

# **PILLAR 3 DISCLOSURES**

**March 2023**

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## Intro

This document sets out the consolidated Pillar 3 disclosures for Recognise Bank Limited (“RBL”) as at 31 March 2023.

Recognise Bank Limited is a UK licensed bank that focuses on serving the SME market. It is authorised by the Prudential Regulation Authority (“PRA”) and regulated by the Financial Conduct Authority (“FCA”) and the PRA.

Credit Asset Management Limited (“CAML”) became a wholly owned subsidiary of the Bank in August 2022.

City of London Group plc (“COLG”) was removed from the group structure in January 2023.

This document has been prepared to comply with the Disclosure (CRR) Part of the PRA Rulebook which was incorporated into the PRA Rulebook from 1 January 2022.

RBL meets the definition of a small and non-complex institution, therefore this disclosure is in line with the reduced scope that is outlined in Article 433b of the Disclosure (CRR) Part of the PRA Rulebook.

## Basis of disclosure

The purpose of these disclosures is to provide information on the management of risks faced by the Bank and the basis of calculating capital requirements under Capital Requirements Directive (CRD V) and Capital Requirements Regulation (CRR II).

The disclosures in this report have been prepared as at 31 March 2023. They should be read in conjunction with the Recognise Bank Limited 2023 Annual Report and Accounts which can be found at Companies House.

The Bank uses the Standardised Approach for calculating the capital requirements for credit risk and the Basic Indicator Approach for operational risk. As the Bank does not operate a trading book there are no exposures to market risk under Pillar 1.

The disclosures have not been, and are not required to be, subject to independent external audit and do not constitute part of the Bank’s financial statements.

## Scope of Application

Recognise Bank Limited includes the full consolidation of its wholly owned subsidiary Credit Asset Management Limited (“CAML”). CAML is no longer writing new business and the run-off of its existing loan and lease portfolio is well advanced.

## Disclosure Policy

The disclosures are prepared in accordance with the Board-approved Pillar 3 disclosure policy and reflect considerations of frequency of disclosure, materiality and confidentiality as permitted by the Disclosure (CRR) Part of the PRA Rulebook. The Bank’s Pillar 3 disclosures have been reviewed and approved by the Board.

## Attestation

The Board confirm that these disclosures meet the minimum requirements for Pillar 3 disclosures and have been prepared in line with our internal controls framework.

## Media and Location

The Bank’s Pillar 3 disclosures are published on the Recognise Bank Limited corporate website (<https://www.recognisebank.co.uk>) and should be read in conjunction with the Bank’s Financial Statements for the period ended 31 March 2023 which are available from Companies House.

**Table 1 - UK KM1 – Key Metrics**

The table below shows the key metrics for Recognise Bank Limited. Template KM1 has been disclosed in accordance with Annex I and Annex II of the Disclosure (CRR) Part of the PRA Rulebook.

		Mar-23	Mar-22	Mar-21
		£000's	£000's	£000's
	<b>Available own funds (amounts)</b>			
1	Common Equity Tier 1 (CET1) capital	57,482	37,411	26,934
2	Tier 1 capital	57,482	37,411	26,934
3	Total capital	57,482	37,411	26,934
	<b>Risk-weighted exposure amounts</b>			
4	Total risk-weighted exposure amount	88,249	87,216	33,449
	<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>			
5	Common Equity Tier 1 ratio (%)	65.1%	42.9%	78.9%
6	Tier 1 ratio (%)	65.1%	42.9%	78.9%
7	Total capital ratio (%)	65.1%	42.9%	78.9%
	<b>Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)</b>			
UK 7a	Additional CET1 SREP requirements (%)	4.2%	4.2%	2.6%
UK 7b	Additional AT1 SREP requirements (%)	1.4%	1.4%	0.9%
UK 7c	Additional T2 SREP requirements (%)	1.8%	1.8%	1.2%
UK 7d	Total SREP own funds requirements (%)	15.4%	15.4%	12.7%
	<b>Combined buffer requirement (as a percentage of risk-weighted exposure amount)</b>			
8	Capital conservation buffer (%)	2.5%	2.5%	2.5%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-
9	Institution specific countercyclical capital buffer (%)	1.0%	-	-
UK 9a	Systemic risk buffer (%)	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-
UK 10a	Other Systemically Important Institution buffer	-	-	-
11	Combined buffer requirement (%)	3.5%	2.5%	2.5%
UK 11a	Overall capital requirements (%)	18.9%	17.9%	15.2%
12	CET1 available after meeting the total SREP own funds requirements (%)	49.7%	27.5%	66.2%
	<b>Leverage ratio <sup>(a)</sup></b>			
13	Total exposure measure excluding claims on central banks	134,402	109,158	n/a
14	Leverage ratio excluding claims on central banks (%)	42.8%	34.3%	n/a
	<b>Liquidity Coverage Ratio</b>			
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	71,930	20,648	12,767
UK 16a	Cash outflows - Total weighted value	18,358	13,379	3,329
UK 16b	Cash inflows - Total weighted value	9,363	8,079	2,497
16	Total net cash outflows (adjusted value)	8,996	5,300	832
17	Liquidity coverage ratio (%)	799.6%	389.6%	1,534.1%
	<b>Net Stable Funding Ratio <sup>(b)</sup></b>			
18	Total available stable funding	247,010	128,630	n/a
19	Total required stable funding	93,289	78,103	n/a
20	NSFR ratio (%)	264.8%	164.7%	n/a

(a) Exclusion of certain central bank claims was a new requirement for 2022

(b) NSFR was a new requirement for 2022

### Table 2 - UK OV1 – Overview of risk weighted exposure amounts

The table below provides a breakdown of the risk weighted assets of Recognise Bank Limited. Template OV1 has been disclosed in accordance with Annex I and Annex II of the Disclosure (CRR) Part of the PRA Rulebook.

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		Mar-23	Mar-22	Mar-23
		£000's	£000's	£000's
1	Credit risk (excluding CCR)	83,185	81,924	6,655
2	Of which the standardised approach	83,185	81,924	6,655
23	Operational risk	5,065	5,292	405
UK 23a	Of which basic indicator approach	5,065	5,292	405
<b>29</b>	<b>Total</b>	<b>88,249</b>	<b>87,216</b>	<b>7,060</b>

## Risk management

This section should be read in conjunction with the Risk Management section in Recognise Bank's 2023 Annual Report and Accounts (found on pages 9 to 17).

### Risk Appetite Statements

The Board's expression of Risk Appetite is articulated through the Bank's Risk Appetite Statement which outlines the level of risk the Bank is willing to accept across the 15 Principal Risks identified in Recognise Bank's Risk Taxonomy. These are Strategic Risk, Capital risk, Liquidity Risk, Credit Risk, Third Party Risk (including Outsourcing Risk), Operational Resilience, Data Risk, Cyber Risk, Operational Risk, Conduct Risk, Compliance Risk, Financial Crime Risk, Interest Rate Risk, Climate Risk and Regulatory Reporting Risk.

Risk Appetite is expressed in qualitative terms and in quantitative terms through Key Risk Indicators ("KRIs") which allows the Bank to monitor its risk exposure. Recognise Bank's operational performance is measured with reference to the KRIs which include key figures from the KM1 table of this disclosure and which are reported to the Executive Risk Committee (ERC) on a monthly basis.

The Risk Appetite Statement is approved by the Recognise Bank board and is reviewed regularly.

### Principal Risks

Information on the management of the 15 Principal Risks the Bank faces can be found in the table on pages 11 to 14 in Recognise Bank's 2023 Annual Reports & Accounts.

## Remuneration

This section has been prepared to comply with Article 450 of Disclosure (CRR) Part of the PRA Rulebook and Supervisory Statement SS2/17 on Remuneration. Under SS2/17, Recognise Bank Limited meets the definition of a proportionality level 3 firm which means the Bank has a reduced scope of Article 450.

### Decision making and governance

The remuneration committee is made up of independent non-executive Directors. It met six times during the year and reported on its deliberations to the Board.

No director is involved in discussions or decisions on their own remuneration. The remuneration of the non-executive directors is determined by the Board.

The remuneration committee is responsible for developing the policies on remuneration for executive directors and senior management and for determining specific remuneration packages for each of the executive directors. The remuneration committee is only involved in setting pay for the executive directors and senior managers. It is, however, aware of pay and conditions for other staff when making these decisions.

The committee consulted Aon during the year and received advice on incentives and rewards for the Bank.

The Bank has applied the proportionality principle to ensure that their practices and processes are appropriate to their size, internal organisation and the nature, scope and complexity of their activities.

### Link between pay and performance

The Bank believes in the importance of attracting, retaining and motivating staff of the appropriate calibre.

The general principle for Recognise Bank is that employees will be paid a salary, plus benefits and they will be eligible for an annual discretionary bonus.

Salary increases and the payment of a discretionary bonus are both subject to good performance, corporate profitability and compliance with risk policies and risk appetite limits.

### Material Risk Takers

The following remuneration tables are based on 29 Material Risk Takers (MRTs) identified by Recognise Bank based on the criteria set out in the Remuneration Part of the PRA Handbook. This includes MRTs that were in place for only part of the year. There were 20 MRTs as at 31<sup>st</sup> March 2023.

**Table 3 - UK REM1 – Remuneration awarded for the financial year**

The table below provides a breakdown of the remuneration awarded by Recognise Bank Limited to MRTs during the financial year. Template REM1 has been disclosed in accordance with Annex XXXIII and Annex XXXIV of the Disclosure (CRR) Part of the PRA Rulebook and is in line with the requirements of a proportionality level 3 firm.

			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	6	14	9	-
2		Total fixed remuneration (£000's)	348	2,191	773	-
9	Variable remuneration	Number of identified staff	-	14	9	-
10		Total variable remuneration (£000's)	-	1,219	269	-
17	Total remuneration (£000's)		348	3,410	1,042	-

**Table 4 - UK REM5 – Remuneration awarded by business area**

The table below provides a breakdown of the remuneration awarded by Recognise Bank Limited to MRTs during the financial year, split by business area. Template REM5 has been disclosed in accordance with Annex XXXIII and Annex XXXIV of the Disclosure (CRR) Part of the PRA Rulebook.

		Management body remuneration			Business areas		Total
		MB Supervisory function	MB Management function	Total MB	SME banking	Independent internal control functions	
1	Total number of identified staff						29
2	Of which: members of the MB	6	14	20			
3	Of which: other senior management				7	2	
4	Of which: other identified staff				-	-	
5	Total remuneration of identified staff (£000's)	348	3,410	3,758	845	197	
6	Of which: variable remuneration (£000's)	-	1,219	1,219	238	31	
7	Of which: fixed remuneration (£000's)	348	2,191	2,539	607	166	