BIRMINGHAM BANK LIMITED

Pillar 3 Disclosures

For the year ended 31 December 2024

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1. Overview

1.1. Introduction

This document provides the Pillar 3 disclosures on capital and risk management and remuneration required of Birmingham Bank Limited (the Bank) as at 31 December 2024.

The Bank is authorised by the Prudential Regulation Authority (‘PRA’) and regulated by the PRA and the Financial Conduct Authority (‘FCA’), registration number 204478.

The principal activity of the Bank has changed from the provision of finance for small to medium sized enterprises to include buy to let mortgages. The Bank accepts retail deposits.

The loss in 2024 represents the combination of continuing investment in people and infrastructure alongside the launch and scaling of product offerings. As the growth in the balance sheet progresses during 2025 losses are expected to reduce in line with plan. The Bank has tested its capability and capacity for growth in 2025 through successful delivery across multiple product ranges in 2024.

1.2. Background

The European Union (EU) Capital Requirements Directive (“the Directive” or “CRD”) came into effect on 1 January 2007. It introduced capital adequacy standards and an associated supervisory framework in the EU based on the Basel II Accord. On 1 January 2014, the regulatory disclosure requirements of the CRD and the Basel III regulations, commonly known as CRD IV, revised the definition of capital resources and included additional capital and disclosure requirements.

Following the UK’s withdrawal from the EU the Bank is required to comply with the onshored Capital Requirements Regulations (CRR) and associated onshored binding technical standards which were created by the European Union (Withdrawal) Act 2018 and amending statutory instruments, referred to as “UK CRR’’. 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.

The Basel framework comprises three “pillars” which are designed to promote bank resilience and market discipline through the disclosure of key information about risk exposures and risk management processes.

- Pillar 1 minimum capital requirements - Pillar 1 sets out the minimum capital requirements that firms are required to meet for credit, market, and operational risk, using a risk-based capital calculation focusing particularly on credit and operational risk.

- Pillar 2 supervisory review - The supervisory review process requires firms and supervisors to take a view on whether a firm should hold additional capital against those risk factors not sufficiently covered by the Pillar 1 requirements (e.g., interest rate risk in the banking book, concentration, business, and strategic risk); and factors external to the firm (e.g., macroeconomic conditions). The Board has undertaken an assessment of all the key risks facing the Bank and has stress tested those risks to establish a level of additional capital to be held as an internal capital buffer. The results of the Board’s assessment are documented in the Internal Capital Adequacy Assessment Process (‘ICAAP’) which is subject to review by the PRA under the Supervisory Review and Evaluation Process (‘SREP’) arrangements.

- Pillar 3 disclosure requirements - Pillar 3 aims to promote market discipline by requiring firms to publish a set of disclosures which provide market participants with key information to assess the firm’s capital, risk exposures, risk management process and capital adequacy. The disclosures contained in this document cover disclosure requirements of Pillar 3, as set out in the CRR, and based on the period ending 31 December 2024.

1.3. Scope

This document comprises the Bank's Pillar 3 disclosures on capital and risk management for the period ending 31 December 2024.

The objective of these disclosures are as follows:

- To meet the regulatory disclosure requirements under Capital Requirement Regulations (CRR) and Directive, Part 8 Disclosure by Institutions.
- To meet the rules the PRA set out in the PRA Rulebook for leverage, 'Part PB – Public Disclosure' and as the PRA and FCA have otherwise directed, including Remuneration Code disclosures.
- To provide further useful information on the capital and risk profile of the Bank.

This document has been prepared to meet disclosure requirements and is based upon the Bank's Annual Report and Accounts for the year ended 31 December 2024, unless otherwise stated. The Bank's financial statements have been prepared in accordance with FRS 102.

The CRR allows the Bank to exclude certain disclosures if they contain proprietary or confidential information or if the information is not material. However, the Bank has not excluded any information on the grounds of being proprietary or confidential.

The Bank's Pillar 3 disclosures have been reviewed and approved by the Board who are satisfied that the disclosures accurately and comprehensively describe the Bank's risk profile. There is no requirement for the disclosures to be audited however some of the information within the disclosures also appear in the audited Annual Report and Accounts.

1.4. Summary Analysis

The table below is a summary of the Bank's key ratios:

	31 December 2024 £'000s	31 December 2023 £'000s
Available capital		
Tier 1 capital	35,985	18,617
Risk Weighted assets	47,333	5,229
Tier 1 Capital ratio	76%	365%
Additional CET1 buffer requirements		
Capital conservation buffer	2.5%	2.5%
Countercyclical buffer	2.0%	2.0%
Leverage ratio	24%	63%
Liquidity coverage ratio	725%	11351%

The Bank has no additional tier 1 or tier 2 capital.

1.5. Frequency and Location of Disclosures

The Bank's policy is to issue these disclosures on an annual basis as soon as practicable after the publication of the Bank's Annual Report and Accounts.

These disclosures are published on the Bank's website: www.Birminghambank.com.

The frequency of disclosure will be reviewed should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements.

1.6. Verification

The Bank's Pillar 3 disclosures are not required to be subject to an external audit. The disclosures have been reviewed and approved by the Board following Executive Committee approval that the disclosures are an accurate view of the Bank's risk profile.

2. Governance - Board and Committees

2.1. The Board

The Board has overall responsibility for the Bank's business and management of risk. It sets the strategic aims for the business within a control framework and risk appetite which are designed to enable risk to be assessed and managed within defined limits. The Board satisfies itself that financial controls and systems of risk management are robust.

As at the reporting date, the Board comprised of five independent non-executive Directors (INEDs), two executive Directors: the Chief Executive Officer and the Chief Financial Officer and a shareholder representative.

2.2. The Board - Recruitment policy

Recruitment onto the Board combines an assessment of both technical capability and competency. The choice of Directors will be governed by the need to have on the Board a mix of experience and knowledge which are relevant to the Bank's operations. Board Directors have a maximum nine-year term of office.

2.3. The Board – Diversity policy

The Board's policy is to have sufficient diversity in its membership to avoid the possibility of 'groupthink' and to increase the perspective of the Board and the Bank. The Board is clear that diversity in several areas is desirable including gender, ethnicity, age, and disability, among others. Thus, the Board has adopted a general policy of seeking to enhance diversity among its membership as opportunities arise but without setting any targets in advance of the recruitment process.

Recruitment Panels are asked to approach all interview processes with these policy guidelines in mind. It is the Board's clear intention to actively seek a wider diversity in its membership, whilst ensuring that it has the specific experience and skills needed to give the optimum blend of individual and aggregate capability having regard to the Bank's Strategic Business Plan.

2.4. Board and Committee Structure

Primary Responsibilities of the Board

While the day-to-day operation of the Bank is delegated to specific individual executives as managers, the Board, appointed by the shareholders to monitor and govern the Bank's operations, is legally responsible for safeguarding the interests of depositors and shareholders. Although the Board does not manage the Bank, one of its foremost duties is to recruit and retain suitable management. The Board appraises the Chief Executive Officer and provides oversight and agreement to the appointment of other senior managers.

In conjunction with the Bank's senior management team, the Board is responsible for formulating broad priorities, goals, and strategies for the Bank. The formulation of clear objectives and policies supplies a framework for the Chief Executive Officer to work within.

The Board both lays out the Bank's goals and monitors the progress against these. One of its main duties in this capacity is to limit the Bank's exposure to excessive risk of all kinds, including legal, reputational and financial. By managing risk judiciously, the Board seeks to maintain a balance between enterprise and caution. The Board also ensures that the Bank complies with all applicable statutes and regulations.

This is achieved by monitoring compliance with regulatory and policy requirements via the Bank's risk and audit functions. The audit operations are not limited to financial matters and encompass the Bank's structure and operations. The Board is also responsible for commissioning audits to provide independent assessment and assurance of the Bank.

Responsibilities and Requirements of Independent Non-Executive Directors
The essential role of the INEDs is to provide independent assurance to the Bank's shareholder that the business is being conducted in such a manner as to protect the interests of the Bank's depositors and to comply with relevant regulatory requirements. This responsibility is discharged via oversight of, and appropriate challenge to, the Bank's senior management via the structure of the Bank's Board and subcommittees. Part of the process for selection is to ensure the INEDs are familiar with the regulatory principles and practices and to maintain their knowledge of them.

Responsibilities and Requirements of Executive Directors
Together with the Chief Risk Officer, Chief Operating Officer, Chief Commercial & Product Officer, Chief Governance Officer, Technology Director and Operations Director, the Executive Directors are responsible for the day-to-day operation of the Bank. Together, they form the Executive Committee. This is in part effected via policies and procedures developed with the approval of the Board (directly or indirectly through committees and sub-committees), partly through the Executive Committee and partly by the discharge of duties as specified within individual job descriptions.

Chair and Chief Executive
The offices of the Chair and Chief Executive Officer are distinct and held by different people. The Chair's main role is to lead the Board and to ensure that it operates effectively. The Chief Executive's role is to put into effect the strategies agreed by the Board and the general operational management of the Bank.

Compliance with the Senior Managers Regime
The PRA define a set of Prescribed Responsibilities and Overall Responsibilities, which must be allocated to a senior manager performing a Senior Management Function.

Committees of the Board

Audit Committee
The Audit Committee's main responsibility is to help the Board carry out its responsibilities relating to accounting policies, financial governance, the control framework and financial reporting functions. The Committee reviews the effectiveness of the Bank's internal controls, approves the internal audit

programme and examines internal and external audit reports. The Committee receives and considers the recommendations of the internal and external audit function and ensures, via management, that recommendations are implemented where necessary.

The Committee ensures the financial statements give a true and fair view, as well as provide the reader with enough information to assess the Bank's performance. Any significant judgements in relation to financial reporting are reviewed and challenged by Committee.

The Audit Committee appraises the performance of the internal audit function. The Committee has assessed internal audit resources and is satisfied that these are appropriate to fulfil their responsibilities.

The Committee reviews the Bank's external audit strategy including the appointment of the external auditors and approval of the audit fees.

The Audit Committee comprises independent non-executive Directors. The Audit Committee met six times during 2024.

The Committee evaluates its performance and effectiveness on an annual basis.

Risk Committee
The Risk Committee's key responsibilities are the provision of oversight and advice to the Board in relation to current and potential future risk exposures of the Bank and future risk strategy, including review and challenge of the Risk Management Framework (RMF), determination of risk appetite and to promote a risk awareness culture within the Bank.

Risks are identified and monitored on an on-going basis and evaluated with appropriate action taken to manage and control any new risk. The Board has reviewed relevant systems and processes and is satisfied that the Bank has an appropriate system of internal controls.

During the year the Board Risk Committee reviewed the Bank's key risks, emerging risks and management's risk and control self assessment process. In addition, the Risk Committee reviewed the Bank's Recovery Plan, Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).

The Risk Committee met twelve times in 2024.

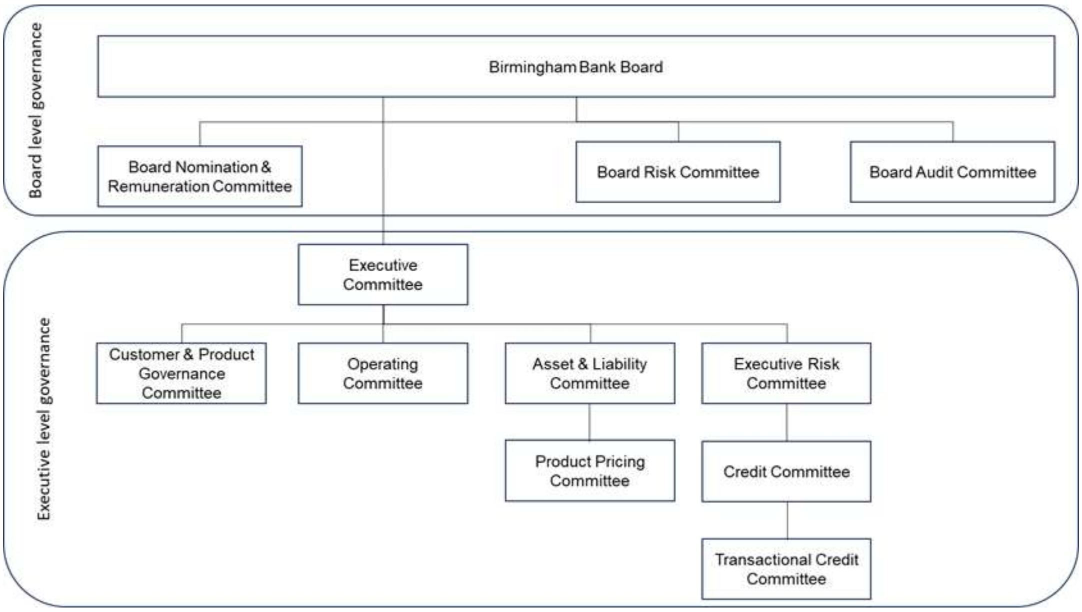
Nominations and Remuneration Committee
The Committee is responsible for reviewing and approving the remuneration and performance arrangements at the Bank, including reviewing the Bank's remuneration policy to ensure that it is up to date and consistent with the relevant requirements of the Financial Conduct Authority (FCA) remuneration code (SYSC 19D) and the Prudential Regulatory Authority (PRA) rulebook.

The Nominations and Remuneration Committee is also responsible for developing and maintaining a Board Composition and Succession Plan; annually reviewing the structure, size and composition of the Board; reviewing all appointments to the Board and its committees and keeping under review the leadership of the Bank, both executive and non-executive, with a view to ensuring the continued ability of the Bank to compete effectively in the marketplace.

The Nominations and Remuneration Committee met three times during 2024.

Bank Governance Structure

The figure below illustrates the Bank's governance structure at the Board and executive level.



2.5. Board Membership

The directors who served the Bank throughout the year and up to the date of approval of this report were as follows:

- K I M Arnold (Non-Executive Director and Chair)
- N Fisher (Director and Chief Financial Officer)
- P Frost (Non-Executive Director)
- A J Holmes (Non-Executive Director)
- M Lamont (Non-Executive Director) Resigned 25 October 2024
- Kevin Ryan (Non-Executive Director) Appointed 25 October 2024
- S Potter-Price (Non-Executive Director)
- M S Stephens (Non-Executive Director) Resigned 27 August 2024
- C Weller (Director and Chief Executive Officer)

2.6. Executive Committees

In addition to the Board sub-committees, the Executive Committee has established the following committees:

- Asset and Liability Committee (ALCO) – responsible for oversight of balance sheet management, notably capital and liquidity adequacy plus market risk
- Operating Committee (OPCO) – oversight of operations including capacity, complaints and operational risk
- Executive Risk Committee (ERC) – oversight of the RMF including conduct risk
- Credit Committee – oversight of credit quality and performance including arrears management and provisioning
- Customer and Product Governance Committee – oversight of customer outcomes and product governance

2.7. Risk Governance

The Bank's risk governance structure ensures effective oversight of risks in line with strategy and risk appetite. It clearly defines roles and responsibilities for risk management across the Bank, based on the three lines of defence model, a risk management committee structure and reinforced by a positive risk culture.

The ultimate responsibility for risk remains with the Board, however responsibility for board-level oversight of risk management is delegated to the Audit Committee and Risk Committee. The committees consist of independent non-executive Directors and meets a minimum of four times annually. The committees ensure that the recommendations of the PRA, the FCA and the external auditor are considered in full and implemented, where appropriate. Other Directors are invited to attend committee meetings. The Audit Committee oversees the work and considers the reports of the Bank's Internal Audit function, reviewing the implementation of its recommendations where appropriate and considering the effectiveness of internal controls.

Although the ultimate authority and responsibility for material risk decision making is vested in the Board, a level of authority is delegated and cascaded to the executive management team. The executive team are responsible for the day-to-day operation of the business in line with the overall Risk Appetite Framework, Risk Management Framework and the associated policies, limits, and controls. They are also responsible for reporting performance against the internal limits to the Risk Committee monthly and to the Board for discussion as appropriate at each meeting, and more frequently if appropriate. The Board regularly reviews and challenges policies, documents and limits and acts, as necessary.

Formal risk escalation and reporting requirements are set out in risk policies, individual committee terms of reference and the approved risk appetite thresholds and limits.

The Risk and Compliance team provides oversight and challenge of all key risks facing the Bank and maintains the Bank's Risk Management Framework and supporting risk policies.

The Internal Audit function independently provides objective assurance as to the adequacy and effectiveness of internal controls across the business. A risk-based programme of work is undertaken which is designed to provide appropriate coverage of the key risks and controls. The Audit Committee approves the annual Internal Audit Plan and receives reports on the results of audit work.

The Bank's approach to risk management is underpinned by the 'Three Lines' model. The first line represents the operational functions of the Bank and are responsible for managing risk. The second line function is responsible for risk and compliance oversight and the third line provides independent assurance on controls via the Internal Audit function. This model establishes clear responsibilities for all staff in relation to risk management including executive and non-executive responsibilities documented where applicable under the Senior Managers and Certification Regime.

2.8. Risk Appetite

The Bank's risk appetite framework sets out the mechanism to determine and measure individual metrics for principal risks.

2.9. Risk Culture

The Board establishes the tone at the top and ensures the Bank actively embraces a positive risk culture. The culture reflects the Bank's core values, and drives expected behaviours in day-to-day decision-making. The Board takes ownership for key risk matters and senior management leads in implementing the risk appetite and ensuring that the RMF is fully embedded, and appropriate review and challenge to risk matters.

The Bank aims for all employees to be risk aware, to understand accountabilities and responsibilities to manage risk within appetite within all aspects of their role and encourages transparent and timely flow of risk information. This is achieved with an attitude of understanding, accountability, and continual improvement. A clear governance structure, a risk-based remuneration approach, and designing and embedding of risk policies through communication and appropriate staff training supports a sound risk culture aligned with the Bank's strategy and business objectives.

2.10. Stress testing

An important risk management tool is the deployment of stress testing to enable the Bank to assess its risk appetite under expected and stressed operating conditions. Stress testing enables the Bank to understand its capacity and resilience. Stress testing is a key part of strategic and capital planning and is notably deployed in assessing capital and liquidity requirements for the Bank's ICAAP and ILAAP.

3. Risk Management Policies and Objectives

Risk management is seen as a regular, ongoing process, inter-woven within the strategic and daily operational management of the Bank. To operate within the Board's risk appetite, to comply with regulatory requirements and to ensure prudent management of the business, the Bank has established a range of internal controls and are subject to review as part of ongoing RMF enhancement activity.

Risk is inherent in every aspect of the Bank's business and the Bank has a strong risk awareness to ensure that the key risks to which it is exposed are identified, assessed, controlled, monitored, reported upon and where appropriate mitigated on a continual basis.

As part of its internal controls, the Board has an established RMF for the Bank that is proportionate to both the size of the Bank and the risks to which it is exposed. During 2024 further enhancements have been made to the RMF which covers the key risk categories and details the approach towards: identification, controls, reporting, appetite, and governance of the risks the Bank faces. This has included further embedding of a risk control self-assessments across the Bank.

The consideration and management of risk is included in each of the Bank's policies and the approach to the management of each principal risk faced by the Bank is covered in more detail within section 6.

4. Capital Resources and Business Strategy

In assessing the adequacy of its capital, the Bank considers its risk appetite, the material risks to which the Bank is exposed and the appropriate management strategies for each of the Bank's material risks.

The Bank received a £30m capital inflow from shareholders in 2024 with further inflows, of £17.5m, received in both January 2025 and March 2025.

It is essential that the Bank maintains sufficient capital to support its ongoing activities and this requirement is an integral part of the Bank's planning process. The Bank's strategic business plan projects forward and considers the need to maintain resources to support the plan's objectives.

In addition to the corporate planning process the Bank has prepared an Internal Capital Adequacy Assessment Process (ICAAP) to determine capital adequacy. The ICAAP involves reviewing all risks associated with the Bank's business activities and calculating the capital required to support them. The Bank undertakes regular stress testing and reverse stress testing with the results of this testing influencing business plans and future strategy.

5. Capital Adequacy

5.1. Capital Resources

The Bank has no appetite for breaching capital requirements. Its priority is to maintain a capital surplus above total capital requirements sufficient to absorb any unexpected losses and costs and ensure that its capital base can support a growing and maturing book across the economic cycle, allowing for potential downturns, maintaining a capital surplus buffer over minimum regulatory requirements.

Part of Birmingham Bank's capital management activity is the consideration of capital adequacy which is reported to the Board at every meeting. This review includes an assessment of the Bank's capital for both current and future expected impacts. The Capital Adequacy Ratio as at 31 December 2024 was 76% (2023 365%).

The Bank only has Common Equity Tier 1, which is the most loss absorbing form of capital and comprises ordinary share capital, share premium and retained earnings.

The regulatory capital resources of the Bank as at 31 December 2024 were as follows:

	31 December 2024 £'000s	31 December 2023 £'000s
Tier 1		
Ordinary share capital	60,138	30,138
Share premium	2,862	2,862
Retained earnings	(24,885)	(14,041)
Total Equity	**38,115**	**18,959**
Regulatory deductions	(2,008)	(342)
Total CET1 capital	**36,107**	**18,617**

Current and forecast levels of capital resources are monitored and reviewed by ALCO, Exco, BRC and Board on a regular basis.

5.2. Capital Requirements

Under the 'Standardised Approach', as specified by CRR, the level of capital required against a given level of exposure to Pillar 1 credit risk is calculated as:

Credit risk capital requirement = Exposure value x Risk weighting x 8%

The risk weighting for each exposure is determined by reference to external credit ratings or regulatory guidance. In addition, an evaluation of the capital required to cover operational risk is calculated under the 'Basic Indicator Approach' and determined by reference to the annual gross income of the Bank averaged over the previous 3 years.

The resulting Pillar 1 capital requirements as of 31 December 2024 are set out below:

	Risk Weighted Exposure £000s 2024	Pillar 1 Capital Required £'000s 2024	Risk Weighted Exposure £000s 2023	Pillar 1 Capital Required £'000s 2023
Total credit risk exposure	46,037	3,683	4,056	324
Operational risk	1,296	104	1,045	84
Total Pillar 1 Capital Requirement	47,333	3,787	5,101	408

The Bank has no exposure to market risk in pillar 1.

In addition to pillar 1 requirements, the Bank's ICAAP sets out its approach to determine whether the requisite levels of capital are sufficient to cover idiosyncratic risks.

The ICAAP process assesses the material risks faced by the Bank and determines the level of capital to be held against each. This process considers a number of severe but plausible stress scenarios. Further to the internal assessment the PRA have assessed the Bank's capital adequacy. The Bank's total capital requirement (TCR) is 19.51% of risk weighted assets (RWAs).

5.3. Regulatory Capital Buffers

Pillar 2B capital buffers cover risks to which the Bank may become exposed over a forward-looking planning horizon.

Under Pillar 2B the PRA has set a PRA Buffer defining a minimum level of capital buffer over and above the minimum Pillar 1 and 2A regulatory requirement that should be maintained in non-stressed conditions as a mitigation against future possible stress periods. This buffer is firm specific, and the PRA requires that the level of this buffer is not publicly disclosed.

The PRA Buffer is assessed alongside other regulatory capital buffers, as described below. All buffers must be met with CET1 capital resources.

Capital conservation buffer
The capital conservation buffer is designed to ensure that all institutions build up capital buffers outside of times of stress that can be drawn upon if required. As at 31 December 2024, the applicable capital conservation buffer was 2.50% of RWAs.

Countercyclical capital buffer
The countercyclical capital buffer requires all institutions to hold additional capital to reduce the build-up of systemic risk in a credit boom by providing additional loss absorbing capacity and acting as an incentive to limit further credit growth. The Financial Policy Committee (FPC) is responsible for setting the UK countercyclical capital buffer rate for credit exposures located in the UK. As at 31 December 2024, the Bank's specific countercyclical buffer rate was 2%.

5.4. Overall Capital Requirement

The table below shows the Bank's TCR and Combined buffer as a percentage of RWAs as at 31 December 2024:

Capital Requirement	£'000s	%
Pillar 1	3,787	8.00
Pillar 2a	5,448	11.51

Total Capital Requirement	9,235	19.51
Capital Conservation Buffer	1,183	2.50
Counter Cyclical Buffer	947	2.00
Total (excluding PRA buffer)	11,365	24.01

6. Principal Risks

The Board accepts that there is inherent risk in running the Bank, however it is the Bank's policy to minimise the unavoidable risks and further mitigate them wherever the costs of doing so are proportionate to the potential impact.

The principal risks faced by the Bank are set out within the Bank's taxonomy. The taxonomy was reviewed and updated in March 2025 with the changes approved at Board Risk Committee. The proposed changes primarily focused on elevating three of the current subcategories of risk to principal risks, to better reflect the key risks to the Bank and provide greater visibility of the management of these risk categories. The principal risks as at December 2024 are described below, together with the Bank's strategy for managing these risks.

6.1 Strategic Risk

Strategic risk is the risk to shareholder value, earnings or growth from adverse business decisions, improper implementation of the Bank's strategies, failing to deliver key strategic initiatives required to meet the Bank's financial, market and operational targets, or from external events.

Risk Appetite

Key elements to the Bank's strategy during the year focused on the development and launch of new products, driving growth and moving the Bank towards profitability on a strong operational and risk foundation. The Bank closely monitors and reports its core change programme and product launches via established governance.

The Bank will not take risk positions that threaten its ability to remain a sustainable and compliant organisation or its ability to meet its primary purpose. The strategic risk appetite is set by reference to the approved budget and strategic business plan sanctioned by the Board. The Bank has a low-risk appetite and uses its financial planning and early warning systems as the principal tools for managing its risk appetite and for identifying emerging risks.

Mitigation

As part of the annual budgeting and planning process, the Bank develops a set of management actions to prevent or mitigate any negative impact on earnings if strategic risks materialise. Additionally, risk monitoring, through regular reports and oversight, enables the Bank to implement corrective actions to plans and reductions in exposures where necessary. Revenue and capital investment considerations require additional in-depth assessment followed by Board approval. A formal risk assessment is conducted as part of all financial approval processes.

6.1. Liquidity Risk

Liquidity risk is the risk that a Bank does not have sufficient financial resources to meet its commitments when they fall due or can secure them only at excessive cost.

Risk Appetite

The Bank has processes in place to ensure it maintains liquidity resources which are adequate, in terms of both amount and quality, to ensure there is no significant risk that its liabilities cannot be met as they fall due. This includes funding risk to ensure that the Bank is always able to access sufficient funding of the stability, tenor and quality required to meet the Bank's projected business and cash flow requirements. The Bank will closely manage its funding risk to sustain itself as a going concern and maintain a low appetite for liquidity risk. The Bank monitors liquidity daily to ensure it has sufficient liquid assets to meet liabilities as they fall due ensuring that satisfactory liquidity coverage and loan to deposit ratios are maintained.

The Bank's ILAAP process assesses the liquidity to cover both systemic and idiosyncratic stresses and thereby an appropriate liquidity buffer.

Liquidity risks are monitored through ALCO, ExCo, BRC and Board.

Mitigation
The Bank's approach to liquidity management is to ensure it meets the Overall Liquidity Adequacy Rule (OLAR), i.e., it is always able to maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

The Bank has taken the following approach to demonstrating that it will continue to meet the provisions of the OLAR:

- Maintain an appropriate and robust governance structure that supports the Bank's approach to managing liquidity and funding risks in accordance with its risk appetite
- Identify, measure, monitor and manage the material liquidity and funding risks to which the Bank will be exposed
- Determine the necessary amount and types of liquidity resources to allow the Bank to survive a series of severe but plausible stress scenarios
- Assess the most appropriate funding plan and funding profile to support business growth and stability

To ensure that the Bank always meets the OLAR, the Board has set out and approved a liquidity risk tolerance ("LRT"), which requires the Bank to:

"…maintain sufficient readily available liquidity to meet its obligations as they fall due under the Board approved severe but plausible combined, idiosyncratic and market-wide stress scenarios for a period of 30-days without and 90-days with management actions from day 31."

Liquidity coverage ratio (LCR)
In addition to measuring OLAR, the Bank also measures the LCR with a risk appetite set in excess of the regulatory minimum of 100%.

The Bank's policy is to always maintain a LCR of at least 125%, using only high-quality liquid (level 1) assets. At the 31 December 2024 LCR was 725% and the Bank was holding UK Treasury Bills with a maturity value of £43.1m.

6.2. Market Risk
Market risk is the financial impact from movements in market prices or interest rates on the value of assets and liabilities, or on the net income of the business.

Given the activities of the Bank, the main market risk driver arises through interest rate risk in the banking book (IRRBB).

Risk Appetite
The Board's risk appetite is to maintain a tolerance for interest rate risk within closely observed limits. The risk is monitored through both earnings and income metrics.

Mitigation
Given that the Bank does not hold foreign currency or undertake trading it does not carry a pillar 1 charge for market risk.

IRRBB is managed through the use of on balance sheet offsets. The Bank has entered into a swap counterparty agreement during 2024 that will enhance its ability to mitigate interest rate risk as the balance sheet grows. The Asset and Liability Committee (ALCO) monitor IRRBB through the impact of both parallel and non-parallel interest rate shocks on economic value and net interest income.

Net Interest Income Sensitivity
Interest rate risk is managed principally through monitoring interest rate gaps between assets and liabilities based upon interest rate re-pricing dates as against the contractual maturity dates of the instruments.

The Bank monitors interest rate risk by assessing the impact of a potential 2% parallel shift in the yield curve against the Bank's interest sensitive gap profile computed back to a net present value.

The reported interest rate sensitivity on the year-end balance sheet for 31 December 2024 (measured as the effect of a 2% parallel shift in Sterling interest rates) was as follows:

Net Present value sensitivity to:	**£000's**
Positive Shift (+2%)	(27)
Negative Shift (-2%)	111

In addition to measuring IRRBB through a 2% parallel shift, the Bank also measures the impact on net interest income and through the six supervisory outlier tests which measure the impact on economic value of equity.

6.3. Operational Risk
Operational risk is the risk of loss of earnings through financial or reputational loss, from inadequate or failed internal processes and systems, operational inefficiencies, or from people related or external events.

The Bank's operational risks arise largely because of risks from business disruption (including failure of key suppliers), IT systems failures and operational processing errors.

The Board Risk Committee receives reports across the spectrum of operational risks and information security. These reports cover any incidents or breaches that have arisen to allow the Committee to assess management's response and proposed remedial actions. It also monitors the effectiveness of Business Continuity Plans and the tests carried out on those plans.

The Committee ensures that they are satisfied that any action taken is appropriate and that the control of operational incidents continues to improve.

Risk Appetite

Operational risk is the risk of direct or indirect losses or of reputational damage arising from inadequate or failed processes, people and systems or from external events. The Bank has a low appetite for operational risk. The Bank acknowledges that despite best efforts, due to the nature of operational risk, it is not possible to achieve the organisational objectives whilst entirely eliminating operational risk. In order to effectively manage the risk, the Bank employs sound risk management principles, has documented policies and procedures, transparent decision making and effective communication. The Bank will ensure that it maintains a strong control environment, supported by appropriately skilled resources.

Mitigation

There is clear first line ownership of operational risks, review and challenge by the second line and assurance from the third line. Focus is maintained on key risks, including outsourcing, operational resilience, people, cyber and technology risks. Key risk indicators are in place to escalate issues to senior management and the Board. Regular reviews are undertaken and operational risk events are captured, recorded and reviewed ensuring sufficient controls are in place to address the risks.

The Bank utilises the Basic Indicator Approach for calculating its pillar 1 capital requirements for operational risk.

6.4. Credit Risk

Credit risk is the risk of a loss or reduction in earnings and/or capital, because of the failure of a party with whom a Bank has contracted to meet its obligations (i.e., loan repayments, investments or bank deposits). This category includes Credit Concentration risk.

The Bank's strategy is focused on providing lending products. As such credit risk is a principal risk that the Bank undertakes.

Risk Appetite

The Bank's credit risk appetite is a core part of the Bank's financial viability, and the Bank's approach is a balanced one, with no appetite for high-risk lending, but a willingness to take on risk that is appropriately understood and priced. The Bank's lending is focused on individuals and entities which demonstrate the ability to service debt, including on a sensitised basis with debt principally secured on property.

Mitigation

Credit Risk – Treasury

The Bank's Treasury credit risk exposure is limited to short term deposits placed with UK Banks and Treasury Bills. The Bank does not engage in wholesale deposit lending other than with UK interbank counterparties with strong long term credit ratings (UK banks / building societies), nor will it allow placements exceeding the Bank's large exposures capital base (subject to the PRA pre-notification rules).

After due diligence checks have been made, all counterparties with whom the Bank places deposits are approved in advance by the Board.

Credit Risk – Customers

The lending portfolio is closely monitored via several detailed metrics including concentration, breaches and exceptions, asset quality and credit risk indicators. Stress testing is employed to ensure that sufficient capital is maintained.

The total of loans to a single counterparty or a set of connected counterparties (as defined by Article 395 of CRD IV) must not exceed 25% of the regulatory capital base.

Geographical and Sectoral Breakdown of exposures
All credit risk exposures as at 31 December 2024 are UK based.

Residual maturity table
The table below details exposures by residual maturity:

	On demand	< 3 Months	Between 3 months and 6 months	Between 6 months and 1 year	Over 1 year	No defined maturity	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Credit Institutions	11,172	0	0	0	0	0	11,172
UK Treasury Stocks	0	31,000	10,080	2,013	0	0	43,093
Loans and advanced to customers	0	282	239	372	89,417	0	90,310
Exposures in default	0	0	0	0	0	0	0
Other items	0	0	0	0	0	6,506	6,506
Total	**11,172**	**31,282**	**10,319**	**2,385**	**89,417**	**6,506**	**151,081**

Provisions
The Bank has a Provisioning Policy which is reviewed by the Board at least annually. Bad debt losses have historically been very low.

On 31 December 2024, the total provisions were £22,676.

6.5. Capital Risk

Capital risk is defined as the risk that a Bank has insufficient capital to absorb losses or that the capital structure is insufficient to meet regulatory requirements.

Risk Appetite
The Bank has no appetite for breaching capital requirements. Its priority is to maintain a capital surplus above total capital requirements sufficient to absorb any unexpected losses and costs without using regulatory buffers and ensure that its capital base can support a growing and maturing book across the economic cycle, allowing for potential downturns, maintaining a capital surplus over minimum regulatory requirements.

Part of Birmingham Bank's capital management is the consideration of capital adequacy which is reported to the Board at every meeting. This review includes an assessment of the Bank's capital for both current and future expected impacts. Capital Adequacy as at 31 December 2024 was 76%.

The Bank only has Common Equity Tier 1, which is the most loss absorbing form of capital and comprises ordinary share capital, share premium and retained earnings.

Mitigation
The Bank has developed an early warning system to enable the occurrence of the risks to its capital base to be quickly identified and corrective action taken where necessary.

Current and forecast capital resources are monitored against Board approved risk appetite and reported to ALCO, ExCo, BRC and Board on a regular basis. Capital forecasting is closely linked to the Bank's annual planning cycle and factors in known regulatory changes.

The Bank adopts a prudent and responsible approach to the management of capital and has prepared a detailed ICAAP document which was approved by the Board. The ICAAP process assesses the material risks faced by the Bank and determines the level of capital to be held against each. This process considers a number of severe but plausible stress scenarios developed across the business with detailed review and challenge by ALCO and BRC ahead of approval by the Board.

Leverage Ratio
CRD IV introduced a non-risk-based leverage ratio to supplement the risk-based capital requirements. This ratio shows Tier 1 capital as a proportion of on and off-balance sheet assets. The ratio does not distinguish between credit quality of assets and acts as a primary constraint to excessive lending in proportion to the capital base. The current regulations do not apply the minimum requirement to smaller banks and so the Bank is exempt, however the Bank's leverage ratio as 31 December 2024 of 24% is well above the minimum requirement of 3%.

See section 5 for further details on capital risk.

6.6. Compliance and Conduct Risk

Compliance and conduct risk arise if an event causes customer detriment or where there is a failure to meet legal or regulatory requirements. This can impact the Bank operationally in terms of cost of compliance as well as reputational damage.

Risk Appetite
The Bank has no appetite for material or systemic governance, legal or regulatory issues to knowingly arise, and seeks to deliver against all regulatory commitments. There is no appetite for material losses or breaches from compliance or regulatory failures. Ensuring good customer outcomes is of paramount importance to the Bank, and embedding of a strong risk culture including application of the conduct rules is a fundamental principal. The Bank has no appetite for any activity which would adversely impact its reputation but recognises that instances may occur outside of the Bank's control or due to human error. The Bank will maintain a communication plan and playbooks to managed adverse potential impacts.

The Bank has no appetite for deliberate or negligent behaviours, decision making, activities or processes, which cause, or have the potential to cause, unfair outcomes or harm to our customers and/ or undermine market integrity or competition. However, it is accepted that there is a possibility that minor, infrequent risk events may occur, whether accidental, deliberate or negligent. Where these events do occur, the Bank undertakes to act promptly to assess root cause, customer, market or competition impacts and take action to minimise or remedy harms and to prevent reoccurrence.

The Bank has taken steps during the year to develop compliance and conduct risk capabilities, policies and procedures and to further develop a proportionate Compliance and Conduct Risk Framework in line with the evolving complexity of the business and plans for future growth.

The Bank has a proactive relationship with the UK regulators, and the Board continues to ensure regulatory compliance is always maintained.

The Bank continually reviews its risk management approach to reflect the regulatory and legal environment in which it operates. Conduct Risk measures will be reported to the Board and provide the basis for demonstrating that the Bank is operating within its risk appetite. Where the Bank identifies potential unintended outcomes for customers the Bank uses its risk management process to proactively escalate, agree appropriate actions, and communicate clearly with its customers to ensure a fair outcome is achieved.

A programme of outcome testing with customers to get honest feedback and upon which the executive can act is in place to enable the business to test that customer expectations are being met.

The Bank strives to ensure that this always remains within the law and regulation. Processes are in place to ensure material breaches would be investigated, identified and reported to the Risk Committee in a timely manner, rule changes are implemented within the applicable regulatory timelines and staff operate within the Bank's documented policies and controls and, where applicable, industry guidelines.

The Bank will ensure that it remain compliant with all necessary law and regulation, and maintain processes to ensure suspicious incidents are investigated, identified and reported to the MLRO in a timely manner.

Remuneration

The Bank is subject to the Remuneration Code (the Code). The aim of the Code is to ensure that all firms within scope have risk focused remuneration policies that are consistent with and promote effective risk management and do not expose the firm to excessive risk. The Board is confident that its policies and procedures, covering salaries and pension arrangements, comply with the requirements of the Code.

Remuneration for staff is considered by the Nominations & Remuneration Committee whose proposals are then reviewed and approved by the Board. These reflect inflation and market benchmarks for comparable roles. Remuneration is set at a level which is adequate to attract and retain qualified and experienced staff.

The remuneration of all non-executive Directors is reviewed annually by the Board as a whole.

There were no individuals being remunerated EUR 1 million or more during the financial year.

The Nominations & Remuneration Committee is responsible for overseeing the performance and remuneration arrangements of the Bank, and the performance of all Executive Directors and the Chair.

The Committee is responsible for reviewing and approving the remuneration and performance arrangements at the Bank, including reviewing the Bank's remuneration policy to ensure that it remains up to date and consistent with the relevant requirements of the Financial Conduct Authority (FCA) remuneration code (SYSC 19D) and the Prudential Regulatory Authority (PRA) rulebook.

The Nominations & Remuneration Committee is also responsible for developing and maintaining a Board Composition and Succession Plan; annually reviewing the structure, size and composition of the Board; reviewing all appointments to the Board and its committees, and keeping under review the leadership of the Bank, both executive and non-executive, with a view to ensuring the continued ability of the Bank to compete effectively in the marketplace.

The Nominations & Remuneration Committee met three times during 2024.

7. Asset Encumbrance

At 31 December 2024 the Bank had no charged finance facilities.

8. Securitisation

At 31 December 2024, the Bank has no securitised assets.

9. Own Funds Disclosure

The following table shows the make-up of own funds of the Bank as at 31 December 2024.

	31 December 2024
	£'000s
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	63,000
of which: Ordinary shares	63,000
Retained earnings	(24,885)
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	0
Common Equity Tier 1 (CET1) capital before regulatory adjustments	38,115
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Intangible assets	(2,008)
Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	0
Total regulatory adjustments to common equity tier 1 (CET1)	(2,008)
Common equity tier 1 (CET1) capital	36,107
Tier 1 capital	36,107
Total capital	36,107
Total risk weighted assets	47,333
Capital ratios and buffers	
Common equity tier 1 (as a percentage of risk exposure amount)	76%
Tier 1 (as a percentage of risk exposure amount)	76%
Total capital (as a percentage of risk exposure amount)	76%
Institution specific buffer requirement (CET1) in accordance with article 92 (1) (a)	4.5%

plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	
of which: capital conservation buffer requirement	2.5%
of which: countercyclical buffer requirement	2.0%
Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	80.5%

10. Key Features of Capital Instruments

The following table shows the key features of capital instruments of the Bank as at 31 December 2024.

1	Issuer	Birmingham Bank Limited
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	n/a
3	Governing law	English
Regulatory treatment		
4	Transitional CRR rules	CET 1
5	Post-transitional CRR rules	CET 1
6	Eligible at Group or Bank	Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Regulatory capital value (£'000)	35,985
9	Nominal amount of instrument	1.00
9a	Issue price (£'000)	63,000
9b	Redemption price (£'000)	n/a
10	Accounting classification	Equity
11	Original date of issue	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	n/a
14	Issuer call subject to prior supervisory approval	n/a
15	First call date	n/a
16	Subsequent call dates, if applicable	n/a
17	Fixed or floating dividend/coupon	n/a
18	Coupon rate and any related index	n/a
19	Existence of a dividend stopper	n/a
20a	Fully discretionary, partially discretionary, or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary, or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	n/a
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	n/a
30	Write-down feature	n/a

35	Instrument type immediately sold	n/a
36	Non-compliant transitioned features	n/a
37	If yes, specify non-compliant features	n/a