Recognise Bank Limited Annual Report 2023

Recognise BANK

Annual Report & Accounts

2023

Recognise BANK

Our Recognise Bank values are:

Recognition

We place a high value on understanding and acknowledging the needs, ambitions, and achievements of our team and our customers. We embrace diversity and are committed to transparent and fair practices.

Excellence

We are committed to delivering high-quality work and exceptional services. We embrace new technologies and trends to continually improve our processes, products, and services.

Authenticity

We are steadfast in keeping our promises and being accountable. Our relationships are built on integrity, trust, and a personal touch. We are genuine in our interactions, communicating openly and respectfully.

Teamwork

We believe in the power of unity. Everyone at Recognise Bank has a voice, and we foster an environment of open collaboration, continually learning and growing together to achieve the best results for our customers and our business.

Continuous Improvement

We are dynamic and adaptable. We are committed to innovation, and we encourage our team to constantly think creatively in serving our customers. We value knowledge and skill, and we stay abreast of industry trends and best practices.

Highlights

Business development

- Further £33m capital injected into the Bank during the year, taking total investment to over £96m
- Loan book up 23% to £122m at year end and poised for significant growth
- Personal and Business Savings balances up by more than 100% to £200m at year end
- Digital transformation programme is underway
- New product development and service enhancements are in train
- Bank entered Asset Finance market in April 2023
- Group restructuring completed during the year, delivering simplification and future cost savings

Financial results

£13.0m loss

Loss before tax after reorganisation and restructuring costs of £0.8m (2022: loss before tax £12.1m)

£121.9m

Loan book at 31 March 2023 (2022: £99.0m)

£200.3m

Deposits at 31 March 2023 (2022: £95.0m)

Reports

Page 5 comprises the Chair's statement, pages 6 to 20 the Strategic report and pages 27 and 28 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. Its business has grown substantially since September 2021 when it first became able to accept savings deposits after gaining full authorisation status from the PRA.

Recognise Bank operates as a relationship-led SME lending bank with offices in London, Manchester, Birmingham and Leeds. It is committed to being a full-service, 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. The Bank is accelerating its digital transformation programme which will enable it to offer new and improved lending products and services more efficiently to the SME sector.

With an experienced management team and workforce and no legacy loan book, Recognise Bank is well placed to continue to support ambitious SME businesses, empowering them to succeed while achieving their financial objectives.

Abbreviations

AIM	Alternative Investment Market
ALCO	Asset and Liability Committee of Recognise Bank
BRC	Board Risk Committee of Recognise Bank
BTL	Buy to Let
CCI	Credit Cycle Index
CCO	Chief Compliance Officer
CET	Common Equity Tier
CRO	Chief Risk Officer
EAD	Exposure at Default
EBA	European Banking Authority
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
GDP	Gross Domestic Product
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
PRA	Prudential Regulation Authority
RAG	Red, Amber, Green
RCSAs	Risk and Control Self-Assessments
SICR	Significant Increase in Credit Risk
TCR	Total Capital Requirement
TtC	Through-the-Cycle

Awards and commendations received by Recognise Bank

Recognise Bank has once again received a number of important awards and commendations in the past year.

B&C Awards 2022 – Commercial Lender of the Year – Nominated

Recognise Bank was nominated 'Commercial Lender of the Year' by the B&C Awards in 2022. This award acknowledges outstanding commercial mortgage providers in the UK who excel in serving brokers and borrowers and aims to highlight both established and newer specialists in this field.

Moneynet Awards 2023 – Best Variable Rate Business Savings Provider – Winner

The 13th Annual Moneynet Personal Finance Awards 2023 recognise the best providers and products. The awards acknowledge providers who have adapted to changing market conditions and outperformed their peers, delivering excellent choice, value and innovative solutions for their customers. Recognise Bank was delighted to be chosen as a winner for the 'Best Variable Rate Business Savings Provider' after being awarded highly commended for 'New Savings Provider in 2022' just a few months after entering the market.

The Mortgage Awards 2022 – Best Newcomer in the Mortgage Space – Shortlisted

The Mortgage Awards aim to reward the mortgage lenders and providers that prove their worth during increasingly challenging times. In 2022 Recognise Bank came 2nd as the 'Best Newcomer in the Mortgage Space'.

Moneyfacts Awards 2023 – Best Internet Account Provider – Nominated

The Moneyfacts Awards recognise providers focusing on personal finance products in the preceding year. Recognise Bank was nominated for the 'Best Internet Account Provider' amongst leading providers in the industry.

Business Moneyfacts Awards 2023 – Best Business Variable Rate Deposit Account Provider – Highly commended

The Business Moneyfacts Awards recognise providers focusing on business finance products in the preceding year. Recognise Bank came 2nd (highly commended) in the Best Business Variable Rate Deposit Account Provider category in the first year of launching its business savings accounts.

Savings Champion Awards 2023 – Best New Savings Provider and Best Business Easy Access Account Provider – Finalist in both categories

Recognise Bank was nominated for two awards in the Savings Champion's savings account provider awards in 2023. The awards were judged by a panel of personal finance experts, including national journalists, who celebrate providers that are driving competition and consistently offering the best buy rate. Recognise Bank was a finalist in two categories across both the retail and business savings spaces.

CFI.co Awards 2023 – Best Digital SME Lending Bank UK – Winner

CFI.co (Capital Finance International) provides insights into the more complex areas of international finance to 180,000 readers and subscribers. Recognise Bank was judged to be the 'Best Digital SME Lending Bank UK' after being nominated alongside 2 other peers.

Recognise Bank customer stories

Over the last twelve months, Recognise Bank has continued to support business customers, as shown in the examples below.

Building a strong reputation

Recognise Bank provided a £555,000 commercial mortgage to help Ralph & Co. Limited, an automotive business, purchase its own trading and workshop site in Surrey, which it had occupied for several years.

“Recognise Bank understands the current issues facing SMEs and always looks at the bigger picture when assessing a transaction,” explains lending broker Chris Murphy of Empire Commercial Finance, who collaborated on the deal with the Bank. “This was not the first case we’d submitted to Recognise Bank, and so we knew in advance that the Bank would work hard to make the deal work.”

Providing reassurance through experience

Recognise Bank lent £1,940,000 to property investor and developer, Kuppusamy Sivakaren, to assist with the refinance of a new residential block located in Canvey Island, Essex.

Consisting of fourteen properties, the one- and two-bedroom flats have been completed to a high standard and are well positioned to serve residents in the local community.

“It has been a pleasure to work with Recognise Bank on this opportunity.” said Mr Sivakaren. “The team really took the time to listen and understand what we wanted to achieve, and then structured a facility that suited our needs. This was a complex project with lots of challenges and it was reassuring to have an experienced lender standing alongside us throughout.”

Supporting businesses through difficulties

The Bank also completed a £467,000 commercial investment mortgage to help HGG Limited with a high-pressured funding requirement.

HGG Limited, which owns and lets a portfolio of leisure and office properties, required an enhanced loan to value (LTV) secured against several properties which had tenants in sectors experiencing various pressures.

Chris Johnson of Bespoke Property Finance Consultants, the brokerage who collaborated on this deal with Recognise Bank, said: “I have worked with Recognise Bank on numerous occasions. The Bank fully understands the difficult trading conditions leisure operators are experiencing and continues to consider the bigger picture when assessing a transaction.

“Bespoke and Recognise Bank overcame multiple hurdles with this deal. We collaborated to find various solutions, resulting in a happy client.”

Chair's statement

This has been a year in which Recognise Bank has concentrated on strengthening the base for its future development. In addition to accelerating our digital transformation programme and laying the foundations for entry into the Asset Finance market, we implemented a major group restructuring and, in parallel, obtained additional capital to enable future growth.

As a result of the group reorganisation and restructuring achieved in the last quarter of the year, a significant layer of administrative bureaucracy and cost going forwards has been removed.

In parallel with the restructuring, our major investor Parasol V27 Limited ("PV27") showed its continuing confidence in the Bank's strategy by investing an additional £25m capital in February 2023 to underpin the on-going investment in new digital capability and the projected growth of its lending book.

As a further demonstration of confidence, PV27 announced its intention to underwrite a further capital raise of £25m later in 2023. This allows the Bank to move forward with real confidence and ambition as it delivers a new alternative for UK businesses, both borrowers and savers.

The corporate restructuring, which delayed the raising of additional capital, gave rise to significant one-off costs. As a result of these factors, there was a slight increase in the losses reported for the year. We expect these to fall in the current year as revenue grows and the Bank targets profitable trading.

Management change

Following the arrival of Jean Murphy as CEO in August 2022, the Bank also welcomed Marina Gosling as Chief Financial Officer in the second half of the year. Both join the Executive team and bring a wide range of banking and markets experience to the Bank.

Bryce Glover stepped down as our Deputy CEO in April 2023, when he also resigned as a director. As one of the founders of the Bank, his knowledge and experience have been invaluable over the last 5 years during the process of obtaining a UK banking licence and establishing the Bank. On behalf of the Board, I should like to thank Bryce for his valuable contributions as a Board member.

Outlook

In view of the current and forecast economic and macro challenges we continue to take a cautious and prudent approach, particularly as we build the asset base. Given the nature of our product range, the health of the UK residential and commercial property markets are areas we closely monitor alongside our professional advisers. We continue to adjust our risk appetite and lending parameters as necessary to maintain the quality of the lending book and avoid undue risk to our growth plans.

More positively, from a relatively low base we are building a lending portfolio which is performing well. We are already seeing high customer and broker satisfaction scores and repeat business. Our operational processes are now well embedded, and the Bank's liquidity is in excellent shape with a demonstrated ability to raise and retain personal and business deposits and support the growth of the lending book.

We will continue to drive forward a comprehensive and creative digital roadmap which we believe will create proprietary value and a genuine differentiator from our competitors, whilst delivering efficiencies and revenue opportunities across the business.

The recent corporate restructuring simplifies the group and will help as we look to broaden the shareholder base over the coming years although we are incredibly fortunate to have the strong backing of our existing investors, whose support is vital and greatly appreciated as we move into the next important stage of the Recognise Bank journey.

Philip Jenks
Chair

20 July 2023

Strategic report

Financial summary

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

	2023 £'000	2022 £'000
Loss before tax	(12,975)	(12,136)

The loss for the year is stated after including reorganisation and restructuring costs of £836,000 (2022: nil).

As part of the group restructuring, Credit Asset Management Limited ('CAML') became a wholly-owned subsidiary of the Bank in August 2022. The consolidated results for the year include profits of £276,000 from Credit Asset Management Limited.

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

	2023 £'000	2022 £'000
Loan book at year end	121,922	98,941
Deposits at year end	200,251	94,994

The growth of the lending book was deliberately slowed during the year in advance of the additional capital of £25m that was injected in February 2023. Nevertheless, we originated over £38m of lending during the year, ending the year with a fully performing lending book of £122m, driving increased revenue.

The success of the launch of Business Savings during the year, where the Bank supported businesses by offering competitive rates, mirrored the approach taken to personal savers. Overall savings balances more than doubled during the year with the portfolio broadly split between business and personal savers.

Costs across the business were, as always, tightly controlled by management, although there were a number of significant one-off costs in relation to the corporate restructuring. Overall headcount was closely controlled to align with resource requirements: the headcount at the year-end was 62, excluding directors.

The capital base of Recognise Bank increased by £33.2m during the year. The cash subscribed, including £25m subscribed as part of the corporate restructuring, amounted to £31.5m, while a further £1.7m was issued on the transfer of the investment in CAML at its net asset value.

The run-off of the loan and lease portfolios of CAML, which commenced in March 2020, continued in line with expectations during the period: its loan book at the year-end was £481k.

Current activities

With the benefit of its increased capital base, the Bank has grown its loan book by £47.3m to £169.2m over the three months to 30 June 2023. While the majority of new lending is property related, including professional BTL loans of £11.1m, our new business line of Asset Finance generated £8.2m lending in the 3-month period to 30 June. In addition, there was a strong credit approved pipeline of £41.8m across products at 30 June 2023, with drawdowns anticipated over the next few months.

The figures above include transactions arising from working for the first time with strategic lending partners through whom we are able to access additional loan origination channels. Loan originations of £19.7m were achieved through these partners during the period to 30 June. As part of its business plan, the Bank intends to develop and maintain relationships with strategic lending partners.

Savings rates offered to both business and retail savers have increased since the year end, in accordance with the Bank's policy of offering attractive rates to savers. As part of our treasury funding strategy to increase the relative proportion of fixed rate deposits over time, we offered a 3-Year Fixed Rate Account in June 2023, which had attracted £17.4m by the end of June. Deposits from business and retail customers increased by £19.4m to £219.7m over the 3 months to 30 June 2023.

We are making good progress on developing the Bank's digital capacity, as set out in the roadmap for innovation and expansion.

Review of the businesses

Activities during the year

The 2022/23 financial year was characterised by economic challenges. In addition to challenges arising from weakening global stability and slower economic growth worldwide, economic challenges arose in the UK from cost-of-living increases, rapidly escalating inflation and volatility in the financial markets. While the UK has, to date, marginally avoided falling into recession economic and business confidence has fallen considerably and remains low.

Recognise Bank, like most businesses, was not immune from these challenges but has taken the opportunity during the year to re-position itself in readiness for a period of sustained growth and the objective of achieving profitable trading. This has involved a significant restructure of the former Group, the acceleration of the Bank's digital transformation programme, and investment in new personnel and infrastructure, as well as securing new capital investment and laying the foundations for entry into the Asset Finance market.

The economic context creates both uncertainties and opportunities. The Bank has laid foundations that put it in a strong position to grow successfully and profitably over the coming years. While the core of the original business plan remains robust, the plan has been flexed and re-shaped to reflect the pace of the digital revolution which is taking place and increasing customer demand for speed of execution, new technologies and online products.

Recognise Bank's ethos remains unchanged: it is committed to the SME sector and to being a full-service, 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 is modern, safe and sustainable in a sector of the economy which is well recognised as being underserved by the incumbent, traditional banks. It is, however, the sector which remains the backbone of the UK economy and is full of hard-working, creative entrepreneurs who deserve better support.

Towards the end of the year, we finalised plans to enter the Asset Finance market, an SME lending product which has always been a strategic ambition and which will broaden our product offering. Initially, this will involve working alongside a well established and experienced provider who will supply transactions to the Bank under a Forward Flow arrangement. As we develop this arrangement, we will also be formulating plans to supplement this over the short to medium term by building a lower value, digital product and a platform to allow self-origination.

On the savings side, the launch of Business Savings has proved a great success with the Bank supporting businesses by offering competitive rates and frequently featuring in the Best Buy tables, mirroring the approach we have taken to personal savers. Overall savings balances more than doubled during the year with the portfolio broadly split between business and personal savers. The liquidity position at the year-end was healthy, in anticipation of the strong lending growth expected in the current financial year. Recognise Bank is determined to deliver value for SMEs and the number of businesses saving with us is growing daily.

A Digital Bank for SMEs

We are making good progress on our digital roadmap as we pursue our ambition to create the best in class digital experience and secure real competitive advantage. During the year we signed an important agreement with an India-based technology company, BizAcuity, which has dedicated personnel working alongside our expanded in-house technology team to deliver an exciting programme of innovation and expansion. The roadmap for the programme includes building a diversified and innovative product suite, developing cutting edge data analytics, and launching a proprietary credit decisioning engine and customer portal.

We are delivering a modern digital customer journey and comprehensive data analysis to support a strategy focused on revenue and profit growth, operational excellence, advanced risk monitoring and business future-proofing.

This investment and the preparations we have put in place, particularly over the past 12 months, will deliver an elevated customer experience, enhanced customer lifetime value, improved product economics and value creation through technology. This investment is a clear statement of our ambition to deliver genuine technology solutions which will benefit our customers, colleagues and the business, today and in the future.

Strategic report / Review of the businesses / continued

Group reorganisation and simplification

Further to the Group's strategy to reduce costs and simplify its trading structure, the group structure changed towards the end of the financial year, when City of London Group plc ('COLG') ceased being the holding company. With majority support from COLG shareholders, the admission of COLG's shares to trading on AIM was cancelled, followed by the implementation of a Member's Voluntary Liquidation. The Liquidators then made a distribution in specie to COLG shareholders so that COLG shareholders became direct shareholders in Recognise Bank Limited.

The removal of COLG as a holding company removed a layer of significant overhead costs and administrative bureaucracy. This will also bring better focus and clarity for future investors in the Bank.

New capital

Following the investment of £8.2m from COLG earlier in the year, which included a cash injection of £6.5m, the Bank's major investor, Parasol V27 Limited ('PV27') invested a further £25m in the Bank in parallel with the re-structuring. These investments took the overall equity investment into Recognise Bank since its inception to over £96m. In a further demonstration of its confidence in the Bank's strategy, PV27 announced its intention to underwrite a further capital raise of £25m later in 2023.

Regulatory

The Bank continues to fulfil all its regulatory obligations.

The new Consumer Duty requirements are being treated with the same importance and priority as if we were a retail bank with only personal customers. Recognise Bank strives to meet and exceed the Regulator's requirements at all times and this initiative is no different with good progress being made to implement the new rules and guidelines.

Risk management

Risk management 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 Board Risk Committee 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 Whistleblowing Policy.
Executive Risk Committee	The Executive Risk Committee supports the Board Risk Committee by reviewing 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 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 Board Risk Committee 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.

The Bank has developed a strong risk management function to address the operational and other risks it faces. The Risk Management Policy is reviewed annually and approved by the Board Risk Committee. The Board endorses the Risk Management Strategy which is set out below and has adopted it for the Bank and its subsidiaries.

Risk 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.

Strategic report / Risk management / continued

Risk appetite

The Risk Appetite Statement, which is approved by the Board, is reviewed regularly.

The Risk Appetite Statement includes qualitative and quantitative measures of risk, and the position against risk appetites is reported monthly to the Board.

The Risk Appetite Statement covers the Principal Risks identified in the table below.

Enterprise risk management

All business areas maintain risk and control self-assessments ("RCSAs") within an enterprise risk management system, which records the 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 Board Risk Committee ("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.

Scenario testing

The Bank runs an annual programme of adverse scenarios, such as a cyber attack, to test the adequacy of controls and incident management plans. The results are reported to the ERC and are summarised for the Board Risk Committee.

Risk management strategy

The Bank operates an annual reassessment of the risk management framework, in which it considers the risk management capability that it aims to have in place 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.

The Risk Management Strategy is subject to approval by the BRC, and progress in implementing it is provided to each ERC and BRC meeting.

Three lines of defence

The Bank operates three lines of defence.

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 Board Risk Committee.

The third line of defence (Internal audit) reviews the internal control environment, including culture and governance, and reports to the Audit Committee.

Strategic report / Risk management / continued

Risk and Compliance functions

The Risk function, led by the CRO, and the Compliance function, led by the CCO & 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 that their staff have the 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.

Risk Description	Key Mitigants and Controls	Commentary
Strategic - The risk that either the business model is unviable, or that the strategy will not be implemented successfully – with the outcome that the Bank does not achieve its strategic aims.	Regular reforecasting which takes into account forecast economic circumstances, the actual outcomes to date compared to our assumptions and which is subject to Board approval.	The Bank regularly reviews its strategy. In 2022, the Board decided to develop a digital platform to enable further diversification of assets and customers. The digital platform will allow the Bank to minimise the time required to decide on and execute lending decisions, as well as reach customers directly through a digital customer interface.
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. The Bank has a Capital Contingency Plan that sets out the management of capital under business as usual, when the capital risk is increased, and if we are outside capital risk appetite. It is 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.
Liquidity - The Bank has (or will have) insufficient liquidity 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. The Bank has a Liquidity Contingency Plan that sets out 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 bonds or notice accounts to help reduce liquidity risk.

Strategic report / Risk management / continued

Risk Description	Key Mitigants and Controls	Commentary
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. 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. Lending and loan book quality is reported regularly and is subject to quarterly second line reviews that are reported to the Board Risk Committee. Lending is subject to stress testing using parameters that are at least as severe as the Bank of England annual scenario.	The loan book to date has been originated at a higher quality than expected. The lending has a higher-than-expected proportion of loans assessed as strong, and a lower average LTV. There have been some very limited signs of stress in the book as a result of loans originated before the rises in bank base rate. The Bank has worked and continues to work closely with borrowers in these circumstances.
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 Board Risk Committee. 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.	The Third Party process is operating as expected and our Critical and Important third parties are within risk appetite.
Operational Resilience - The risk that the Bank is subject to a disruptive event that results in material cost and/or significant customer harm. The risk comprises the risk of a disruptive event occurring, and the risk that the Bank is unable to recover from it.	The Bank operates an Operational Resilience Policy that is subject to annual review and approval by the Board. The Bank stress tests a severe but plausible scenario and tests its ability to remain within Board approved Impact Tolerances. The Bank performs an annual self-assessment of Operational Resilience, reporting to the Board. The Bank monitors a range of operational resilience indicators and reports to the Board monthly.	The most recent operational resilience self-assessment was satisfactory. Regular monitoring and testing of operational resilience will continue.
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 Board Risk Committee. We have processes and procedures which are designed and implemented so as to achieve compliance with that policy. There is an annual review by the Data Protection Officer reporting to the Board Risk Committee.	The last report by the Data Protection Officer concluded positively.

Strategic report / Risk management / continued

Risk Description	Key Mitigants and Controls	Commentary
Cyber - The risk that the Bank is subject to a successful cyber attack.	We have a number of policies, including the Information Security Policy, that are subject to annual review and approval. We have processes and procedures which are designed and implemented so as to achieve compliance with those policies. We undertake regular exercises to ensure our incident management response is fit for purpose. The outcome of these exercises is reported to the Board.	The risk of a cyber attack has continued to increase. The Bank continues to review its cyber strategy and tools. The Bank also regularly tests its Incident Management protocols in the case of a cyber attack.
Operational - The risk that a failed or inadequate process or human error results in a material loss or customer harm.	The Bank operates risk and control self-assessments ("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. All risks with a net score above a set level are reported to the Executive Risk Committee and Board Risk Committee, together with any remediation plan.	A number of risks have been identified and are monitored closely. None are outside risk appetite.
Conduct - The risk that the Bank causes harm to some or all of its customers. This includes the failure to treat customers fairly, 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 Board Risk Committee. We have processes and procedures which are designed and implemented so as to achieve compliance with that policy. A Conduct Risk dashboard is reported to the Executive Risk Committee monthly, and to the Board Risk Committee on an exception basis.	The reports produced indicate that the Bank is operating within its conduct risk appetite. Work is underway and is on track to ensure that the Bank complies with Consumer Duty requirements.
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 Board Risk Committee. We have processes and procedures which are designed and implemented so as to achieve compliance with that policy. A Compliance Monitoring Plan is reviewed and approved by the Board Risk Committee, with progress against it and the outcomes of the reviews also being reported to the Board Risk Committee.	Compliance Monitoring has operated to plan.

Strategic report / Risk management / continued

Risk Description	Key Mitigants and Controls	Commentary
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 Board Risk Committee. We have processes and procedures which are designed and implemented so as to achieve compliance with that policy. There is an annual review by the Money Laundering Reporting Officer ("MLRO") reporting to the Board Risk Committee. The MLRO reviews compliance with the AML and CTF Policy on a sample of loans monthly, reporting to the Executive Risk Committee.	Monitoring has indicated that the Bank is operating within its policy and financial crime risk appetite.
Interest Rate Risk - The risk that a change in market interest rates results in a material loss in value to the Bank.	The Bank measures and reports the interest rate risk to a 200 basis points parallel shift on a static book basis and the risk to net interest income of a change in interest rates, reporting to ALCO monthly. The Bank also measures the exposure to the standardised interest rate shocks, reporting to ALCO monthly.	The Bank has, throughout the period, operated within the IRRBB risk appetite.
Climate Risk - The risk that loan assets are adversely impacted by climate change (eg flooding). 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. The Bank measures and reports the loan book by EPC rating and flood risk.	An exercise stress-testing the existing book for climate change has been made and reported to the Board. It identified limited exposure, which provided support to the Bank's existing lending criteria. This is being used to inform the further development of the Bank's climate change financial risk appetite, and its lending criteria. Climate change stress-testing will be developed further as good practice continues to evolve.
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 ALCO. All regulatory returns are subject to review and approval before submission, including reconciliation to management accounts and rationalisation of the movement in key indices.	Regulatory reporting deadlines have been met. Re-submissions are monitored and this is within risk appetite.

Climate change

The Bank has an Environmental and Sustainability Policy ("ESG Policy") which sets out its approach to environmental, social and governance and sustainability matters impacting its business as well as how the Bank impacts the wider environment and communities in which it operates. The Bank has not undertaken any public advocacy on climate change matters.

Climate-related financial risks and the actions taken to mitigate them are included in the risk management framework, as shown on page 14.

In relation to climate-related financial risks:

- the Board is responsible for ensuring that the Bank has in place an appropriate risk and control environment for climate related financial risks;
- the Board has delegated oversight for climate-related financial risks to the Board Risk Committee ("BRC"), and this is included in the terms of reference for the BRC;
- a climate-related risk appetite statement has been developed and has been approved by the Board;
- climate-related financial risks are covered in the Bank's Risk Management Policy;
- processes and procedures are in place or in course of development in specific areas to implement the ESG Policy; and
- 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 principal climate-related risks that impact the Bank are:

Physical risk – the risk to assets (including assets which are collateral for loans made by the Bank) as a result of climate change, including the impact of more extreme weather events that may result in, for example, flooding.

Transition risk – the risk to borrowers' ability to meet their obligations as they fall due arising from the impact of the transition to a low carbon economy.

During the year the Bank completed its first climate change scenario analysis. This 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.

The key mitigants to climate change risk are:

- 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; and
- a suite of climate change metrics reported to the Credit Committee, including lending and the book EPC rating and flood risk.

Climate change is regularly reviewed, with progress and the evolution of our plans being reported to the Board every 6 months.

ESG Assessment

During the year Recognise Bank engaged with an external partner to undertake an assessment in relation to ESG, which reported that the Bank scores above the median across Environmental, Social and Governance relative to its peers, demonstrating a robust degree of ESG planning to date. Given the size and maturity of the business, such a high achievement across both the Social and Governance pillars is noteworthy.

The Bank is currently assessing its future plans to support ESG.

Strategic report / Climate change / continued

Lending Risk Management Disclosures

Climate change risks are considered as part of the lending decision process. The factors considered include:

- the energy efficiency of a property; and
- the flood risk to the property (for lending on properties).

The SME businesses we lend to are to be classified as either green or red, where green is a loan to a climate positive/neutral borrower or activity and red is for a climate negative borrower or activity. We will develop criteria to classify businesses as climate positive, neutral or negative which will then lead to appropriate metrics. In the case of property investors, we will look through to the property collateral classification.

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) and will seek to support its customers to transition towards net zero emissions.

The following tables show the EPC and flood risk ratings for properties which were collateral for loans made by the Bank as at 31 March 2023.

	% of properties	
EPC Rating	**2023**	**2022**
A to C	20	23
D to E	70	61
Below E	1	3
No ratings[a]	9	13

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

	% of properties	
Flood Risk	**2023**	**2022**
Very low	24	29
Low	65	51
Medium	4	13
High	4	7
No rating[a]	3	–

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

Energy consumption and GHG emissions

Energy consumption (KWh '000)	2023	2022
Electricity used in Head Office	53.1	60.3

The Bank has offices in Leeds, Manchester and Birmingham, all of which are serviced offices where we do not have responsibility for energy costs.

Our landlord, Bruntwood, makes a statement about sustainability on its website. (www.bruntwood.co.uk/sustainability)

The Bank does not operate a company car scheme, nor does it fund fuel for cars. Staff who undertake work-related travel are able to claim expenses for this. During the year to 31 March 2023, the Bank has met expenses claims for 6,800 (2022: 15,200) miles of work-related travel. 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 July 2024.

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; and
- the capital and liquidity forecasts of the Bank, undertaking stress scenarios which include the effects of not raising any further capital, incurring greater losses from loan defaults and wider stress in the financial markets and economy impacting cash inflows and outflows.

The Board has also considered mitigating actions that could be taken if there were a delay in raising additional capital to support the growth of Recognise Bank or if the amount raised was less than forecast.

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.

Recognise Bank

The further £25m capital injection from our major investor, PV27, in February 2023 underpins the continuing investment in new digital capability and the projected growth in the lending book over the coming period.

PV27 has also announced its intention to underwrite a further capital raise of £25m later in 2023. This allows the Bank to move forward with real confidence and ambition as it delivers a new alternative for UK businesses, both borrowers and savers.

CAML

The run-off of the loan and lease portfolios of CAML is continuing as the existing loan and lease agreements move towards maturity, generating further operational cash flows. CAML's management believe this positive cash inflow will continue over the period to 31 July 2024. Surplus funds will be reinvested in Recognise Bank.

Risk factors

The main risk factor around the cash flow forecast is the raising of sufficient equity by the Bank to allow it to meet its capital adequacy requirements and continue its planned development.

Conclusion

After consideration of the above cash flow risk factors and the projected cash balances held the by Group during the period, 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 section 172 and acted to promote the interests of the Company for the benefit of its members as a whole is given below.

The directors believe the long-term interests of all stakeholders of the Bank were met through the corporate restructure in early 2023, whereby the former shareholders of City of London Group plc now hold shares directly in Recognise Bank Limited. In addition to avoiding the considerable cost, management time and the legal and regulatory burden associated with maintaining an AIM listing, the directors consider the Bank should, in future, be able to obtain greater access to investment capital, thus facilitating its continuing growth and development for the benefit of all stakeholders.

Culture

The Board is committed to a culture of openness and transparency in relation to all its stakeholders, including its staff, and has put in place a comprehensive framework of key policies and practices supported by a robust set of values and behaviours to guide the Bank as it moves forward.

The Bank will continue to develop its business in such a way that it maintains a reputation for fairness and high standards of business conduct and, as at present, it will operate as a digitally enabled relationship-led SME bank that continues to concentrate on meeting customers' needs and surpassing their expectations.

Throughout the next phase of implementing our strategy, diversity across all areas of the Bank (including all elements of reward) will continue to play an important role in the Bank's development. This year the Board has approved a new Diversity & Inclusion strategy which it will monitor as the Bank continues to grow.

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 business heads, with any issues being escalated to the Board. The Board will continue to keep this under review to ensure that 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 23.

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.

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.

The Board maintains an open dialogue with its shareholders. Through the Chair and Bank executives, the Board maintains a continuing dialogue with existing and potential 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.

In order to support liquidity in its shares, the Bank has put a matched bargain trading facility in place through the Asset Match platform which operates an electronic off-market dealing facility. The facility enables shareholders and any new investors 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 the 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 three customer stories on page 4 show how the Bank has been able to respond to and support businesses with differing requirements.

As an example of the importance placed on responding to customers' needs, the Bank is treating the new Consumer Duty rules issued by the FCA with the same priority as if the Bank were a retail bank with only personal customers.

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 receives regular feedback on employee engagement through a bespoke platform which allows management to respond promptly to any issues as they arise.

The Bank's Recruitment and Diversity & Inclusion strategies, supported by robust succession plans, continue to act as the catalyst for positive cultural change by developing and strengthening our internal talent pipeline.

Our Employee Engagement Group and Responsible Business Group continue to proactively report on all aspects of our Diversity and Inclusion strategy as well as the specific targets and benchmarks that we set for the Environment, Social and Governance aspects of our business. This year the Board authorised a review of our ESG plan and were pleased to get an external endorsement of the progress that had been made to date.

The Bank continues to adopt a balanced/flexible hybrid working model which enables all employees to work some days from home each week.

Strategic report / Section 172 statement / continued

Environment

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

The Bank has an Environment and Sustainability Policy that it applies in its business. As stated in the section on Climate Change on page 15, Recognise Bank completed its first climate change scenario analysis during the year and has identified a continuing need to undertake regular climate change stress testing. The Bank intends to develop criteria to classify SME businesses as climate positive, neutral or negative and will then develop appropriate metrics for incorporation in its lending risk assessment processes for climate-related financial risk.

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

Jean Murphy
Chief Executive Officer

20 July 2023

Board of Directors

Philip Jenks

Independent Non-executive Chair

Appointment

1 May 2019

Responsibilities & Experience

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.

In addition to being Chair of Recognise Bank Limited, Philip chairs the Remuneration, Nominations & Independent Oversight Committee.

Jean Murphy

Executive Director

Appointment

4 August 2022

Responsibilities & Experience

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.

Moorad Choudhry

Independent Non-executive Director

Appointment

17 June 2019

Responsibilities & Experience

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 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.

Board of Directors / continued

Richard Gabbertas

Independent Non-executive Director

Appointment

1 February 2019

Responsibilities & Experience

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 Arbuthnot Latham.

Richard is Chair of the Audit Committee and is also a member of the Risk and the Remuneration, Nominations & Independent Oversight Committees.

Simon Wainwright

Senior Independent Non-executive Director

Appointment

1 February 2019

Responsibilities & Experience

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

Responsibilities & Experience

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.

Governance statement

While Recognise Bank Limited 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 they do 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 matters reserved for its decision 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, Nominations & 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 role of each of these committees are provided on pages 9, 24 and 26.

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 strategy.

Philip Jenks is considered to be independent.

THE BOARD

The Board currently comprises six directors of whom four, including the Chair, are independent. Biographical details of directors together with details of their significant commitments are set out on pages 21 and 22 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, legal, 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.

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 six times each year with additional meetings scheduled when required.

Governance statement / continued

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

Following each 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 committee meeting, agendas are agreed in advance by the relevant chair, and papers are circulated to provide Board and 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 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 in January 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 adopted a Diversity and Inclusion Policy during the year, and this will be followed 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.

As mentioned above, the Chair Philip Jenks is considered to be independent and the Board believes he remains independent in character, mindset and judgement. 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 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 endorses the re-election of all directors.

AUDIT COMMITTEE REPORT

The current members of the Audit Committee are Richard Gabbertas (Chair) 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 "worst case" scenarios for the period of at least 12 months from July 2023, and the main risk factors that apply.
- Recognition of revenue (interest income), where there is a risk that revenue may be overstated.
- 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. The uncertainties of the future direct and indirect economic consequences of the war in Ukraine on the SME sector increase both the level of judgement required and the inherent subjectivities.

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. The audit fees for the year under review appear in note 9 on page 58.

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 was appointed as auditor of the Bank and its subsidiaries on 13 January 2023, with the first year of appointment being in respect of the year ended 31 March 2023.

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 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 sufficient 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 to 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 29 and 34. The directors' statement on going concern is on page 17.

The Section 172 statement is on pages 18 to 20.

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 Oversight Committee comprises Philip Jenks (Chair), Simon Wainwright, Richard Gabbertas and Moorad Choudhry. 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 for determining 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 committees, ensuring there is a balance of skills, experience and knowledge;
- conduct the evaluation of the performance of the Board and committees as well as that of individual directors;
- manage the process for the appointment of new directors to the Board; and
- monitor succession planning for both the Board and management, taking into account the challenges and opportunities facing the Company and the skill and expertise likely to be needed in future.

By order of the Board

G M Kingsbury
Company Secretary

20 July 2023

Directors' report

This is the Directors' report for the year to 31 March 2023.

RESULTS AND DIVIDENDS

The results for the Group are set out on page 36.

No dividends were declared during the year (2022: nil).

EVENTS SINCE THE YEAR END

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

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 9 to 14 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
- David Jenkins – resigned 30 November 2022
- Philip Jenks
- Louise McCarthy – resigned 2 March 2023
- Jean Murphy – appointed 4 August 2022
- Ruth Parasol
- Simon Wainwright

In addition to the above, Vikrant Udeshi was an alternate director to Ruth Parasol throughout the year. He resigned as an alternate director on 20 June 2023 and was replaced by Nyreen Bossano-Llamas on 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 21 and 22.

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 26.

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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The statement of directors' responsibilities is set out on page 29 of this annual report.

SECTION 172 STATEMENT

The Section 172 statement is set out on pages 18 to 20 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 AUDITOR

PricewaterhouseCoopers LLP has expressed its willingness to continue in office and a resolution proposing its reappointment as auditor will be put to members at the annual general meeting to be held on 21 September 2023.

EXPLANATION OF BUSINESS AT THE ANNUAL GENERAL MEETING

The following is an explanation of the business to be considered at the annual general meeting.

Resolution 1 – report and accounts – Company law requires the directors to present the Company's annual report and accounts to the shareholders in respect of each financial year.

Resolutions 2 to 7 – re-election of directors – Under recommended corporate governance best practice, all the directors should retire and submit themselves for re-election at each AGM. The directors have decided to follow this best practice guidance and therefore they are all standing for re-election. The Board is satisfied that each of the directors continues to be effective; demonstrates a commitment to the role; and continues to be able to dedicate sufficient time to their duties. The directors believe that the Board continues to include an appropriate balance of skills and provides effective leadership for the Company. The Board has a variety of skills relevant to the market in which the Company operates, including significant financial, legal and governance expertise.

Resolution 8 – appointment of auditor and determination of its fees – Company law requires shareholders to reappoint the auditor each year. The Audit Committee has reviewed the effectiveness, independence and objectivity of the external auditor and, on behalf of the Board of directors, recommends the external auditor's reappointment. The resolution also authorises the directors to determine the auditor's remuneration in accordance with normal practice.

By order of the Board

G M Kingsbury
Company Secretary

20 July 2023

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

Philip Jenks
Chair

20 July 2023

Independent Auditor's 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 2023 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 2023 (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 March 2023; the consolidated statement of other comprehensive income, the consolidated and company statement 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, which include a description of the significant accounting policies.

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

Context

This is the first period for which PricewaterhouseCoopers LLP have been appointed as auditor for Recognise Bank Limited.

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: £1,317,000 based on 0.5% of total assets.
- Overall company materiality: £1,340,000 based on 0.5% of total assets.
- Performance materiality: £658,000 (group) and £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 Auditor's 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.

Key audit matter	How our audit addressed the key audit matter
Loans and advances to customers (group and company)	
As at 31 March 2023 loans and advances to customers amounted to: £121.9m net of expected credit losses (ECL) of £517,000 (group) £121.4m net of expected credit losses of £219,000 (company) The ECL provision is below our performance materiality thresholds. Loans and advances primarily comprise commercial property, professional buy-to-let and bridging 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. The loans and advances to customers balance is the most significant asset held on the group and company balance sheets, and testing the existence and accuracy 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. Relevant disclosures are included within: Note 17 Loans and advances to customers; and, Note 2.9 (c) Loans, trade and other receivables	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 procedures: • Agreed key loan data points within the core banking system to executed loan agreements for a sample of loans. This included confirming principal amounts, interest rate, origination and maturity date, geographical location and borrower information. • Validated that cash payments were received subsequent to 31 March 2023 for a sample of loans recognised on the balance sheet at 31 March 2023. • Performed testing to identify that there were no material overdue payments on the loan portfolio at year end. • Validated the accuracy of the origination loan to value ratios for a sample of loans, including agreeing security values to third party reports. • Tested the reconciliation between the loan system and the general ledger as at 31 March 2023. • Tested a sample of external bank and internal suspense account reconciliations and tested material reconciling items, where identified. • Evaluated and tested the disclosures relating to loans and advances within the financial statements. Based on the testing performed we concluded that the evidence obtained supported the existence and accuracy of loans and advances to customers (group and company).

Independent Auditor’s 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, as well as two active subsidiaries Credit Asset Management Limited and Professions Funding Limited which are small in the context of the group’s overall operations. 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 subsidiaries. Our audit procedures on the company and its subsidiaries provided us with sufficient audit evidence as a basis for our audit opinion on the group financial statements as a whole. We perform all of the work to support the group and company audit opinion and do 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	£1,317,000.	£1,340,000.
How we determined it	0.5% of total assets	0.5% of total assets.
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 the company a 5% haircut was applied to the group materiality.	

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 £11,700 to £1,250,000.

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 50% of overall materiality, amounting to £658,000 for the group financial statements and £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.

Independent Auditor's report / continued

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

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:

- Obtaining management's assessment supporting the going concern assumption and performing 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.
- Evaluation of the reasonableness of the Group's forecasts under a base and stress scenario, including testing key assumptions and performance of sensitivity analysis using our understanding of the Group and its financial and operating performance obtained during the course of our audit. We also considered management's ability to accurately forecast financial performance by comparing past business plans to actual results.
- Evaluation of the reasonableness of the Group's capital and liquidity forecasts under stressed scenarios, including testing key assumptions over deposit outflows and giving consideration to forecast deposit portfolio mix and the proportion of deposits within the insured limit.
- Testing the Bank's current loan delinquency and loan collateral that indirectly support the projected variability of capital ratios under a stress scenario.
- Meeting with the bank's lead regulator, the Prudential Regulation Authority.
- Assessing the appropriateness of the 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.

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.

Independent Auditor's report / continued

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 2023 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/or extent of our testing.
- identifying and testing selected journal entries including those posted by unexpected users, those posted to unusual account combinations and those posted relating to certain keywords.
- We have assessed the reasonableness and appropriateness of key judgements and assumptions used in accounting estimates, including an assessment for the presence of management bias.

Independent Auditor's 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. This is therefore our first year of uninterrupted engagement.

Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 July 2023

Consolidated statement of comprehensive income

for the year ended 31 March 2023

	Notes	2023 £'000	2022 £'000
Interest income		9,206	2,380
Interest expense		(3,007)	(824)
Net interest income	6	6,199	1,556
Fee and commission income	7	175	16
Fee and commission expense	7	(7)	(16)
Net operating income		6,367	1,556
Other income			
Other income	12	1	–
Operating expenses			
Staff costs	8	(11,914)	(8,405)
Other operating expenses	9	(6,802)	(4,831)
Depreciation and amortisation	10	(789)	(307)
Net impairment gain/(loss) on financial assets	11	162	(149)
Loss before tax		(12,975)	(12,136)
Tax expense for the year	13	–	–
Loss after tax		(12,975)	(12,136)
Other comprehensive expense reclassified to profit or loss		–	–
Total comprehensive loss for the financial year, attributable to equity shareholders		(12,975)	(12,136)

Consolidated balance sheet

as at 31 March 2023

	Notes	2023 £'000	2022 £'000
Assets			
Cash and cash equivalents	15	139,080	36,233
Loans and advances to customers	17	121,922	98,941
Property, plant and equipment	19	230	70
Intangible assets	20	1,095	980
Right-of-use assets	21	372	100
Other assets	22	690	516
Total assets		263,389	136,840
Liabilities			
Deposits from customers	23	200,251	94,994
Borrowings	24	170	–
Lease liabilities	21	413	103
Other liabilities	25	4,189	3,352
Total liabilities		205,023	98,449
Equity			
Share capital	26	57,530	30,578
Share premium	26	38,722	32,513
Other reserves	27	–	226
Accumulated losses		(37,886)	(24,926)
Total equity		58,366	38,391
Total equity and liabilities		263,389	136,840

The notes on pages 43 to 72 are an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 20 July 2023.

They were signed on its behalf by
Philip Jenks
Chair

Company balance sheet

as at 31 March 2023

	Notes	2023 £'000	2022 £'000
Assets			
Cash and cash equivalents	15	138,354	36,233
Loans and advances to customers	17	121,441	98,941
Investment in subsidiaries	18	3,349	–
Property, plant and equipment	19	230	70
Intangible assets	20	1,095	980
Right-of-use assets	21	372	100
Other assets	22	3,221	516
Total assets		268,062	136,840
Liabilities			
Deposits from customers	23	200,251	94,994
Loans and advances from subsidiary	24	5,000	468
Lease liabilities	21	413	103
Other liabilities	25	4,097	3,352
Total liabilities		209,761	98,917
Equity			
Share capital	26	57,530	30,578
Share premium	26	38,722	32,513
Other reserves	27	–	226
Accumulated losses		(37,951)	(25,394)
Total equity		58,301	37,923
Total equity and liabilities		268,062	136,840

The Company's loss after tax for the financial year amounts to £12,782,781 (2022: loss £12,444,887).

The notes on pages 43 to 72 are an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 20 July 2023.

They were signed on its behalf by
Philip Jenks
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 2021	21,210	18,931	(12,790)	55	27,406
Loss for the year	–	–	(12,136)	–	(12,136)
Total comprehensive expense	–	–	(12,136)	–	(12,136)
Contributions by and distributions to owners:					
Share-based payments	–	–	–	171	171
Issue of ordinary shares	9,368	13,582	–	–	22,950
Total contributions by and distributions to owners	9,368	13,582	–	171	23,121
Balance at 31 March 2022	30,578	32,513	(24,926)	226	38,391
Loss for the year	–	–	(12,975)	–	(12,975)
Total comprehensive expense	–	–	(12,975)	–	(12,975)
Contributions by and distributions to owners:					
Transfer from Other reserves (note 27)	–	–	226	(226)	–
Acquisition – Loan to Employee Benefit Trust (note 30)	–	–	(211)	–	(211)
Issue of ordinary shares	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	57,530	38,722	(37,886)	–	58,366

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 2021	21,210	18,931	(12,950)	55	27,246
Loss for the year	–	–	(12,444)	–	(12,444)
Total comprehensive expense	–	–	(12,444)	–	(12,444)
Contributions by and distributions to owners:					
Share-based payments	–	–	–	171	171
Issue of ordinary shares	9,368	13,582	–	–	22,950
Total contributions by and distributions to owners	9,368	13,582	–	171	23,121
Balance at 31 March 2022	30,578	32,513	(25,394)	226	37,923
Loss for the year	–	–	(12,783)	–	(12,783)
Total comprehensive expense	–	–	(12,783)	–	(12,783)
Contributions by and distributions to owners:					
Transfer from Other reserves (note 27)	–	–	226	(226)	–
Issue of ordinary shares	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	57,530	38,722	(37,951)	–	58,301

Consolidated statement of cash flows

for the year ended 31 March 2023

	2023 £'000	2022 £'000
Cash flow from operating activities		
Loss for the year before tax	(12,975)	(12,136)
Adjustments for non-cash items:		
Depreciation and amortisation	789	307
Interest earned during the year	(9,206)	(2,380)
Interest expense during the year	3,007	824
Interest expense on leases	29	6
Impairment allowance	(162)	149
Restructuring costs	836	–
Share-based incentive plan	–	171
Movement in loan to Employee Benefit Trust	(211)	–
Changes in operating activities:		
Interest received	9,374	3,882
Interest paid	(2,252)	(457)
Increase in loans and advances	(21,747)	(88,463)
Decrease in debt securities	–	6,500
Increase in deposits from customers	104,533	94,646
Increase in other assets	(881)	(253)
Increase in other liabilities	660	429
Net cash generated from operating activities	71,794	3,225
Cash flow from investing activities		
Purchase of property, plant and equipment	(259)	(53)
Disposal of property, plant and equipment	–	1
Purchase of intangible assets	(571)	(156)
Net cash used in investing activities	(830)	(208)
Cash flow from financing activities		
Repayment of external funding	(105)	(862)
Interest paid on external funding	–	(31)
Finance lease related payments	(225)	(66)
Gross proceeds from the issue of ordinary shares	31,504	22,950
Costs of share issue	(20)	–
Net cash generated from financing activities	31,154	21,991
Net increase in cash and cash equivalents	102,118	25,008
Cash and cash equivalents on CAML acquisition	729	–
Cash and cash equivalents brought forward	36,233	11,225
Net cash and cash equivalents	139,080	36,233
Composition of cash and cash equivalents		
Cash at bank	139,080	36,233

Company statement of cash flows

for the year ended 31 March 2023

	2023 £'000	2022 £'000
Cash flow from operating activities		
Loss for the year before tax	(12,783)	(12,444)
Adjustments for non-cash items:		
Depreciation and amortisation	789	305
Interest earned during the year	(9,112)	(2,136)
Interest expense during the year	2,970	803
Interest expense on leases	29	6
Share-based incentive plan	–	171
Impairment allowance	76	148
Dividend income from subsidiary	(468)	–
Changes in operating activities:		
Interest received	9,210	3,608
Interest paid	(2,245)	(457)
Increase in loans and advances	(22,804)	(93,780)
Decrease in debt securities	–	6,500
Increase in deposits from customers	104,533	94,646
Increase in other assets	(248)	(276)
Increase in other liabilities	745	492
Net cash used in operating activities	70,692	(2,414)
Cash flow from investing activities		
Purchase of property, plant and equipment	(259)	(53)
Disposal of property, plant and equipment	–	1
Loans repaid by subsidiary	–	5,017
Surplus funds sent from subsidiary	1,000	–
Loans advanced to group companies	–	(271)
Purchase of intangible assets	(571)	(156)
Net cash generated from investing activities	170	4,538
Cash flow from financing activities		
Finance lease related payments	(225)	(66)
Gross proceeds from the issue of ordinary shares	31,504	22,950
Costs of share issues	(20)	–
Net cash generated from financing activities	31,259	22,890
Net Increase in cash and cash equivalents	102,121	25,008
Cash and cash equivalents brought forward	36,233	11,225
Net cash and cash equivalents	138,354	36,233
Composition of cash and cash equivalents		
Cash at bank	138,354	36,233

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 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 20 July 2023.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated 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, as modified by financial assets at fair value through profit or loss or other comprehensive income, as applicable.

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, 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 settlement of such transactions are generally recognised as income in the consolidated statement of comprehensive income.

Foreign exchange gains and losses from translation of monetary assets that are denominated in foreign currencies are recognised as 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 17.

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 accounts;
- 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: and
- stress scenarios which included the effects of not raising further capital and incurring greater losses from loan defaults during the period of 12 months from the signing of the accounts.

The directors have also considered mitigating actions that could be taken by the Bank if there were a delay in raising additional capital to support the growth of the Bank or if the amount raised was less than forecast.

In addition to the stress scenarios referred to above, Recognise Bank has carried out a reverse stress test as part of the ICAAP and ILAAP, the results of which support the directors' conclusions on going concern.

2.2 Adoption of new standards and interpretations

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

- Annual Improvements 2018-2020
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)

There was no impact on the Bank following the adoption of the above.

Notes to the financial statements / continued

2 Summary of significant accounting policies continued

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 2023 unless otherwise stated. There is no material impact anticipated from the implementation of the below mentioned amendments/standards.

- IFRS 17 Insurance Contracts
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17)
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- 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)
- Amendments to IAS 12, 'Taxation', relating to Deferred tax related to assets and liabilities arising from a single transaction
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

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.

2.3.2 Intercompany transactions

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. In the Company 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.

Costs to establish feasibility or to maintain existing performance are expensed to the consolidated statement of comprehensive income as incurred.

Amortisation of most elements of the core banking platform began in December 2020 with amortisation of the savings banking platform commencing in October 2021, one month after Recognise Bank became fully licensed in September 2021. The Bank is in the process of building a data platform which is being developed internally, with the support of a third party vendor. Costs, including internal costs, associated with development of this platform are being capitalised and amortisation will begin when the platform 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:

Fixtures, fittings & 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

- 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.

- 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. Liabilities are measured at amortised cost or FVPL. The Group classifies financial assets and financial liabilities in the following categories: financial assets and financial liabilities at FVPL, FVOCI and financial assets and liabilities 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 and liabilities 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.

There is a rebuttable presumption that all equity investments are FVPL: however, on initial recognition the Group may make an irrevocable election to present the fair value movement of equity investments that are not held for trading within other comprehensive income("OCI"). The election can be made on an instrument by instrument basis.

(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 non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable and the SPPI criteria are met. These assets 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 which is recognised in the consolidated statement of comprehensive income.

Notes to the financial statements / continued

2 Summary of significant accounting policies continued

(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 the net investment is included in gross investment in finance lease receivables.

Amounts due under finance leases and hire purchase agreements are recognised initially at fair value and, subsequently, are measured at an amortised cost that reflects a constant periodic rate of return on the net investment outstanding.

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

Liabilities are recognised as trade payables when contractual services have been rendered. Expenses incurred for which an invoice has not yet been received are included in accruals. Trade payables 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

In the Bank, intra-group loans and similar balances between group companies are held at amortised cost.

The Bank has considered individual balances when assessing whether it is necessary under IFRS 9 to recognise lifetime expected losses on these intra-group balances.

(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.

- **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.

2.9.1 Identification and measurement of the impairment of financial assets

The Group assesses all financial assets for impairment. 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) Loans

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 change in the credit quality 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.

Notes to the financial statements / continued

This process includes, inter alia, the estimation of probabilities of defaults, the exposures at default, the losses given default and the assessment of increases in credit risks, in the context of the future economic scenarios that may apply to the financial assets.

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 ('PD'), exposure at default ('EAD') and loss given default ('LGD'). Expert judgement is applied to assess the LGD of an agreement.

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) 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.

2.10 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 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.

2.13 Dividends

Dividends declared on the Bank's equity share capital are recognised as a liability when an irrevocable obligation to pay the dividends is established. In the case of interim dividends this arises when the dividend is paid. In the case of final dividends this is the date at which the dividends are approved at a shareholders' general meeting.

Notes to the financial statements / continued

2 Summary of significant accounting policies continued

2.14 Interest income and expense

Interest income and expense is recognised using the effective interest rate method. Interest income reflects the 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. Also included in interest income are fees that are integral to the underlying creation of the financial instrument and interest on debt securities.

Broker expenses are included in the interest income calculation as such fees are an integral part of generating the loans receivable.

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

2.15 Commission and fees

Fee and commission income which is integral to the EIR of a financial asset is included in the effective interest rate. All other fee and commission income is recognised as the related services are performed.

Other fees mainly relate to transaction and service fees, if any. These are expensed as the service is received.

2.16 Operating expenses

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

2.17 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.

2.18 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) Assessing impairment of investment in subsidiaries - Judgement

Investments in subsidiaries are valued at cost less impairment. The directors consider the fair valuation of each underlying operating business to be an important measure of the current position of that business.

The directors have considered the carrying value of the Company's investment in Credit Asset Management Limited ("CAML") whose loan and lease portfolios have been in run-off since March 2020 when the then holding company, City of London Group plc, decided that all future lending by the group would be made through the Bank.

The Bank acquired all the issued share capital of CAML on 3 August 2022 when the shares, together with an intercompany balance and a loan balance, were transferred from City of London Group plc for a consideration that was deemed to be the fair value of CAML's underlying assets and liabilities at that date (note 18).

Currently, there are no internal or external factors that trigger an assessment for impairment of investment in CAML. Accordingly, no impairment provision is required to be made in the current year and the amount attributable to the investment in ordinary shares at 31 March 2023 is unchanged from the value of £3,349k attributed to them on 3 August 2022.

Notes to the financial statements / continued

(b) Provisions for impairment of financial assets for the Bank - 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 will serve.

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

The GDP paths in the four scenarios vary across the future periods. In the Forecast, Moderate and Upside scenarios there is a fall in GDP followed by a recovery. The GDP paths for all three scenarios then merge with a long run average of 0.6% in the third quarter of 2024. In the Severe scenario there is initially a large fall in GDP, followed by recovery and a return to a flat forecast of 0.3% by the first quarter in 2024, earlier in comparison to the other scenarios

The effect of these scenarios on the ECL is shown below.

	March 2023 £'000	March 2022 £'000
Forecast	198	106
Moderate	238	153
Severe	676	631
Upside	166	97

Assumptions in the model components
Assumptions were made for each component within the model (Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (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.

Loss Given Default (LGD)
LGD measures the loss that will be incurred if a loan defaults. Separate LGD models are being used for secured and unsecured loans. To calculate the LGD for the products secured by property, a forecast of the value of the underlying collateral is determined.

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 were revised and approved at ALCO during the year, with the changes shown below.

	March 2023 £'000	March 2022 £'000
Forecast	56%	45%
Moderate	20%	45%
Severe	4%	5%
Upside	20%	5%

The credit portfolio as at 31 March 2023 was £121.0m (2022: £98.9m). Application of the model generated a Stage 1 IFRS 9 impairment provision as at 31 March 2023 of £219k (2022: £153k). There are no loan agreements assessed under Stage 2 or Stage 3 as at 31 March 2023.

(c) Intra-group loans and similar balances – Judgement

Intra-group loans and similar balances between the Bank and its subsidiaries have been assessed individually to determine whether it is necessary under IFRS 9 to recognise lifetime expected losses. It was determined that, having regard to the terms of each loan, no material provisions were required.

Notes to the financial statements / continued

4 Financial instruments and risk management

4.1 Financial instruments

At amortised cost	Total carrying amount 2023 £'000	2022 £'000
Group		
Assets		
Cash and cash equivalents	139,080	36,233
Loans to customers[a]	121,922	98,941
Other debtors	139	12
Total	261,141	135,186
Liabilities		
Deposits from customers[a]	200,251	94,994
Lease liabilities	413	103
Other liabilities	3,407	3,057
Total	204,071	98,154
Company		
Assets		
Cash and cash equivalents	138,354	36,233
Loans to customers[a]	121,441	98,941
Other debtors	2,670	12
Total	262,465	135,186
Liabilities		
Deposits from customers[a]	200,251	94,994
Loans and advances from subsidiary	5,000	469
Lease liabilities	413	103
Other liabilities	3,343	3,057
Total	209,007	98,623

(a) The fair value of the Bank's loans and advances and customer deposits at 31 March 2023 is estimated at £122.8m and £198.0m, respectively, for the Group and £122.3m and £198.0m, respectively, for the Company.

At 31 March 2023 and 31 March 2022, 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 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:

	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

	2022	
Credit risk exposures (all Stage 1, unless otherwise stated)	**Group £'000**	**Company £'000**
On-balance sheet		
Cash and balances at central banks	36,233	36,233
Loans and advances to customers (net of ECLs)		
Stage 1	98,941	98,941
Stage 2	–	–
Stage 3	–	–
Other assets	12	12
Off-balance sheet		
Loan commitments and other credit related liabilities	19,700	19,700
As at 31 March	154,886	154,886

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 note 3.

Notes to the financial statements / continued

4 Financial instruments and risk management continued

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

	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	–	–	–	–
80%-100%	–	–	–	–
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
As at 31 March	115,888	231,275	115,888	231,275

	2022 Group		2022 Company	
	Loan balance £'000	Collateral £'000	Loan balance £'000	Collateral £'000
Less than 60%	53,260	132,652	53,260	132,652
Stage 1	53,260	132,652	53,260	132,652
Stage 2	–	–	–	–
Stage 3	–	–	–	–
60%-80%	44,478	67,925	44,478	67,925
Stage 1	44,478	67,925	44,478	67,925
Stage 2	–	–	–	–
Stage 3	–	–	–	–
80%-100%	–	–	–	–
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
As at 31 March	97,738	200,577	97,738	200,577

Loan to value percentages are based on origination values: these values are not considered to have changed significantly since origination.

Notes to the financial statements / continued

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

	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

Notes to the financial statements / continued

4 Financial instruments and risk management continued

	2022 Group		2022 Company	
	Loan balance £'000	Collateral £'000	Loan balance £'000	Collateral £'000
Concentration by Product				
Bridging	9,757	23,361	9,757	23,361
Commercial	63,268	135,522	63,268	135,522
Professional buy-to-let	24,713	41,694	24,713	41,694
Working Capital	940	–	940	–
Professional Practice	263	–	263	–
As at 31 March	98,941	200,577	98,941	200,577
Concentration by Location				
East Midlands	3,838	10,855	3,838	10,855
East of England	6,020	16,790	6,020	16,790
London	20,290	43,325	20,290	43,325
North East	3,298	5,325	3,298	5,325
North West	21,340	38,378	21,340	38,378
South East	35,746	72,890	35,746	72,890
South West	662	1,190	662	1,190
Wales	1,476	3,303	1,476	3,303
West Midlands	215	395	215	395
Yorkshire & Humberside	4,853	8,126	4,853	8,126
Unsecured loans	1,203	–	1,203	–
As at 31 March	98,941	200,577	98,941	200,577

Foreign exchange risk

The foreign exchange risk for the Bank is immaterial as the 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 2023 and 31 March 2022, 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 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

At 31 March 2022	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	107	4,721	58,741	34,824	–	98,393
Lease liabilities	–	15	52	36	–	103
Other liabilities	–	3,057	–	–	–	3,057
Company						
Deposits from customers	107	4,721	58,741	34,824	–	98,393
Loans and advances from subsidiary	–	–	469	–	–	469
Lease liabilities	–	15	52	36	–	103
Other liabilities	–	3,057	–	–	–	3,057

Interest rate risk

The Bank has interest-bearing assets and liabilities at fixed interest rates. The Bank may make loans on either a fixed or variable (floating) interest rate basis. 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 through its Asset and Liability Committee which is responsible for identifying, managing and controlling all balance sheet risks in accordance with Recognise Bank's chosen business strategy.

The Bank considers a parallel 200 basis points (bps) movement to be appropriate for evaluating sensitivity to interest rate risk. As at 31 March 2023 the Bank estimates that a +/- 200bps movement in interest rates would have impacted the economic value of equity by -£1,660k/+£1,852k respectively (2022 +£26k/-£20k).

Notes to the financial statements / continued

4 Financial instruments and risk management continued

Valuation of financial instruments

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 year to 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 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)	**2023 £'000**	**2022 £'000**
CET 1 Capital Instruments	58,577	38,392
Deductions - Intangible assets	(1,095)	(981)
CET 1 Capital after Deductions (audited)	57,482	37,411
Own Funds	57,482	37,411
CET1 Capital Ratio	65.14%	42.89%
Total Capital Ratio	65.14%	42.89%

Notes to the financial statements / continued

6 Net interest income

	2023 £'000	2022 £'000
Loans and advances to customers	7,159	2,102
Cash and cash equivalents	2,047	24
Debt securities	–	254
Interest income	9,206	2,380
Deposits from customers	2,970	545
Wholesale funding	37	21
Debt securities amortisation	–	258
Interest expense	3,007	824
Net interest income	6,199	1,556

All revenue arises in the United Kingdom.

7 Fees and commission

	2023 £'000	2022 £'000
Lending income	175	16
Fee and commission income	175	16
Lending expense and arrangement fees	5	10
Regulatory fees	1	4
Debt security fees	1	2
Fee and commission expense	7	16
Net fees and commission	168	–

8 Employee numbers and costs

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

Group	2023	2022
Recognise Bank	71	70
Credit Asset Management	2	–
Total	73	70

Notes to the financial statements / continued

8 Employee numbers and costs continued

The aggregate payroll costs of these employees were as follows:

	2023 £'000	2022 £'000
Wages and salaries	9,404	7,050
Social security costs	1,488	906
Pensions	306	257
Other payroll related costs	716	192
	11,914	8,405

The key management personnel of the Bank are the directors, whose emoluments in respect of services to the Bank were as follows. These amounts are included in the aggregate payroll costs above.

	2023 £'000	2022 £'000
Wages and salaries	1,990	1,386
Social security costs	335	181
Pensions	21	14
Other payroll related costs	400	–
	2,746	1,581

The total emoluments of the highest paid director (including £324,000 for compensation for loss of office) were £578,312 (2022: £408,300). In addition, aggregate social security costs were £84,823 (2022: £55,125).

9 Other operating expenses

	2023 £'000	2022 £'000
Consultancy charges	1,395	1,201
Irrecoverable VAT	942	577
Property related expenses	437	612
Group management charges	90	138
IT and software expenses	1,448	940
Outsourced costs	1,015	909
Other miscellaneous costs	639	454
Group restructure costs (note 30)	836	–
	6,802	4,831

Auditor's remuneration	2023 £'000	2022 £'000
Fees payable to the Bank's auditor for the audit of the Bank's annual financial statements of the Bank and its subsidiaries[a]	413	165
	413	165

(a) £413k includes £98k paid in respect of the 2022 audit, payable to the previous auditor, BDO LLP.

Notes to the financial statements / continued

10 Depreciation and amortisation

	2023 £'000	2022 £'000
Depreciation on tangible fixed assets	99	40
Amortisation of intangible assets	456	204
Amortisation of right-of-use assets	234	63
	789	307

11 Net impairment (gain)/loss on financial assets

	2023 £'000	2022 £'000
Decrease/(increase) in allowance for expected credit losses under IFRS 9	(162)	149
	(162)	149

12 Other income

	2023 £'000	2022 £'000
Other income	1	–
	1	–

13 Tax expense

	2023 £'000	2022 £'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	(12,975)	(12,136)
At standard rate of corporation tax in the UK of 19% (2022: 19%)	(2,465)	(2,306)
Effects of:		
Short term timing differences	(31)	(106)
Permanent timing differences	216	56
Movement on unrecognised deferred tax asset	2,280	2,356
Tax charge for the year	–	–

Notes to the financial statements / continued

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 (2022: nil).

15 Cash and cash equivalents

	Group		Company	
	2023 £'000	**2022 £'000**	**2023 £'000**	**2022 £'000**
Cash at bank	139,080	36,233	138,354	36,233
	139,080	36,233	138,354	36,233

There was £50,000 restricted cash (2022: £50,000) within both the Group and Company cash balances. Restricted cash represents a minimum deposit balance held with a bank.

16 Debt securities

Debt securities represent Gilts and T-bills. No debt securities were held during the year ended 31 March 2023. The movement in debt securities in the prior year may be summarised as follows:

Group and company	**2022 £'000**
At 1 April	6,500
Additions	59,058
Redemptions/ maturities	(65,300)
Amortisation of premium	(259)
Changes in fair value through OCI	1
At 31 March	–

The Fitch national short term credit rating of the debt securities held during the year ended 31 March 2022 was F1+.

Notes to the financial statements / continued

17 Loans and advances to customers

Group **Net loans and advances**	**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
Repayments	(16,592)	–	(84)	(16,676)
Write-offs	–	–	(435)	(435)
Transfer to Stage 2	(37)	37	–	–
Transfer to Stage 3	–	–	–	–
Gross loans and advances at 31 March 2023	122,272	37	130	122,439
Less: 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
New financial assets originated	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

17 Loans and advances to customers continued

Company Net loans and advances	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
Repayments	(15,598)	–	–	(15,598)
Write-offs	–	–	–	–
Transfer to Stage 2	–	–	–	–
Transfer to Stage 3	–	–	–	–
Gross loans and advances at 31 March 2023	121,660	–	–	121,660
Less: 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	–	–	–	–
New financial assets originated	66	–	–	66
Write-offs	–	–	–	–
Total movement in loss allowance	66	–	–	66
Allowances for ECLs at 31 March 2023	219	–	–	219

In the prior year, the figures for both the Group and Company were the same.

Group and Company Net loans and advances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross loans and advances at 1 April 2021	12,132	–	–	12,132
Originations	98,096	–	–	98,096
Repayments	(11,134)	–	–	(11,134)
Write-offs	–	–	–	–
Transfer to Stage 1	–	–	–	–
Transfer to Stage 2	–	–	–	–
Transfer to Stage 3	–	–	–	–
Gross loans and advances at 31 March 2022	99,094	–	–	99,094
Less: Allowances for ECLs at 31 March 2022	153	–	–	153
Net loans and advances at 31 March 2022	98,941	–	–	98,941
Impairment				
Allowances for ECLs at 1 April 2021	4	–	–	4
Movement in provision for impairment				
New financial assets originated	149	–	–	149
Total movement in loss allowance	149			149
Allowances for ECLs at 31 March 2022	153	–	–	153

Notes to the financial statements / continued

Finance lease receivables

The Group's finance lease receivables, which are included within loans and advances to customers, are accounted for at amortised cost. The amounts receivable under the agreements, which relate wholly to CAML, are analysed as follows:

Finance leases	**2023 £'000**	**2022[(a)] £'000**
Gross investment in finance lease receivables:		
Less than 1 year	209	477
1 to 5 years	52	161
More than 5 years	–	–
Unearned future finance income on finance leases	(12)	(36)
Net investment in finance leases	249	602
The net investment in finance leases may be analysed as follows:		
Less than 1 year	198	448
1 to 5 years	51	154
More than 5 years	–	–
	249	602

(a) At 3 August 2022, the date of acquisition of CAML (note 18).

There were no finance lease receivables in respect of the Bank (2022: nil)

18 Investment in subsidiaries

Company	**Investment at cost £'000**	**Total £'000**
At 1 April 2021 and 31 March 2022	–	–
Additions during the year	3,349	3,349
Disposals during the year	–	–
At 31 March 2023	3,349	3,349

Credit Asset Management Limited

There was no impairment in the value of the Bank's investment in its subsidiaries at either 31 March 2023 or 31 March 2022.

On 3 August 2022, as part of an internal group reorganisation, the Company acquired Credit Asset Management Limited ("CAML") from its then parent, City of London Group plc ("COLG"). Following the transfer, CAML's ownership was aligned with its management reporting structure. Both CAML and its wholly-owned subsidiary, Professions Funding Limited ("PFL"), ceased making new loans in March 2020 and their then-existing lease and loan portfolios have been in run-off since that date.

In addition to the purchase of all the issued share capital of CAML, the intercompany balance between CAML and COLG was assigned to the Company and a loan from CAML to COLG was novated to the Company. The consideration payable to COLG of £1,676,998 was satisfied by the issue of 684,489 A ordinary shares at £2.45 each (see note 26).

The acquisition method of accounting has been used for the transaction, with identifiable assets and liabilities acquired being measured at their fair values at the acquisition date. In accordance with IFRS 3, "Business Combinations" it has been determined that CAML was acquired.

The fair value of the underlying assets and liabilities of CAML and PFL as at 3 August 2022 was based on the unaudited consolidated management accounts of CAML for the period to 31 July 2022. These accounts were prepared on the same basis as the statutory accounts. As the consideration given equalled the fair value of the underlying assets and liabilities, no goodwill or capital reserve arose on consolidation.

Notes to the financial statements / continued

18 Investment in subsidiaries continued

The assets and liabilities recognised as a result of the acquisition are as follows:

	Carrying value at acquisition £'000	Fair value adjustment £'000	Fair value £'000
Cash and cash equivalents	729	–	729
Loans and leases receivable	1,370	–	1,370
Loan to COLG	4,000	–	4,000
Other assets	2	–	2
Borrowings	(245)	–	(245)
Intra-group balance with COLG	(2,328)	–	(2,328)
Other creditors	(179)	–	(179)
Total	3,349	–	3,349

	£'000
Net assets acquired from COLG	
Shares in CAML transferred	3,349
Intra-group balance with COLG assigned	2,328
Loan to COLG novated	(4,000)
	1,677
Goodwill	–
Consideration	1,677
Satisfied by:	
Issue of ordinary shares of the Company with fair value	1,677

The consolidated results for the year include profits from CAML arising in the post-acquisition period of £276,000.

Details of investments are as follows:

Company subsidiary undertaking	Nature of business
Credit Asset Management Limited	Asset finance and loans
Professions Funding Limited	Professions funding
Property & Funding Solutions Ltd	Dormant[a]

(a) An application to strike off this company, which had issued share capital and shareholders' funds of £100, was made to the Registrar of Companies on 20 March 2023. The company was dissolved on 27 June 2023.

The subsidiary undertakings are wholly owned. Credit Asset Management Limited, which is a direct subsidiary of the Bank, is the immediate parent company of Professions Funding Limited. Both companies are in the process of running off their existing lease and loan portfolios.

The subsidiaries are registered in England and Wales and have a 31 March year end. The registered office address of each is Augustine House, 6A Austin Friars, London EC2N 2HA.

Notes to the financial statements / continued

19 Property, plant and equipment

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Cost				
At 1 April	150	98	145	93
Additions	259	53	259	53
Disposals	(5)	(1)	–	(1)
At 31 March	404	150	404	145
Accumulated depreciation				
At 1 April	80	40	75	36
Charge in year	99	40	99	39
Disposals	(5)	–	–	–
At 31 March	174	80	174	75
Net book amount				
At 31 March	230	70	230	70

Property, plant and equipment comprises largely office furniture and equipment.

20 Intangible assets

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Cost				
At 31 March	1,237	1,081	1,237	1,081
Additions	571	156	571	156
At 31 March	1,808	1,237	1,808	1,237
Accumulated amortisation				
At 31 March	257	53	257	53
Charge in year	456	204	456	204
At 31 March	713	257	713	257
Net book amount				
At 31 March	1,095	980	1,095	980

Notes to the financial statements / continued

21 Leases

Right-of-use assets

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

	Group		Company	
Property leases	**2023 £'000**	**2022 £'000**	**2023 £'000**	**2022 £'000**
At 1 April	100	25	100	25
Additions	506	138	506	138
Accumulated amortisation	(234)	(63)	(234)	(63)
At 31 March	372	100	372	100

The property leases comprise the following:

Office premises were leased by the Bank 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 3 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 Bank continued to lease office and residential premises in Leeds and London which, in prior periods, were assessed under IFRS 16 and classified as right-of-use assets with corresponding lease liabilities.

Other premises leased by 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	**2023 £'000**	**2022 £'000**	**2023 £'000**	**2022 £'000**
At 1 April	103	25	103	25
Additions	506	138	506	138
Interest expense	29	6	29	6
Lease payments	(225)	(66)	(225)	(66)
At 31 March	413	103	413	103
Amount due within one year	154	67	154	67
Amount due after one year	259	36	259	36

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:

	2023 £'000	**2022 £'000**
Short-term lease expense	102	84
Low value lease expense	–	–
Aggregate commitments for short-term leases	29	35

Notes to the financial statements / continued

22 Other assets

	Group		Company	
	2023 £'000	**2022 £'000**	**2023 £'000**	**2022 £'000**
Amount owed by Employee Benefit Trust (note 30)	–	–	211	–
Amount owed by City of London Group plc (note 30)	–	12	–	12
Amount owed by subsidiary	–	–	2,328	–
Prepayments	551	504	551	504
Other	139	–	131	–
	690	516	3,221	516

23 Deposits from customers

	Group		Company	
	2023 £'000	**2022 £'000**	**2023 £'000**	**2022 £'000**
Notice accounts	149,983	37,380	149,983	37,380
Term deposits	50,268	57,614	50,268	57,614
	200,251	94,994	200,251	94,994

24 Borrowings

	Group		Company	
	2023 £'000	**2022 £'000**	**2023 £'000**	**2022 £'000**
Block discounting loans	170	–	–	–
Loans and advances from subsidiary	–	–	5,000	468
	170	–	5,000	468

25 Other liabilities

	Group		Company	
	2023 £'000	**2022 £'000**	**2023 £'000**	**2022 £'000**
Trade creditors	187	171	165	171
Amount due to City of London Group plc (note 30)	–	260	–	260
Other taxation and social security	782	296	754	296
Accruals	3,206	2,556	3,164	2,556
Other	14	69	14	69
	4,189	3,352	4,097	3,352

Notes to the financial statements / continued

26 Share capital

Allotted, called up and fully paid	2023 Number	2022 Number	2023 £'000	2022 £'000
A ordinary shares of £1 each	57,529,720	30,577,708	57,530	30,578

The Company did not hold any ordinary shares in treasury at 31 March 2023 (2022: nil). 1,366,193 A ordinary shares of £1.00 were held by the Employee Benefit Trust ("EBT") at 31 March 2023 (2022: nil) (see note 30).

The Company made the following issues of shares during the year ended 31 March 2023:

On 24 May 2022, the Company issued 2,633,163 A ordinary shares at £2.45 each for cash of £6,451,250 to its then parent company, City of London Group plc ("COLG"). The premium of £3,818,087 arising on the issue of the shares was credited to Share premium.

On 3 August 2022, the Company issued 684,489 A ordinary shares at £2.45 each to COLG, being consideration of £1,676,998 payable on the transfer of ownership of the shares in Credit Asset Management Limited ("CAML") from COLG, together with the assignment of the inter-group debt with CAML and the novation of a loan from CAML (see note 18). The premium of £992,509 arising on the issue of the shares was credited to Share premium. The transfer was made as part of the Group's continuing simplification of its structure and to align ownership with management reporting responsibilities.

On 28 February 2023, the Company issued 23,584,906 A ordinary shares at £1.06 each to Parasol V27 Limited ("PV27") for cash of £25,000,000 under the terms of a conditional equity subscription that was agreed among the Company, COLG and PV27 on 22 December 2022 as part of the Group restructure (see note 30). The conditions were satisfied on 25 February 2023. The terms of the equity subscription also provided for the issue of warrants (see below). The premium of £1,415,094 arising on the issue of the shares was credited to Share premium.

On 22 March 2023, the Company issued a total of 49,454 A ordinary shares at £1.06 each to two former COLG shareholders for cash of £52,420. The shareholders were entitled to receive warrants on the same terms as PV27 (see below). The premium of £2,966 arising on the issue of the shares was credited to Share premium.

The proceeds from shares issued for cash during the year are being applied to support the development of the Company, both in relation to its digital capabilities and to the increase in its loan and lease portfolios.

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

Issue of shares	A ordinary shares of £1 each	Share capital £'000	Share premium £'000
At 31 March 2021	21,210,363	21,210	18,931
Issued for cash on 13 May 2021	612,244	612	888
Issued for cash on 1 September 2021	1,102,040	1,102	1,598
Issued for cash on 14 September 2021	4,224,489	4,225	6,125
Issued for cash on 14 October 2021	3,020,408	3,021	4,379
Issued for cash on 24 March 2022	408,164	408	592
At 31 March 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)
	57,529,720	57,530	38,722

Notes to the financial statements / continued

Share warrants

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

The Open Offer Replacement warrants, which were issued following the Group restructure (see note 30), 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 date of their issue (see above).

There were no warrants in issue at 31 March 2022.

	Number	£'000
As at 31 March 2022	–	–
Open Offer Replacement warrants issued on 21 February 2023	286,063	–
Equity Subscription warrants Issued on 28 February 2023	23,584,906	–
Equity Subscription warrants Issued on 22 March 2023	49,454	–
As at 31 March 2023	23,920,423	–

Subsequent to the year-end, 4 Open Offer Replacement warrants have been exercised.

27 Other Reserves

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Share-based payments	–	226	–	226
	–	226	–	226

Share-based payments

Until 25 January 2023, certain employees of the Company held share options that had been granted under the terms of one of the three share option plans operated by its then parent company, City of London Group plc. All the share options held by employees, none of which had vested, lapsed when City of London Group plc went into members' voluntary liquidation on that date (see note 30).

As a result, no charge for share-based payments has been made in the year (2022: £171,000) and the cumulative credit to reserves of £226,000 arising from charges made in prior years has been transferred from Other reserves to Accumulated losses as a reserve movement.

The shares held by the Trustees of the Recognise Bank Employee Benefit Trust (note 30) are available to meet future share awards to employees.

Notes to the financial statements / continued

28 Commitments

As at 31 March 2023, the Bank was contractually committed to make future loan advances of £19,940,308 (2022: £19,700,378) 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 26 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 26 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 is contractually committed to grant an option for him to acquire shares worth £350,000 at the date of issue of the option, which is exercisable in whole or in part on payment of £1 within a three-year period from its date of issue. An accrual for the overall cost of £400,050 has been made in the income statement.

29 Deferred tax assets and liabilities

	Group		Company	
	2023 £'000	**2022 £'000**	**2023 £'000**	**2022 £'000**
Deferred tax assets and liabilities are as follows:				
Tax losses	9,387	6,271	8,706	6,271
Short-term timing differences	(33)	(10)	(38)	(10)
	9,354	6,261	8,668	6,261
Unrecognised deferred tax asset	(9,354)	(6,261)	(8,668)	(6,261)
	–	–	–	–

No deferred tax assets were recognised in the financial statements at 31 March 2023 or 31 March 2022 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% (2022: 25%) on the basis of trading losses carried forward of £37,547,000 (2022: £25,085,000) and timing differences of £133,000 (2022: £42,000). There is no time limit for the utilisation of these amounts.

30 Group restructure

The Bank was previously the principal operating company of a group whose parent company, City of London Group plc ("COLG"), was listed on AIM. Following implementation of the Group's strategy to conduct its future operations through Recognise Bank, COLG became a holding company with only one material investment, its ownership of the Bank, after its ownership of Credit Asset Management Limited was transferred to the Bank in August 2022 (note 18). The group restructure was undertaken to facilitate the continuing development of the Bank's business.

COLG was put into members' voluntary liquidation ("MVL") and joint liquidators were appointed on 25 January 2023, following approval by its shareholders. The joint liquidators made a "dividend in specie" to COLG shareholders on 25 February 2023 when the shares COLG held in Recognise Bank were distributed to them pro rata to their shareholdings in COLG.

Notes to the financial statements / continued

Many of the costs of the group restructure were funded by the Bank which advanced the required funding to COLG. After completion of the MVL (estimated to be achieved by March 2024), the joint liquidators will apply COLG's remaining cash funds towards repayment of the amount due to the Bank, which is the only creditor of COLG. The amount that COLG owed the Bank as at 25 January 2023 was £749,000. It is anticipated that this balance will not be recovered and, accordingly, it has been fully provided for as part of the Group restructure costs (note 9).

As part of the group restructure arrangements, the Bank replaced COLG in the Trust Deed for the COLG Employee Benefit Trust, which became the Recognise Bank Employee Benefit Trust. An interest-free loan which COLG had made to the Trustees of the Employee Benefit Trust was assigned to the Bank at its estimated fair value of £211,000. The Trustees of the Recognise Bank Employee Benefit Trust now hold 1,366,193 A ordinary shares in the Bank which were received in place of the shares previously held in COLG. The Trustees may use these shares to meet any future share awards to Group employees (note 26).

In accordance with their terms, COLG Open Offer warrants issued to shareholders subscribing for shares in the October 2021 capital raise lapsed when COLG went into MVL. The Bank has issued Recognise Bank Open Offer Replacement warrants to the COLG Open Offer warrant holders which enable the holders to subscribe for shares in the Bank on a basis equivalent to that applying to the COLG Open Offer warrants (note 26).

31 Related parties

The related parties of the Bank are its subsidiaries, together with its directors and major shareholders. The Bank entered into the following related party transactions during the year:

(a) As explained in note 30 above, COLG was a related party until 25 January 2023 when it was put into members' voluntary liquidation as part of the group restructure (see note 30). Transactions with COLG during the period to 25 January 2023 include the following

- issue of 2,633,163 A Ordinary shares at £2.45 each for cash of £6,451,250 on 24 May 2022 (see note 26).
- the Company provided funding to meet the cost of the group restructure (note 30). There was no balance outstanding at 31 March 2023 as the amount due from COLG was fully provided for.
- other amounts charged in the period to 25 January 2023 are set out in the table below.

(b) The Bank purchased all the issued share capital of CAML from COLG. In addition, the intercompany balance between COLG and CAML was assigned to the Bank and a loan from CAML to COLG was novated to the Bank (note 18). All the transfers were made at fair value and the consideration of £1,676,998 was satisfied by the issue of 684,489 A ordinary shares at £2.45 each. The amounts due to and from CAML at 31 March 2023 are set out in the table below.

(c) As set out in note 26, the Bank's majority shareholder, PV27, subscribed £25,000,000 for 23,584,906 ordinary shares at a subscription price of £1.06 per ordinary share on 28 February 2023. PV27 also received warrants to subscribe for 23,584,906 shares at an exercise price of £1.06 per ordinary share over the next three years.

(d) The Bank has a relationship agreement with PV27. In addition to specifying matters where prior written consent from PV27 is required to be given to the Bank, PV27 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. PV27 has currently nominated one non-executive director, Ruth Parasol, to the Board.

(e) The balance on the loan between the Bank and the EBT as at 31 March 2023 was £211,000. Further information on the EBT is given in note 30.

(f) Transactions with related parties who are shareholders: during the year: transactions were entered into with several related parties in the normal course of the Company's lending business on commercial terms. The related parties did not include PV27. There was a loan exposure under these arrangements of £5.4m as at 31 March 2023, but there was no material impact on the consolidated statement of comprehensive income.

Notes to the financial statements / continued

31 Related parties continued

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	2023 £'000	2022 £'000
Intra-group balances - amounts owed (to)/by		
City of London Group plc		
Amounts payable (note 25)	–	(260)
Amounts receivable (note 22)	–	12
Credit Asset Management Limited		
Amount due from subsidiary (note 22)	2,328	–
Loan from subsidiary (note 24)	(5,000)	–
Property and Funding Solutions Ltd		
Intercompany loan (note 24)	–	468
Others		
Loan exposure with respect to related parties	5,440	–

(Income)/costs arising from related party transactions during the year	2023 £'000	2022 £'000
City of London Group plc[(a)]		
Group charges paid	178	535
Rent paid	90	130
Group restructure costs	749	–
Property and Funding Solutions Ltd		
Dividend income	(468)	–
Interest Income – Intercompany	–	(101)
Others		
Income on loans with respect to related parties	(78)	–

(a) arising in period prior to 25 January 2023

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

33 Post balance sheet events

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

Notice of Annual General Meeting

NOTICE IS GIVEN that the Annual General Meeting of the Company will be held at 1.30 pm on 21 September 2023 at the office of the Company at 2nd Floor, Augustine House, 6A Austin Friars, London EC2N 2HA to consider the following resolutions which will be proposed as ordinary resolutions:

1. To receive the annual report and accounts for the year ended 31 March 2023.
2. To re-elect Sherif Moorad Choudhry as a director of the Company.
3. To re-elect Richard Gabbertas as a director of the Company.
4. To re-elect Philip Jenks as a director of the Company.
5. To re-elect Jean Murphy as a director of the Company.
6. To re-elect Ruth Parasol as a director of the Company.
7. To re-elect Simon Wainwright as a director of the Company.
8. To appoint PricewaterhouseCoopers LLP as auditor of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the members and to authorise the directors to determine its remuneration.

By order of the Board

G M Kingsbury
Company Secretary
21 August 2023

Registered office

Augustine House, 6A Austin Friars
London EC2N 2HA

Notice of Annual General Meeting / continued

Notes:

1. An explanation of the proposed resolutions can be found in the Directors' report on page 28.
2. To be entitled to attend, speak and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at close of business on 19 September 2023. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend, speak and vote at the Meeting.
3. If you are a member entitled to attend and vote at the meeting, you may appoint one or more proxies to attend and vote on your behalf. A proxy need not be a member of the Company. If you appoint a proxy it will not prevent you from attending the meeting and voting in person. The Company encourages shareholders to appoint the Chair as their proxy with their voting instructions.
4. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.
5. If your shares are held in joint names, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
6. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
7. You can vote either:
    - by logging on to www.signalshares.com and following the instructions;
    - Link Group, the Company's registrar, has launched a shareholder app: LinkVote+. It's free to download and use and gives shareholders the ability to access their shareholding record at any time and allows users to submit a proxy appointment quickly and easily online rather than through the post. The app is available to download on both the Apple App Store and Google Play.
    - If you are an institutional investor you may also be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 1.30pm on 19 September 2023 in order to be considered valid or, if the meeting is adjourned, by the time which is 48 hours before the time of the adjourned meeting. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy. An electronic proxy appointment via the Proxymity platform may be revoked completely by sending an authenticated message via the platform instructing the removal of your proxy vote.
    - you may request a hard copy form of proxy directly from the registrars, Link Group, on Tel: 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.
    - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

    In order for a proxy appointment to be valid a form of proxy must be completed. In each case the form of proxy must be received by Link Group at, PXS, Central Square, 29 Wellington Street, Leeds LS1 4DL not less than 48 hours (excluding non-working days) before the time of the meeting.
8. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
9. If you have been sent a copy of this notice because you have been nominated to have information rights under the Act by a nominee shareholder who holds shares on your behalf (and therefore your shares are not held in your own name) then you do not have the right to appoint a proxy using a form of proxy issued by the Company. However, you may have a right under an agreement with the registered shareholder to appoint someone else or to be appointed yourself as a proxy for this meeting. If you do not have this right, or if you do not wish to exercise it, you may have a right under such agreement to give instructions to the shareholder as to how they should vote in respect of the shares they hold on your behalf. You should contact the registered shareholder to find out more about any such arrangements.
10. The return of a completed proxy form, electronic filing or any CREST Proxy Instructions will not prevent a shareholder from attending the Meeting and speaking and/or voting in person if they wish to do so.
11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST manual (available from www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
12. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & International Limited's specifications, and must contain the information required for such instructions, as described in the CREST manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 1.30pm on 19 September 2023. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

Notice of Annual General Meeting / continued

13. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & International Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s)), to procure that their CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system provider(s) are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
14. Any corporation which is a registered shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a registered shareholder, provided that no more than one corporate representative exercises powers in relation to the same share.

Shareholder information

Financial calendar

We will hold our 2023 annual general meeting at the office of the Company at Augustine House, 6A Austin Friars, London EC2N 2HA at 1.30pm on 21 September 2023.

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 will allow the Company's existing shareholders and new investors 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

Augustine House
6A Austin Friars
London EC2N 2HA
Company number: 10603119
Website: www.recognisebank.co.uk

Investor enquiries

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Company secretary

G M Kingsbury
Augustine House
6A Austin Friars
London EC2N 2HA

Registrar and transfer office

For shareholder administration enquiries, including changes of address, please contact:
Link Group
Central Square
29 Wellington Street
Leeds LS1 4DL

Auditor

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

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