

**BIRMINGHAM BANK
LIMITED
Pillar 3 Disclosures
For the year ended 31 December
2025**

Table of Contents

1. Overview	4
1.1. Introduction	4
1.2. Background	4
1.3. Scope.....	5
1.4. Summary Analysis.....	5
1.5. Frequency and Location of Disclosures.....	6
1.6. Verification	6
2. Governance - Board and Committees.....	6
2.1. The Board	6
2.2. The Board - Recruitment policy.....	6
2.3. The Board – Diversity policy.....	6
2.4. Board and Committee Structure.....	7
2.5. Board Membership	9
2.6. Executive Committees.....	10
2.7. Risk Governance	10
2.8. Risk Appetite	11
2.9. Risk Culture.....	11
2.10. Stress testing.....	11
3. Risk Management Policies and Objectives	11
4. Capital Resources and Business Strategy	12
5. Capital Adequacy	12
5.1. Capital Resources.....	12
5.2. Capital Requirements.....	13
5.3. Regulatory Capital Buffers.....	13
5.4. Overall Capital Requirement	14
6. Principal Risks.....	14
6.1 Strategic and Execution Risk	14
6.2 Liquidity Risk.....	15
6.3 Market Risk	16
6.4 Operational Risk	16
6.5 Credit Risk	17
6.6 Capital Risk.....	18
6.7 Compliance and Conduct Risk.....	19

6.8 Financial Crime Risk	20
6.9 Data & Information Security Risk	20
6.10 Third Party Risk	20
6.11 Climate Change	20
7. Remuneration	21
8. Asset Encumbrance	22
9. Securitisation	22
10. Own Funds Disclosure	22
11. Key Features of Capital Instruments	23

1. Overview

1.1. Introduction

This document provides the Pillar 3 disclosures on capital, risk management and remuneration required of Birmingham Bank Limited (the Bank) as at 31 December 2025.

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 during the year has been the provision of buy to let mortgages alongside the raising of retail deposits. The Bank continues to service the legacy finance provided for small to medium sized enterprises.

The loss in 2025 represents the combination of continuing investment in people and infrastructure alongside the launch and scaling of product offerings. The Bank has seen a significant investment in technology during the year supporting both the ongoing development of its retail deposit proposition as well as its lending platform. The Bank's organic asset growth has been supplemented through forward flow relationships with non-bank lenders under which the Bank takes an economic interest in asset origination. The Bank raised £35 million of incremental capital in the year, which has supported the balance sheet growth during the period.

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 on shored Capital Requirements Regulations (CRR) and associated on shored 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 2025.

1.3. Scope

This document comprises the Bank's Pillar 3 disclosures on capital and risk management for the period ending 31 December 2025.

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 2025, 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 2025 £'000s	31 December 2024 £'000s
Available capital		
Tier 1 capital	60,578	36,014
Risk Weighted assets	200,257	47,333
Tier 1 Capital ratio	30%	76%
Additional CET1 buffer requirements		
Capital conservation buffer	2.5%	2.5%
Countercyclical buffer	2.0%	2.0%

Leverage ratio	9.4%	24%
Liquidity coverage ratio	460%	725%

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 Chief Operating Officer, 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 2025.

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 thirteen times in 2025.

Nominations and Remuneration Committee

The Committee is responsible for reviewing and approving the remuneration and performance arrangements at the Bank. The Committee oversees 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. As a smaller dual-regulated UK bank, the Bank applies the remuneration requirements and associated disclosures on a proportionate basis, taking into account its size, internal organisation and the nature, scope and complexity of its activities.

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 four times during 2025.

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)
- A Jarman (Non-Executive Director) Appointed 11 April 2025
- K Ryan (Non-Executive Director) Appointed 25 October 2024. Resigned 19th December 2025
- N Calamari (Non-Executive Director) Appointed 19th December 2025
- S Potter-Price (Non-Executive Director)
- 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
- Product & AI Committee – oversight of customer outcomes and product governance, and use of AI in the Bank

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. 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 and to the Board. 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 the design and embedding of risk policies through communication and 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 that 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 2025 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 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 £35m capital inflow from shareholders in 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 2025 was 30% (2024 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.

The regulatory capital resources of the Bank as at 31 December 2025 were as follows:

	31 December 2025 £'000s	31 December 2024 £'000s
Tier 1		
Ordinary share capital	95,138	60,138
Share premium	2,862	2,862
Retained earnings	(34,096)	(24,885)
Total Equity	63,904	38,115
Regulatory deductions	(3,249)	(2,101)
Prudential valuation adjustment (PVA)	(77)	-
Total CET1 capital	60,578	36,014

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:

$$\text{Credit risk capital requirement} = \text{Exposure value} \times \text{Risk weighting} \times 8\%$$

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 2025 are set out below:

	Risk Weighted Exposure £000s	Pillar 1 Capital Required £'000s	Risk Weighted Exposure £000s	Pillar 1 Capital Required £'000s
	2025	2025	2024	2024
Total credit risk exposure	197,750	15,820	46,037	3,683
Operational risk	2,507	201	1,296	104
Total Pillar 1 Capital Requirement	200,257	16,021	47,333	3,787

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. During 2025 the Bank's total capital requirement (TCR) was 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 2025, 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 2025, 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 2025:

Capital Requirement	£'000s	%
Pillar 1	16,021	8.00
Pillar 2a	23,050	11.51
Total Capital Requirement	39,071	19.51
Capital Conservation Buffer	5,006	2.50
Counter Cyclical Buffer	4,005	2.00
Total (excluding PRA buffer)	48,082	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 (Financial Crime, Data & Information Security and Third Party). The principal risks as at December 2025 are described below, together with the Bank's strategy for managing these risks.

6.1 Strategic and Execution Risk

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 regularly monitors the political and economic environment and performs scenario stress testing to identify emerging risks at an early stage. This enables the Bank to assess the potential impact of external developments on the execution of its strategy and, where appropriate, implement mitigating actions in a timely manner.

The Bank has no appetite for any activity that 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 manage adverse potential impacts. The Bank has no appetite for high-risk lending but a willingness to take on risk that is appropriately understood and priced and provides good outcomes for customers.

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.

6.2 Liquidity Risk

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%.

At the 31 December 2025 LCR was 460%.

6.3 Market Risk

The Bank has a limited appetite for Market Risk. Market risk is generally comprised of interest rate risk, currency risk and other price risk. Birmingham Bank conducts its transactions in sterling and as such has no exposure to currency risk. The Bank's exposure to market risk is limited to Interest Rate Risk in the Banking Book (IRRBB) which is monitored via Key Risk Indicators with oversight from Asset and Liability Committee and Board Risk Committee. The Bank has a low appetite for maturity and basis mismatches between deposits and loans.

IRRBB is managed using on balance sheet offsets as well as interest rate derivatives. The Bank holds £200m, notional value, of interest rate swaps as at the balance sheet date, with hedge accounting implemented during 2025 to mitigate profit and loss account volatility. 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 2025 (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%)	(320)
Negative Shift (-2%)	718

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.

6.4 Operational Risk

The Bank looks to maintain a low threshold for unexpected losses, disruption or customer detriment caused by operational risk events but acknowledges these will occasionally occur, particularly as the Bank delivers the forecast growth within the operating plan. The Bank will ensure that it maintains a strong control environment, supported by appropriately skilled resources and effectively manage third party suppliers. Allocation of resources should be proportionate to the Bank's risk profile, balancing cost and effectiveness, in support of the Bank's business activities. The Bank has a framework in place to ensure operational risks are captured, monitored and mitigated, with lessons learned from mistakes.

The Bank operates a three lines of defence model with 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. Operational risk events are captured, recorded and reviewed ensuring sufficient controls are in place to address the risks.

The cyber threat environment continues to present a material and evolving source of operational risk for the Bank, driven by increasingly capable threat actors, technology complexity and reliance on third parties and digital platforms. In response, the Bank seeks to maintain a strong cyber security control framework and is progressing a structured security roadmap designed to reduce operational risk by strengthening its preventative, detective and response capabilities. These ongoing activities span identity and access management, vulnerability management, security monitoring, incident response and third-party risk oversight with the aim to support the Bank's ability to operate securely and resiliently while managing cyber risk within its defined risk appetite.

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

6.5 Credit Risk

Birmingham Bank's primary exposure to credit risk arises through its loans and advances to customers originated through its market position as a specialist buy to let lender. The Bank seeks to lend to lower risk professional buy to let landlords with the risks of the portfolio being monitored using a suite of credit risk appetite metrics, including detailed management information to assess binary and layered risks and to also assess underwriting standards.

Credit Committee and Transactional Credit Committee provide close monitoring and focus on credit risk.

As at the reporting date, arrears within the buy to let mortgage portfolios were negligible, with one loan being managed through the collections / recovery process, as a defaulted exposure.

Credit Risk – Treasury

The Bank's Treasury credit risk exposure is limited to Level 1 credit quality step assets. 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 of 31 December 2025 are UK based.

Residual maturity table

The table below details exposures by residual maturity:

	Not more than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total

	£'000	£'000	£'000	£'000	£'000	£'000
Credit Institutions	15,289	0	0	0	0	15,289
Investment in debt securities	41,237	15,806	20,078	0	0	77,121
Loans and advanced to customers	18	8,031	532,323	0	0	540,372
Exposures in default	0	7	1,847	0	0	1,854
Other items	0	0	0	0	8,162	8,162
Total	56,544	23,844	554,248	0	8,162	642,798

Provisions

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

On 31 December 2025, the total provisions were £292,474.

6.6 Capital Risk

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.

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 on 31 December 2025 was 30% (2024: 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.

Profitability and capital self-sufficiency of the Bank is contingent on securing incremental capital to support its future ambitions.

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 the Asset & Liability Committee (ALCO), the Executive Committee (ExCo), Board Risk Committee (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 2025 of 9.4% is well above the minimum requirement of 3%.

See section 5 for further details on capital risk.

6.7 Compliance and Conduct Risk

The Bank maintains zero appetite for material losses or breaches from non-compliance; failure to meet regulatory requirements or delivery against regulatory commitments; and deliberate or negligent behaviours, decision making, activities or processes which could cause unfair outcomes or material harm to its customers and/or undermine market integrity or competition. Whilst accepting the possibility that minor infrequent risk events may occur the Bank strives to ensure that it always remains within the law and regulation. Processes are in place to ensure material breaches are mitigated, where possible, and, where they do occur, are investigated, identified and escalated through the Executive and Board Risk Committees, where necessary. Regulatory horizon scanning is in place to ensure that the Bank identifies regulatory change in a timely manner, rule changes are implemented within the applicable regulatory timelines and that staff continue to operate within the Bank's documented policies and controls and, where applicable, industry regulations and guidelines, including requirements and expectations under the Consumer Duty.

The Bank has taken steps during the year to continue its ongoing development of compliance and conduct risk capabilities, policies and procedures.

The Bank is committed to maintaining a proactive relationship with the UK regulators and the Board continues to ensure regulatory compliance and customer outcomes remain a key Bank focus area.

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.

6.8 Financial Crime Risk

The Bank has no appetite to knowingly, or unknowingly, facilitate or be complicit in money laundering or terrorist financing, and to minimize the risk of internal and external fraud. The Bank has an established framework to manage this risk including documented policies and procedures which must be adhered to with regular reporting on compliance with these requirements. Regular MLRO reporting to the Board is also established in addition to a formal annual Board report. The Bank seeks to ensure that there is a strong risk and fraud awareness culture in operation across the organisation.

6.9 Data & Information Security Risk

The Bank has no appetite for preventable loss, corruption or damage of information due to malice, accident, or a cyber event, whilst acknowledging the increased sophistication of cyber-crime such as malware/ransomware, social engineering/phishing, or DDoS (Distributed Denial of Service). The Bank will maintain resilient information systems to ensure the continuity of its most essential services and to support the Bank in delivering its business plan and supporting customers. The Bank will ensure that it maintains a strong information & cyber control environment, supported by appropriately skilled resources and effectively selected and managed third party suppliers. Cyber & information security will form a key component of the Operational Resilience and Third-Party Scenario exercises.

6.10 Third Party Risk

The Bank acknowledges the inherent risks associated with using third-party providers for essential services and functions and has implemented a framework within which all suppliers are managed. The Bank has limited appetite to absorb losses from failed supplier and outsourcing arrangements. The framework includes requirements for appropriate and proportionate due diligence to be undertaken on suppliers, robust control over data security, business continuity and exit plans and risk assessment / monitoring of financial and operational risks based upon severe but plausible scenarios.

6.11 Climate Change

The Bank recognises climate change as a critical issue that has the potential to alter economies, geopolitics, disrupt business models and markets across all sectors. The Bank wants to play its role in supporting climate resilience (including through our own operations and supply chain) and a responsible transition to a low carbon economy.

The Bank's primary areas of climate-related risk exposure arise through credit risk, including the potential impact of physical and transition risks on borrowers' affordability and the value of property and other collateral.

The Bank has a Climate Risk Framework to support climate risk management across the Bank. Climate risk is considered within the Bank's Enterprise Risk Management Framework and the Bank's Stress Testing Framework.

The Bank will continue to develop its climate change strategy as it extends its product offering and scale of lending. This includes ensuring compliance with its regulatory obligations, such as

the PRA's supervisory statement SS5/25 published in December 2025, developing appropriate MI and risk appetite reporting and embedding climate considerations into strategic planning.

7. 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 four times during 2025.

8. Asset Encumbrance

As at 31 December 2025 the Bank had no charged finance facilities.

9. Securitisation

As at 31 December 2025, the Bank has no securitised assets.

10. Own Funds Disclosure

The following table shows the make-up of own funds of the Bank as at 31 December 2025.

	31 December 2025

	£'000s
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	98,000
of which: Ordinary shares	98,000
Retained earnings	(34,096)
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	63,904
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Intangible assets	(3,249)
Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	0
Prudential Valuation Adjustment	(77)
Total regulatory adjustments to common equity tier 1 (CET1)	(3,326)
Common equity tier 1 (CET1) capital	60,578
Tier 1 capital	60,578
Total capital	60,578
Total risk weighted assets	200,257
Capital ratios and buffers	
Common equity tier 1 (as a percentage of risk exposure amount)	30%
Tier 1 (as a percentage of risk exposure amount)	30%
Total capital (as a percentage of risk exposure amount)	30%
Institution specific buffer requirement (CET1) in accordance with article 92 (1) (a) 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)	4.5%
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)	10.7%

11. Key Features of Capital Instruments

The following table shows the key features of capital instruments of the Bank as at 31 December 2025.

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)	60,578
9	Nominal amount of instrument	1.00
9a	Issue price (£'000)	98,000
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