
| Transfer to Stage 2 | (23,080) | 23,080 | – | – |
| Transfer to Stage 3 | – | (4,748) | 4,748 | – |
| Repayments | (36,860) | (964) | – | (37,824) |
| Write-offs | – | – | (130) | (130) |
| **Gross loans and advances at 31 March 2024** | 284,240 | 17,405 | 4,748 | 306,393 |
| Allowances for ECLs at 31 March 2024 | (367) | (15) | (3,197) | (3,579) |
| **Net loans and advances at 31 March 2024** | 283,873 | 17,390 | 1,551 | 302,814 |

| **Impairment** | | | | |
|---|---|---|---|---|
| Allowances for ECLs at 1 April 2023 | 366 | 21 | 130 | 517 |
| Movement in provision for impairment | | | | |
| Increase due to originations | 142 | – | – | 142 |
| Transfer to Stage 2 | (26) | 26 | – | – |
| Transfer to Stage 3 | – | (253) | 253 | – |
| Decrease due to repayments | – | (535) | – | (535) |
| Provisions | – | 777 | 2,944 | 3,721 |
| Other movements | (115) | (21) | (48) | (184) |
| Write-offs | – | – | (82) | (82) |
| Total movement in loss allowance | 1 | (6) | 3,067 | 3,062 |
| **Allowances for ECLs at 31 March 2024** | 367 | 15 | 3,197 | 3,579 |

Notes to the financial statements / continued

## 16 Loans and advances to customers continued

| Company | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Gross loans and advances at 1 April 2023** | 121,660 | – | – | 121,660 |
| Originations | 221,910 | – | – | 221,910 |
| Transfer to Stage 2 | (23,080) | 23,080 | – | – |
| Transfer to Stage 3 | – | (4,748) | 4,748 | – |
| Repayments | (36,386) | (927) | – | (37,313) |
| **Gross loans and advances at 31 March 2024** | 284,104 | 17,405 | 4,748 | 306,257 |
| Allowances for ECLs at 31 March 2024 | (335) | (15) | (3,197) | (3,547) |
| **Net loans and advances at 31 March 2024** | 283,769 | 17,390 | 1,551 | 302,710 |

| **Impairment** | | | | |
|---|---|---|---|---|
| Allowances for ECLs at 1 April 2023 | 219 | – | – | 219 |
| Movement in provision for impairment | | | | |
| Increase due to originations | 142 | – | – | 142 |
| Transfer to Stage 2 | (26) | 26 | – | – |
| Transfer to Stage 3 | – | (253) | 253 | – |
| Decrease due to repayments | – | (535) | – | (535) |
| Provisions | – | 777 | 2,944 | 3,721 |
| Total movement in loss allowance | 116 | 15 | 3,197 | 3,328 |
| **Allowances for ECLs at 31 March 2024** | 335 | 15 | 3,197 | 3,547 |

Notes to the financial statements / continued

| Group | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Gross loans and advances at 1 April 2022** | 99,094 | – | – | 99,094 |
| Gross loans and advances of CAML as at 3 August 2022 | 1,643 | – | 649 | 2,292 |
| Originations | 38,164 | – | – | 38,164 |
| Transfer to Stage 2 | (37) | 37 | – | – |
| Transfer to Stage 3 | – | – | – | – |
| Repayments | (16,592) | – | (84) | (16,676) |
| Write-offs | – | – | (435) | (435) |
| **Gross loans and advances at 31 March 2023** | 122,272 | 37 | 130 | 122,439 |
| Allowances for ECLs at 31 March 2023 | (366) | (21) | (130) | (517) |
| **Net loans and advances at 31 March 2023** | 121,906 | 16 | – | 121,922 |
| **Impairment** | | | | |
| Allowances for ECLs at 1 April 2022 | 153 | – | – | 153 |
| Movement in provision for impairment | | | | |
| Allowances for ECLs of CAML as at 3 August 2022 | 273 | – | 649 | 922 |
| Transfer to Stage 2 | – | – | – | – |
| Transfer to Stage 3 | – | – | – | – |
| Specific provisions | – | 21 | 2 | 23 |
| Increase due to originations | 66 | – | – | 66 |
| Other movements | (126) | – | (86) | (212) |
| Write-offs | – | – | (435) | (435) |
| Total movement in loss allowance | 213 | 21 | 130 | 364 |
| **Allowances for ECLs at 31 March 2023** | 366 | 21 | 130 | 517 |

Notes to the financial statements / continued

# 16 Loans and advances to customers continued

| Company | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Gross loans and advances at 1 April 2022** | 99,094 | – | – | 99,094 |
| Originations | 38,164 | – | – | 38,164 |
| Transfer to Stage 2 | – | – | – | – |
| Transfer to Stage 3 | – | – | – | – |
| Repayments | (15,598) | – | – | (15,598) |
| **Gross loans and advances at 31 March 2023** | 121,660 | – | – | 121,660 |
| Allowances for ECLs at 31 March 2023 | (219) | – | – | (219) |
| **Net loans and advances at 31 March 2023** | 121,441 | – | – | 121,441 |
| **Impairment** | | | | |
| Allowances for ECLs at 1 April 2022 | 153 | – | – | 153 |
| Movement in provision for impairment | | | | |
| Transfer to Stage 2 | – | – | – | – |
| Transfer to Stage 3 | – | – | – | – |
| Specific provisions | – | – | – | – |
| Increase due to originations | 66 | – | – | 66 |
| Total movement in loss allowance | 66 | – | – | 66 |
| **Allowances for ECLs at 31 March 2023** | 219 | – | – | 219 |

## Finance leases receivable

The Group's finance leases receivable, which are included within loans and advances to customers, are analysed as follows:

| Group | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Gross investment: | | |
| Less than 1 year | 10,429 | 209 |
| 1 to 5 years | 24,211 | 52 |
| More than 5 years | 400 | – |
| Unearned future finance income | (3,813) | (12) |
| **Net investment in finance leases receivable** | 31,227 | 249 |
| The net investment in finance leases may be analysed as follows: | | |
| Less than 1 year | 9,393 | 198 |
| 1 to 5 years | 21,491 | 51 |
| More than 5 years | 343 | – |
| | 31,227 | 249 |

Notes to the financial statements / continued

| Company | 2024 £'000 | 2023 £'000 |
|---|---|---|
| Gross investment: | | |
| Less than 1 year | 10,290 | – |
| 1 to 5 years | 24,211 | – |
| More than 5 years | 400 | – |
| Unearned future finance income | (3,808) | – |
| **Net investment in finance leases receivable** | 31,093 | – |
| The net investment in finance leases may be analysed as follows: | | |
| Less than 1 year | 9,259 | – |
| 1 to 5 years | 21,491 | – |
| More than 5 years | 343 | – |
| | 31,093 | – |

Asset finance loans are advanced to customers for business-critical assets such as commercial vehicles, plant and machinery with the finance income arising being recognised as interest income in the income statement.

## 17 Investment in subsidiaries

| Company | 2024 £'000 | 2023 £'000 |
|---|---|---|
| **At 1 April** | **3,349** | **–** |
| Additions during the year | – | 3,349 |
| Repayment of surplus capital from Credit Asset Management Limited | (3,000) | – |
| Disposals during the year | – | – |
| **At 31 March** | 349 | 3,349 |

| Company name | Nature of business | 2024 Control % | 2023 Control % |
|---|---|---|---|
| Credit Asset Management Limited | Asset finance and loans | 100% | 100% |
| Professions Funding Limited | Professions funding | – | 100% |
| Property & Funding Solutions Ltd | Dormant | – | – |

There was no impairment in the value of the Bank's investment in its subsidiaries at either 31 March 2024 or 31 March 2023.

As part of an internal capital reorganisation on 25 March 2024, the Company's wholly-owned subsidiary, Credit Asset Management Limited, repaid £3,000,000 surplus capital which was no longer required to support its business (Note 29).

At 31 March 2024, the Bank had only one subsidiary, Credit Asset Management Limited, which is a wholly-owned direct subsidiary. It is in the final phase of running off its leases & loans portfolio.

Professions Funding Limited, which was a wholly owned subsidiary of Credit Asset Management Limited, was put into members' voluntary liquidation on 27 March 2024 when joint liquidators were appointed and took control of the company. Immediately before Professions Funding Limited went into members' voluntary liquidation, it transferred its remaining business and assets to the Bank at their fair value of £45,000 and ceased all business activities.

Property & Funding Solutions Ltd, which was a wholly-owned dormant company, was dissolved on 27 June 2023. An application to strike off the company, which had issued share capital and shareholders' funds of £100, had been made to the Registrar of Companies on 20 March 2023.

Credit Asset Management Limited is registered in England and Wales and has a 31 March year end. Its registered office address is Augustine House, 6A Austin Friars, London EC2N 2HA.

Notes to the financial statements / continued

## 18 Property, plant and equipment

| | Group | | Company | |
|---|---|---|---|---|
| | 2024 £'000 | 2023 £'000 | 2024 £'000 | 2023 £'000 |
| **Cost** | | | | |
| At 1 April | 404 | 150 | 404 | 145 |
| Additions | 52 | 259 | 52 | 259 |
| Disposals | – | (5) | – | – |
| **At 31 March** | 456 | 404 | 456 | 404 |
| **Accumulated depreciation** | | | | |
| At 1 April | 174 | 80 | 174 | 75 |
| Charge in year | 117 | 99 | 117 | 99 |
| Disposals | – | (5) | – | – |
| **At 31 March** | 291 | 174 | 291 | 174 |
| **Net book amount** | | | | |
| **At 31 March** | 165 | 230 | 165 | 230 |

Property, plant and equipment comprises office furniture and equipment.

## 19 Intangible assets

| | Group | | Company | |
|---|---|---|---|---|
| | 2024 £'000 | 2023 £'000 | 2024 £'000 | 2023 £'000 |
| **Cost** | | | | |
| At 1 April | 1,808 | 1,237 | 1,808 | 1,237 |
| Additions | 1,054 | 571 | 1,054 | 571 |
| **At 31 March** | 2,862 | 1,808 | 2,862 | 1,808 |
| **Accumulated amortisation** | | | | |
| At 1 April | 713 | 257 | 713 | 257 |
| Charge in year | 317 | 456 | 317 | 456 |
| **At 31 March** | 1,030 | 713 | 1,030 | 713 |
| **Net book amount** | | | | |
| **At 31 March** | 1,832 | 1,095 | 1,832 | 1,095 |

Intangible assets include primarily core banking software.

Notes to the financial statements / continued

## 20 Leases

Information on leases where the Group is a lessee is given below. Information on leases where the Group is the lessor is provided in Note 16.

### Right-of-use assets

The changes in the carrying value of right-of-use assets were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| **Property leases** | **2024 £'000** | **2023 £'000** | **2024 £'000** | **2023 £'000** |
| At 1 April | 372 | 100 | 372 | 100 |
| Additions | – | 506 | – | 506 |
| Amortisation for the year | (201) | (234) | (201) | (234) |
| **At 31 March** | 171 | 372 | 171 | 372 |

The property leases comprise the following:

The Bank's Head Office premises in London were leased in April 2022 under a lease expiring on 6 April 2027, with an option to cancel the lease any time on or after 7 April 2025 on providing three months' written notice. The lease liability has been measured at the present value of the contractual payments due over the period of the lease, using a discount rate of 6%.

The remaining leases which, in prior periods, were assessed under IFRS 16 and classified as right-of-use assets with corresponding lease liabilities, expired during the year ended 31 March 2024.

Other premises leased by the Group companies during the year were occupied under leases that were for a period of less than one year. All other leased assets were categorised as low value leases. The Group opted to recognise the lease expense for all of these on a straight-line basis as permitted by IFRS 16.

### Lease Liabilities

| | Group | | Company | |
|---|---|---|---|---|
| **Property leases** | **2024 £'000** | **2023 £'000** | **2024 £'000** | **2023 £'000** |
| At 1 April | 413 | 103 | 413 | 103 |
| Additions | – | 506 | – | 506 |
| Interest expense | 22 | 29 | 22 | 29 |
| Lease payments | (247) | (225) | (247) | (225) |
| **At 31 March** | 188 | 413 | 188 | 413 |
| Amount due within one year | 131 | 154 | 131 | 154 |
| Amount due after one year | 57 | 259 | 57 | 259 |

The Bank does not have a significant liquidity risk with regard to its lease liabilities as it has sufficient current assets to meet the obligations related to lease liabilities as and when they fall due.

The amounts relating to short-term leases are recognised as an expense for the year and future aggregate commitments for these are:

| | **2024 £'000** | **2023 £'000** |
|---|---|---|
| Short-term lease expense | 121 | 102 |
| Aggregate commitments for short-term leases | 49 | 29 |

Notes to the financial statements / continued

## 21 Other assets

| | Group | | Company | |
|---|---|---|---|---|
| | 2024<br>£'000 | 2023<br>£'000 | 2024<br>£'000 | 2023<br>£'000 |
| Prepayments | 726 | 551 | 726 | 551 |
| Amount owed by subsidiary | – | – | – | 2,328 |
| Amount owed by Employee Benefit Trust (Note 29) | – | – | 211 | 211 |
| Investment[(a)] | 105 | – | – | – |
| Other | 36 | 139 | 33 | 131 |
| | 867 | 690 | 970 | 3,221 |

(a) The investment comprises the Group's equity investment in Professions Funding Limited, a company registered in England and Wales, which was put into members' voluntary liquidation on 27 March 2024, when joint liquidators were appointed and took control over the company (Note 17).

## 22 Deposits from customers

| | Group | | Company | |
|---|---|---|---|---|
| | 2024<br>£'000 | 2023<br>£'000 | 2024<br>£'000 | 2023<br>£'000 |
| Notice accounts | 171,326 | 149,983 | 171,326 | 149,983 |
| Term deposits | 240,341 | 50,268 | 240,341 | 50,268 |
| | 411,667 | 200,251 | 411,667 | 200,251 |

## 23 Borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | 2024<br>£'000 | 2023<br>£'000 | 2024<br>£'000 | 2023<br>£'000 |
| Block discounting loans | 73 | 170 | – | – |
| Loans from subsidiary (Note 29) | – | – | 517 | 5,000 |
| | 73 | 170 | 517 | 5,000 |

Notes to the financial statements / continued



## 24 Other liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2024 £'000** | **2023 £'000** | **2024 £'000** | **2023 £'000** |
| Trade creditors | 524 | 187 | 524 | 165 |
| Payable to affiliates | 151 | – | – | – |
| Other taxation and social security contributions | 658 | 782 | 645 | 754 |
| Accruals | 2,599 | 3,206 | 2,594 | 3,164 |
| Other | 222 | 14 | 222 | 14 |
| | 4,154 | 4,189 | 3,985 | 4,097 |

## 25 Share capital

| **Allotted, called up and fully paid** | **2024 Number** | **2023 Number** | **2024 £'000** | **2023 £'000** |
|---|---|---|---|---|
| A ordinary shares of £1 each | 62,529,724 | 57,529,720 | 62,530 | 57,530 |

The Company did not hold any ordinary shares in treasury at 31 March 2024 (2023: nil).

1,366,193 A ordinary shares of £1.00 were held by the Employee Benefit Trust at 31 March 2024 (2023: 1,366,193 shares).

The Company made the following issues of shares during the year ended 31 March 2024:

- On 11 May 2023, the Company issued four A ordinary shares at £2.44 each for cash of £9.76 on exercise of four Open Offer Replacement warrants. The premium of £5.76 arising on the issue of the shares was credited to Share premium.
- On 25 October 2023, the Company issued 5,000,000 A ordinary shares at £1.00 each to Parasol V27 Limited for cash of £5,000,000.

The proceeds from shares issued for cash during the year are being applied to support the development of the Company.

Movements in the share capital and share premium are as follows:

| **Issue of shares** | **Number of A ordinary shares of £1 each** | **Share capital £'000** | **Share premium £'000** |
|---|---|---|---|
| At 1 April 2022 | 30,577,708 | 30,578 | 32,513 |
| Issued for cash on 24 May 2022 | 2,633,163 | 2,633 | 3,818 |
| Issued on transfer of CAML on 3 August 2022 | 684,489 | 684 | 993 |
| Issued for cash on 28 February 2023 | 23,584,906 | 23,585 | 1,415 |
| Issued for cash on 22 March 2023 | 49,454 | 50 | 3 |
| Costs charged to Share premium | – | – | (20) |
| At 31 March 2023/1 April 2023 | 57,529,720 | 57,530 | 38,722 |
| Issued for cash on 11 May 2023 | 4 | – | – |
| Issued for cash on 25 October 2023 | 5,000,000 | 5,000 | – |
| At 31 March 2024 | 62,529,724 | 62,530 | 38,722 |

Notes to the financial statements / continued

# 25 Share capital continued

## Share warrants

The following table summarises information on warrants which were outstanding at 31 March 2024 and 31 March 2023.

The Open Offer Replacement warrants, which were issued on 21 February 2023, enable holders to subscribe for ordinary shares of the Company at £2.44 each over the period to 21 October 2024.

The Equity Subscription warrants enable the holders to subscribe for ordinary shares of the Company at £1.06 each during the 3-year period from the dates of issue of 28 February 2023 and 22 March 2023 respectively.

| | 2024 Number | 2024 £'000 | 2023 Number | 2023 £'000 |
|---|---|---|---|---|
| Open Offer Replacement warrants issued on 21 February 2023 | 286,059 | – | 286,063 | – |
| Equity Subscription warrants issued on 28 February 2023 | 23,584,906 | – | 23,584,906 | – |
| Equity Subscription warrants issued on 22 March 2023 | 49,454 | – | 49,454 | – |
| As at 31 March | 23,920,419 | – | 23,920,423 | – |

Four Open Offer Replacement warrants were exercised during the year ended 31 March 2024 on 11 May 2023. No warrants were exercised during the previous year.

# 26 Other Reserves

| | Group | | Company | |
|---|---|---|---|---|
| | 2024 £'000 | 2023 £'000 | 2024 £'000 | 2023 £'000 |
| Share-based payments | 90 | – | 90 | – |
| | 90 | – | 90 | – |

In accordance with the terms of a Settlement Agreement dated 10 July 2023 with a former employee of the Bank, the Bank granted an option on 12 January 2024 over 330,188 ordinary shares in the Company, exercisable in whole or in part on a total payment of £1 within a three-year period from its date of issue. The deemed value of the option as at the date of issue was £89,902 and this, together with the associated employer's national insurance of £12,856 that would become payable on exercise of the option, has been charged in the consolidated statement of comprehensive income. The value of the option was assessed by applying a discount of 25% to the average market capitalisation to net book value ratios of a basket of market comparables, to reflect the fact the Company is a privately held company.

The shares held by the Trustees of the Recognise Bank Employee Benefit Trust (Note 25) are available to meet future share awards to employees. It is intended that shares held by the Trustees would be transferred to the former employee following exercise of the option referred to above.

Notes to the financial statements / continued

## 27 Commitments

As at 31 March 2024, the Bank was contractually committed to make future loan advances of £13,870,492 (2023: £19,940,308) to customers.

The Bank is contractually committed to issue up to 286,059 new ordinary shares should holders of the 286,059 Recognise Bank Open Offer Replacement warrants referred to in Note 25 exercise their right to subscribe for shares at £2.44 in cash per share on or before 21 October 2024.

The Bank is contractually committed to issue up to 23,634,360 new ordinary shares should holders of the 23,634,360 Equity Subscription warrants referred to in Note 25 exercise their right to subscribe for shares at £1.06 in cash per share on or before the third anniversary of their date of issue, which is 28 February 2026 or 21 March 2026.

Under the terms of a Settlement Agreement dated 24 May 2022 with a former employee of the Bank, the Bank was contractually committed to procure that its then parent company, City of London Group plc, issued an option for him to acquire shares worth £350,000 at the date of issue of the option, exercisable in whole or in part on payment of £1 within a three-year period from its date of issue. At that date, the shares of City of London Group plc were traded on AIM. However, as part of the group reorganisation on 25 January 2023, City of London Group plc delisted from AIM and went into members' voluntary liquidation. The Bank has offered to grant an option for him to acquire 330,188 ordinary shares in the Bank. An accrual for the deemed overall cost of this option, assuming it was granted as at 31 March 2024, of £91,541 is carried in the financial statements. The deemed overall cost was assessed on the basis set out in Note 26 for the option issued on 12 January 2024.

## 28 Deferred tax assets and liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2024 £'000** | **2023 £'000** | **2024 £'000** | **2023 £'000** |
| Deferred tax assets and liabilities are as follows: | | | | |
| Tax losses | 11,359 | 9,387 | 10,755 | 8,706 |
| Short-term timing differences | (31) | (33) | (32) | (38) |
| | 11,328 | 9,354 | 10,723 | 8,668 |
| Unrecognised deferred tax asset | (11,328) | (9,354) | (10,723) | (8,668) |
| | – | – | – | – |

No deferred tax assets were recognised in the financial statements at 31 March 2024 or 31 March 2023 due to the unpredictability of the timing of future recovery.

The unrecognised deferred tax asset has been calculated using a UK corporation tax rate of 25% (2023: 25%) on the basis of trading losses carried forward of £45,434,000 (2023: £37,547,000) and timing differences of £123,000 (2023: £133,000). There is no time limit for the utilisation of these amounts.

Notes to the financial statements / continued

# 29 Related parties transactions

The related parties of the Bank are its subsidiaries, together with its directors, key management personnel of the Bank, major shareholders and their controlled undertakings. The Bank entered into the following related party transactions during the year ended 31 March 2024:

(a) On 25 October 2023, the Company issued 5,000,000 A ordinary shares at £1.00 each to Parasol V27 Limited for cash of £5,000,000.

(b) During the year ended 31 March 2024, CAML, the Bank's subsidiary, deposited £800,000 surplus funds with Recognise Bank Limited, advancing the funds on an interest free basis with repayment on demand.

(c) On 25 March 2024, CAML repaid £3,000,000 of surplus capital (Note 17) and £2,328,000 of cumulative unpaid dividends to the Bank by off-setting the amounts payable against the balance of £5,800,000 due from the Bank. As at 31 March 2024, the balance of the interest free loan between the Bank and CAML amounted to £517,000 as set out in the table below.

(d) The compensation paid or payable to key management personnel is presented in Note 8.

The table below summarises the amounts owed by and to the Bank by related parties as at the year-end, as well as amounts charged to and receivable by the Company in each year.

| **Balance outstanding as at 31 March** | **2024 £'000** | **2023 £'000** |
|---|---|---|
| **Intra-group balances - amounts owed by/(to)** | | |
| **Employee Benefit Trust** | | |
| Amount receivable (Note 21) | 211 | 211 |
| **Credit Asset Management Limited** | | |
| Amount owed by subsidiary (Note 21) | – | 2,328 |
| Loan from subsidiary (Note 23) | (517) | (5,000) |

| **Income/(expenses) arising from related party transactions during the year** | **2024 £'000** | **2023 £'000** |
|---|---|---|
| **City of London Group plc**[(a)] | | |
| Group charges paid | – | (178) |
| Rent paid | – | (90) |
| Group restructure costs | – | (749) |
| **Property & Funding Solutions Ltd** | | |
| Dividend income | – | 468 |

(a) arising in period prior to 25 January 2023 when City of London Group plc was a related party.

# 30 Ultimate holding company

The Company's immediate parent company is Parasol V27 Limited, a company incorporated in Gibraltar. The ultimate parent company is Parasol V27 Holdings Limited, a company incorporated in Gibraltar.

The Bank has a relationship agreement with Parasol V27 Limited. In addition to specifying matters where prior written consent from Parasol V27 Limited is required to be given to the Bank, Parasol V27 Limited is also entitled, subject to the prior approval of the PRA, to nominate two non-executive directors to the board of directors of the Bank while it holds 50% or more of the voting rights of the Bank. If it is interested in 10% or more but less than 50% of the voting rights, it is entitled to nominate one non-executive director. Parasol V27 Limited has currently nominated two non-executive directors, Ruth Parasol and Steven Pateman, to the Board.

Recognise Bank Limited is the largest and smallest group for which publicly available consolidated financial statements including the entity's position and results are included. Copies of Recognise Bank Limited's financial statements can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

# 31 Post balance sheet events

## Capital raise

On 1 November 2024, the Bank entered into a Subscription Agreement with its largest shareholder Parasol V27 Limited ("PV27"), pursuant to which PV27 will inject up to £25,000,000 into the Bank.

The subscription is occurring in two tranches:

- The first tranche of £20,000,000 was received in cash by the Company on 1 November 2024 and a total of 20,000,000 ordinary shares were issued to PV27 at a subscription price of £1.00 per ordinary share.
- The second tranche of £5,000,000 is expected to be made in the third quarter of 2025, subject to certain criteria and obligations under the Subscription Agreement having been met, in exchange for the allotment and issuance to PV27 of qualifying additional tier 1 capital on customary commercial UK market terms for coupon bearing tier 1 capital, or if a suitable form of AT1 cannot be issued by the Bank, 5,000,000 ordinary shares at a subscription price of £1.00 per ordinary share.

The moneys raised will be used to underpin a restructuring of the Bank and to actively manage the balance sheet towards higher margin lending products, initially in property finance.

There are no other material reportable post balance sheet events to be disclosed.

# Shareholder information

## Financial calendar

We will hold our annual general meeting at the office of the Company at Augustine House, 6A Austin Friars, London EC2N 2HA at 2.00pm on 14 January 2025. The notice of meeting will be sent to shareholders in mid-December 2024.

## Matched bargain trading facility

Asset Match, a firm authorised and regulated by the Financial Conduct Authority, has been appointed to operate an electronic off-market dealing facility which allows the Company's minority shareholders to trade ordinary shares by matching buyers and sellers through periodic auctions.

The Asset Match trading facility operates under its own code of practice which governs the behaviour of participants and the running of the periodic auctions. Asset Match operates an open auction system where volumes of bids and offers at different prices are displayed on its website together with the closing date of the auction. At the end of each auction period Asset Match pass this information through a non-discretionary algorithm that determines a 'market-derived' share price based on supply and demand and allocates transactions accordingly. Bids and offers may be made and withdrawn at any time before the closing date of each auction.

Investors can register their interest for further information on the Asset Match auction process by emailing info@assetmatch.com

Full details are available on the Company's website at www.recognisebank.co.uk

**Registered office**

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Website: www.recognisebank.co.uk

**Investor enquiries**

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**Company secretary**

G M Kingsbury
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**Registrar and transfer office**

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