BIRMINGHAM BANK LIMITED

Pillar 3 Disclosures

For the year ended 31 December 2022

Table of Contents

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 2022.

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 is the provision of finance in respect of instalment credit agreements. The Bank accepts retail and SME deposits, with loans focused on small-to-medium sized enterprises.

Formal approval from the Prudential Regulation Authority ("PRA") for a 'Change in Control' of the Bank was completed in April 2023 which saw ownership pass to Better Holdco Inc.

In advance of this approval Bank lending activity was restricted as Board and management focused on capital conservation and securing incremental investment. Following a detailed strategic review of its activities the Bank has set out a profitable and sustainable growth trajectory underpinned by support from its new investor.

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 the capital adequacy of the firm. 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 2022.

1.3. Scope

This document comprises the Bank's Pillar 3 disclosures on capital and risk management for the period ending 31 December 2022.

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 2022, 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 appears 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 2022	31 December 2021

	£'000s	£'000s
Available capital		
Tier 1 capital	6,172	8,314
Risk Weighted assets	6,822	8,648
Tier 1 Capital ratio	90%	96%
Additional CET1 buffer requirements		
Capital conservation buffer	2.5%	2.5%
Countercyclical buffer	0.0%	0.0%
Leverage ratio	36%	37%
Liquidity coverage ratio	2,983%	16,250%

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 four independent non-executive Directors (INEDs) and two executive Directors: the Chief Executive Officer and the Chief Financial Officer.

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 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' investments. Although the Board does not manage the Bank, one of its foremost duties is to recruit and retain suitable management. The Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Operating Officer, Chief Governance Officer and Chief Commercial Officer are the key roles and form the Executive Committee. 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 tries 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 compliance and audit functions which inform the Board of how the Bank is being run. 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 shareholders that the business is being conducted in such a manner as to protect the interests of the Bank's depositors and to comply with the Principles for Business of the Regulator. 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
The executive Directors are responsible for the day-to-day operation of the Bank, supported by the senior management team. 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 main role of the Chair 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 principal responsibility is to assist the Board in carrying 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 program 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 sufficient 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 the independent non-executive Directors. The Audit Committee met quarterly, with the CEO in attendance, together with the internal auditor. It also meets at least annually with the external auditors. The Committee evaluates its performance and effectiveness on an annual basis.

The Audit Committee met four times in 2022.

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 determination of risk appetite and tolerance and to promote a risk awareness culture within the Bank.

The Committee has provided review and challenge to the ICAAP and ILAAP processes as well as the Bank's risk appetite. The Committee has been integral in the Bank's enhancement of its credit risk management, providing support and challenge to the revisions of the Bank's credit risk management framework.

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. A monthly risk management framework for reporting is in place that monitors risk levels to approved risk appetite levels, using status appraisal analysis to alert and appraise regarding key risks.

The Risk Committee met formally four times in 2022.

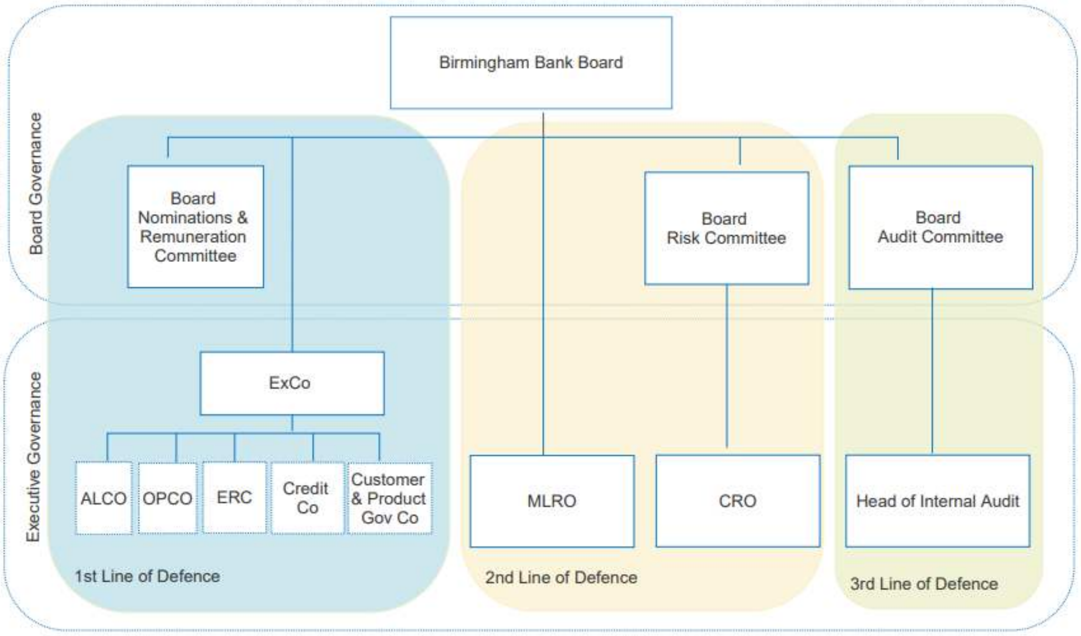
Nominations and Remuneration committee
The Nominations and Remuneration Committee met twice during 2022. In these meetings, the Committee carried out its responsibility for overseeing the performance and remuneration arrangements of the Bank and the performance of all Executive Directors and the Chair.

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 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.

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:

Directors as at 31st December 2022:

- K I M Arnold (Non-Executive and Chair)
- A J Holmes – (Non-Executive)
- S Potter-Price (Non-Executive)
- M S Stephens (Non-executive)
- M J Q Smith (Executive – CEO)
- M Towlson (Executive – CFO) – resigned January 2023

2.6. Executive Committees

In addition to the Board sub-committees, the Executive Committee has established, or was in the process of establishing as at the reporting date, 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 risk management framework including conduct risk
- Credit Committee – Oversight of credit quality and performance including arrears management and provisioning
- Customer and Product Governance Committee – oversight of new product development and approval including pricing

Not all committees met in 2022 as the balance sheet size and business activities did not require additional, dedicated time to the matters delegated to the committees.

2.7. Risk Governance

Risk governance covers the mechanism through which the Board allocates and delegates primary accountability, responsibility, and authority for risk management across the organisation. The Bank's activities and risk-taking are subject to detailed and comprehensive risk governance arrangements which set out how risk-based authority is delegated from the Board to executive management and the various committees and individuals. These arrangements are documented in committee terms of reference, individual role descriptions and risk policies.

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 two non-executive Directors and meets at least 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 and Compliance function, reviewing the implementation of its recommendations where appropriate, and considers 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 and senior management are responsible for the day-to-day operation of the business in line with the overall Risk Appetite Statement, 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 Internal Auditor 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 of Defence' model. The first line represents the operational functions of the Bank and are responsible for managing risk. The second line Compliance function is responsible for risk and compliance oversight and the third line provides independent assurance on controls via the Internal Audit function.

In 2022, the Birmingham Bank's management established an approved Risk Management Framework (RMF). Further, activity is under way to enhance the RMF in 2023, to support the Bank's growth plans.

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. Culture

The risk management framework is underpinned by a strong risk culture. This is fully endorsed and demonstrated by an experienced Board and executive team.

All individuals are encouraged to adopt an open and independent culture of challenge which is essential to ensuring risk issues are surfaced and debated with views and decisions recorded. Risk governance and culture is reinforced by the provisions of the Senior Manager Regime.

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 to withstand shocks. 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, which have operated effectively throughout the year and are subject to review as part of 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. The Bank manages risk using the 'three lines of defence' model with clear responsibilities established for all staff in relation to risk management including executive and non-executive responsibilities documented where applicable under the Senior Managers and Certification Regime.

As part of the internal controls, the Board has an established Risk Management Framework for the Bank that is proportionate to both the size of the Bank and the risks to which it is exposed. This framework enables the Board to identify, monitor, control and report on the key risks faced by the Bank. The Bank considers the framework adequate and during 2022 operated within this framework and associated policies approved by the Board.

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.

Plans are in place to embed enhanced controls, in relation to Environmental, Societal and Governance risks in 2023, to meet TCFD[1] recommendations.

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.

[1] Task Force on Climate Disclosures

The Bank received a £2m capital inflow from shareholders in August 2022 with a further inflow, of £20m, received following the Change in Control process in April 2023.

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 corporate 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. The Bank has limits in place in relation to both loans and the investment of surplus funds which control the level of exposures which the Bank may have in those areas of business.

5. Capital Adequacy

5.1. Capital Resources

The Bank maintains a low appetite for Capital Adequacy Risk. Its priority is to maintain a capital surplus above CET1 and 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 and its Committees at every meeting. This review includes an assessment of the Bank's capital for both current and future expected impacts.

The regulatory capital resources of the Bank as at 31 December 2022 were as follows:

	31 December 2022 £'000s	31 December 2021 £'000s
Tier 1		
Ordinary share capital	10,138	8,207
Share premium	2,862	2,793
Retained earnings	(6,794)	(2,637)
Total Equity	**6,206**	**8,363**
Regulatory deductions	(34)	(49)
Total CET1 capital	**6,172**	**8,314**

The Bank holds only tier 1 capital. Therefore, the total of CET1 capital is the total of the Bank's regulatory capital.

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 2022 are set out below:

	Risk Weighted Exposure £000s 2022	Risk Weighted Exposure £000s 2021	Pillar 1 Capital Required £'000s 2022
Total credit risk exposure	**5,797**	**7,133**	**464**
Operational risk	1,025	1,515	82
Total Pillar 1 Capital Requirement	**6,822**	**8,648**	**546**

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. Each firm's specific countercyclical buffer rate is a weighted average of the countercyclical capital buffers that apply in the jurisdictions where the relevant credit exposures are located. As at 31 December 2022, 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 2022, the Bank's specific countercyclical buffer rate was 0%.

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 2022:

Capital Requirement	£'000s	%
Pillar 1	546	8.00
Pillar 2a	785	11.51
Total Capital Requirement	1,331	19.51
Capital Conservation Buffer	171	2.50
Counter Cyclical Buffer	0	0.00
Total (excluding PRA buffer)	1,502	22.01

6. Principal Risks

The Board accepts that there is inherent risk in running a banking business 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 described below, together with the Bank's strategy for managing these risks.

6.1 Business Risk

Business risk arises from changes to a Bank's business, specifically the risk of not being able to carry out its business plan and desired strategy. In assessing business risk, consideration is given to internal and external factors.

Risk Appetite

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 business 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 business risks materialise. Additionally, business 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, or that a Bank does not have sufficiently stable and diverse sources of funding.

The Bank has an established liquidity policy which provides a framework to minimise the risk to liquidity. The objectives of the policy are to maintain adequate liquidity to meet known and anticipated withdrawal, loan advances and operating costs, as well as maintaining adequate liquidity to cover unexpected cash flow imbalances. The Bank maintains a low-risk appetite for liquidity and funding risk. The Bank has maintained high levels of liquidity during the year. The Bank monitors liquidity daily to ensure it has sufficient liquid assets funds available to meet maturing liabilities and the Bank maintains a highly liquid balance sheet.

The Bank holds sufficient liquid assets to meet liabilities as they fall due ensuring that satisfactory liquidity coverage and loan to deposit ratios are maintained.

During 2022 the Board actively focused on maintaining surplus liquidity and holding high quality liquid assets (HQLA) in Treasury Bills to address liquidity risk. The Liquidity Coverage Ratio (LCR) is well above the regulatory minimum and assesses 30-day net cash outflows as a proportion of HQLA. HQLA comprise balances held at the Bank of England T-bills, while net 30-day outflows are calculated based on regulatory guidance.

Risk Appetite
The Bank aims to maintain a minimum liquidity position that is well above regulatory requirements. The Bank's ILAAP process assesses the liquidity to cover both systemic and idiosyncratic stress and thereby an appropriate liquidity buffer.

Liquidity risks are monitored through ALCO and from there through 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 2022 LCR was 2,983% and the Bank was holding UK Treasury Bills with a maturity value of £6.5m.

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 movements.

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. The Bank has restricted its investments to highly rated, Level 1 high quality liquid assets.

The interest rate profile of assets and liabilities are matched where possible to provide a natural hedge against interest rate movements. There are limited interest rate caps in place to mitigate the impact of upward movements in interest rates.

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 2022 (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%)	125
Negative Shift (-2%)	135

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
The Bank has a low appetite for operational risk.

Mitigation
The Bank aims to minimise incidents and losses arising from operational risk issues by maintaining resilient infrastructure, including robust systems, employing and training the right people, minimising the impact of external events and having a framework in place to ensure operational risks are captured, monitored and mitigated, with lessons learned from mistakes. This includes 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.

A number of 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 framework has been strengthened and ongoing enhancements are being undertaken to ensure that the Bank's Operational Risk Framework is in line with all regulatory requirements and leading practices.

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 Board has a low credit risk appetite and requires credit risk exposures to be well diversified.

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 will 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 Bank operates a hierarchy of lending authorities based upon the size of credit risk exposure to counterparties, a group of connected counterparties or, where applicable, a portfolio of lending assets

that are subject to a single transaction. In addition to maximum amounts of credit exposure, sole lending mandates may stipulate sub-limits and / or further conditions and criteria.

Each Lending Officer has a maximum credit approval authority delegated to the named individual operating within a policy framework. Loans above are subject to reporting to the board after approval by the Board Credit Committee at the following levels:

- Property and Vehicles loans greater than £400,000.
- Secured Asset Finance greater than £300,000.
- Other loans greater than £75,000.

Lending is advanced subject to Bank lending approval policy and specific credit criteria. When evaluating the credit quality and covenant of the borrower significant emphasis is placed on the nature of the underlying collateral. This process also includes the review of the Board's appetite for concentration risk. Approval and on-going monitoring controls are exercised both within the businesses and through oversight by the Compliance and Internal Audit functions. This applies to both individual transactions as well as at the portfolio level by way of credit information reporting, measurement against Risk Appetite limits and reporting to the Large Exposure Committee which examines all credit exposures over certain thresholds.

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.

Asset Class Policies
The Bank's policy on lending is contained in its Lending Policy, Large Exposures Policy, Financial Risk Management, Bad Debt and Provisioning policies and Arrears Default and Termination procedure. These operate across the Bank. The acceptable asset classes for customer loans are:

- Hire Purchase loans secured against fixed assets (primarily vehicles and equipment)
- Personal Loans to individual consumers
- Working Capital Loans and General Loans to SMEs

Geographical and Sectoral Breakdown of exposures
All credit risk exposures as at 31 December 2022 are UK based.

Breakdown of loans advanced
A breakdown of loan balances (excluding undrawn loans) as at 31 December 2022 analysed by asset class is shown below, all exposures are to the UK market:

Sector	Secured on Goods/Equip £'000	Secured on Com Property £'000	Secured on Vehicles £'000	Unsecured Loans for Work Cap/Gen £'000	Reg Personal Loans £'000	Reg Auto Finance £'000	Reg Goods £'000	Misc. £'000	Totals £'000
SME	410		3,659	552					**4,621**
Personal					173	1,643	430		**2,246**
									6,867

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	1,896	0	1,275	0	0	0	3,171
UK Treasury Stocks	0	6,500	0	0	0	0	6,500
Loans and advances to customers	0	941	877	1,485	3,564	0	6,867
Exposures in default	0	0	0	0	0	0	0
Other items	0	0	0	0	0	521	521
Total	**1,896**	**7,441**	**2,152**	**1,485**	**3,564**	**521**	**17,059**

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 2022, the total provisions were £11,697. This comprised a specific provision of £11,697 in respect of loans where in the opinion of the directors the loan is not fully recoverable.

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 maintains a low appetite for Capital Adequacy Risk. 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 buffer over minimum regulatory requirements.

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 at 31 December 2022 of 36% is well above the minimum requirement of 3%.

See section 5 for further details on capital risk.

6.6. Conduct, Legal and Compliance Risk

Conduct, legal and compliance risk arises 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 aims to ensure that it adopts all regulatory, legal, and other compliance requirements in a proportionate way. The Bank has no appetite for knowingly behaving inappropriately which in turn could result in unfair outcomes for its customers.

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. It is also designed to test customer understanding of the product they are using and that we are following compliance guidelines.

The Bank maintains a low appetite for Legal, Compliance and Regulatory Risk. Whilst it recognises that operational errors can occur, the Bank maintains zero tolerance for reportable breaches of regulations, regulatory policy breaches, breaches of applicable laws, late responses to regulatory requests or gifts/hospitality policy breaches.

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.

Ensuring compliance with all applicable regulatory requirements in a fast-changing landscape is a challenge to which the Bank devotes considerable resources, and the Compliance Framework is continually under review to ensure that it meets all requirements and is in line with leading industry practices. A Head of Compliance and Money Laundering Reporting has been recruited during the year.

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

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.

The Bank does not operate any committed variable remuneration schemes for any staff and has not make any bonus payments. Notwithstanding, the performance of individuals is assessed in relation to their responsibilities during the year.

Remuneration for staff is considered by the Nominations & Remuneration Committee whose proposals are then reviewed and approved by the Board. Generally, these reflect inflation and market considerations. 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 met twice during 2022. In this meeting, the Committee carried out its responsibility 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 maintains 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.

8. Asset Encumbrance

At 31 December 2022, the Bank had no charged finance facilities.

9. Securitisation

At 31 December 2022, 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 2022.

	31 December 2022
	£'000s
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	13,000
of which: Ordinary shares	13,000
Retained earnings	(6,794)
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	6,206
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Intangible assets	0
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)	(34)
Common equity tier 1 (CET1) capital	6,172
Tier 1 capital	6,172
Total capital	6,172
Total risk weighted assets	6,822
Capital ratios and buffers	
Common equity tier 1 (as a percentage of risk exposure amount)	90%
Tier 1 (as a percentage of risk exposure amount)	90%
Total capital (as a percentage of risk exposure amount)	90%
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)	3.0%
of which: capital conservation buffer requirement	2.5%
of which: countercyclical buffer requirement	0.0%
Common equity tier 1 available to meet buffers (as a percentage of risk exposure amount)	92%

11.Key Features of Capital Instruments

The following table shows the key features of capital instruments of the Bank as at 31 December 2022.

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)	6,172
9	Nominal amount of instrument	1.00
9a	Issue price (£'000)	13,000
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