BIRMINGHAM BANK LIMITED

Pillar 3 Disclosures

For the year ended 31 December 2020

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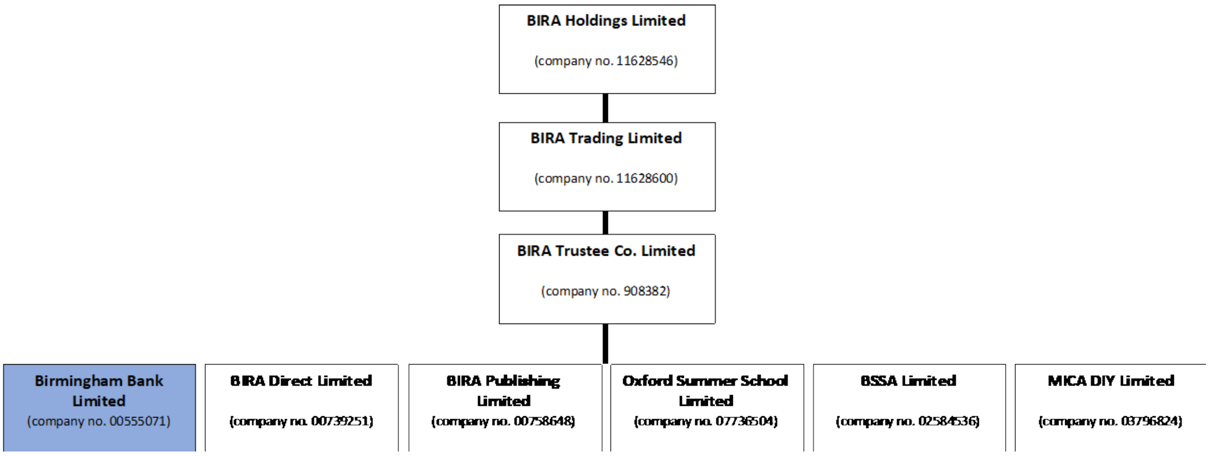
1. Overview

1.1. Introduction

Birmingham Bank Limited ("the Bank") is a United Kingdom (UK) bank authorised (Firm Reference No: 204478) by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. The Bank was formerly known as "BIRA Bank Limited" but changed its name in 2021. This document represents the Bank's Pillar 3 disclosures for the period ending 31 December 2020.

The Bank was established in 1955 and has one office in Birmingham. The Bank's principal activities are Commercial Banking, focusing on corporate lending from the BIRA group of members and associated relationships.

The corporate entity structure is outlined below:



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.

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., business cycle effects). 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 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 2020.

1.3. Scope

This document comprises the Bank's Pillar 3 disclosures on capital and risk management for the period ending 31 December 2020.

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 2020, unless otherwise stated.

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. 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.

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 two executive directors and four non-executive directors, including a non-executive Chair.

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.

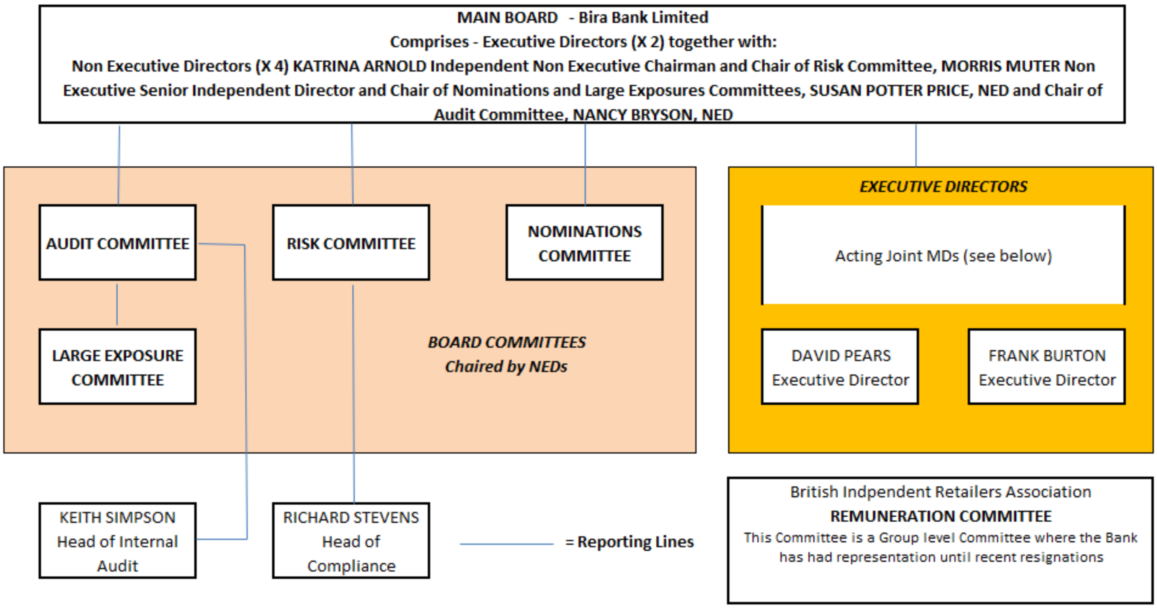
2.4. Board and Committee Structure

The Bank is led by a Board of Directors, which meets at least four times a year, and which directs and controls the work of the Bank. Information in the form of monthly management accounts, budgets, financial forecasts, and risk management information are reviewed to allow it to discharge its responsibilities.

The Bank has an Audit Committee and a Risk Committee, consisting of two non-executive Directors which meet at least four times annually and ensure that the recommendations of the PRA, the FCA and the external auditors are considered in full and implemented, where appropriate. 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. To comply with the requirements of legislation and to ensure prudent management of the business, the Bank has established a range of internal controls, which have operated effectively throughout the year.

In addition, the Bank has a Nominations Committee which was established to develop a recruitment and remuneration strategy and succession plans for the Board, its Committees and Senior Officers. This also includes developing training and induction processes for Directors and reviewing the Board's employment policy and practice.

Bank Governance Structure



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

Within the group of companies there was a Remuneration Committee. This was not purely a Bank committee but was a committee within the BIRA Group. The Bank did not have any staff, all staff were employees of BIRA Group. Following the change in control in January 2021 all staff are employed by Birmingham Bank Limited.

2.5. Board Membership

As a part of the Bank's governance the Directors meet informally from time to time to discuss strategic issues in more depth. During the year, the Board met formally on a quarterly basis and held further formal board meetings in response to the Global pandemic and to deal with matters relating to the change in control.

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

Directors at 31st December 2020:

- K I M Arnold (Non-executive and Chair) – 4 directorships held
- S Potter-Price (Non-executive) – 8 directorships held
- A H Bryson (Non-executive) 1 directorships held
- M R Muter (Non-executive) 16 directorships held
- D C Pears
- F W Burton

Changes in directors during the year and up to the date of approval of this report were as follows:

- J R Collins - resigned 31/08/2020
- A K Hawkins - resigned 21/12/2020
- F W Burton - resigned 08/01/2021
- A H Bryson - resigned 08/01/2021
- M R Muter - resigned 08/01/2021

- D C Pears - resigned 08/01/2021
- R A H Riley - appointed 31/01/2020 and resigned 02/04/2020
- J C Morris - resigned 05/04/2020

2.6. 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.

2.7. Culture

The Bank is led by an experienced Board and executive team with a combination of underwriting expertise, retail banking experience and regulatory experience at various major financial institutions and specialist lenders. The Board includes Non-Executive Directors who are representatives of the parent and bring a wealth of business experience and understanding of the needs of the independent retail sector which the bank serves. This heritage provides the platform for a set of values and behaviours where the client is at the heart of the decision-making process and the business is held fully accountable for risk performance.

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.

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.

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 2020 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.

4. Capital Resources and Business Strategy

Capital is held to provide a cushion to absorb losses that may occur during the economic cycle. 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's main source of capital is from retained earnings added to the reserves that have accumulated since the Bank's formation in 1955. The Bank does not give priority to enhancing the level of dividend paid to its shareholders.

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 is required to undertake an ICAAP which is a formal process that calculates the Bank's capital requirement in normal and stressed conditions. 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 decisions on an ongoing basis.

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 total capital resources of the Bank were £2.796 million as at 31 December 2020, following the shareholders' approval of the audited financial positions in the Annual Report and Financial Statements at the Annual General Meeting on 23rd April 2021. All capital resources are Common Equity Tier 1 (CET1) capital.

On 8th January 2021, the Bank was purchased by Mr Lee Bushell, following regulatory approval for a 'Change in Control' from the PRA and FCA. Mr Bushell injected additional capital of £7m into the Bank and attaining 100% ownership.

Capital as defined in the CRR consisted of the following as at 31st December 2020:

	£s
Called up equity share capital	2,000,000
Reserves (accumulated earnings after tax)	796,408
Total Shareholders' Funds per audited financial statements	**2,796,408**
Less: regulatory deductions	0
Regulatory Common Equity Tier 1 Capital	**2,796,408**

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 Bank had £2.1 million (292.7%) over the regulatory Pillar 1 capital requirement at 31 December 2020.

The resulting Pillar 1 capital requirements as of 31 December 2020 are set out below:

	Exposure	**Risk Weighted Exposure**	**Pillar 1 Capital Required**
Credit Institutions	£1,807,333	£361,467	£28,917
UK Treasury Stocks	£5,500,000	0	-
Loans and advances to customers (*after SME Supporting Factor applied)	£11,193,723	*£7,152,767	£567,344
Prepayments and accrued income	£47,539	0	-
Fixed and other assets	£103,959	0	-
Total credit risk exposure	**£18,652,554**	**£7,514,234**	**£601,138**
Amounts 90 days overdue	£40,645	£60,967	£4,877
Operational risk capital requirement	**£1,515,000**	**£1,515,000**	**£121,200**
Total Pillar 1 Capital Requirement		**£9,029,234**	**£722,338**

The Bank's approach to calculating its own internal capital requirements as part of the ICAAP has been to take the above calculation of its minimum capital required for credit risk under Pillar 1 as the starting point, assess whether this is sufficient to cover credit risk and operational risk, and then identify any further capital necessary to cover credit risk, market risk, operational risk, counterparty credit risk, credit concentration risk, interest rate risk and pension risk. Additional capital is held to meet these risks as part of the Pillar 2A level of capital.

The Bank's Pillar 2A capital requirement is 12.48% of Total Risk Weighted Assets. The total Pillar 1 and Pillar 2A capital calculation (the Total Capital Requirement) was £1,849,187.

The Bank is subject to UK accounting standards (FRS 102), whereby most of the investment portfolio is recognised in the accounts at fair value. This results in volatility in the Bank's reported surpluses and is closely monitored as part of the Board's risk management.

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 2020 was 15.31%, well above the minimum requirement of 3.25%.

5.3. Regulatory Capital Buffers

Pillar 2B capital buffers cover risks to which the Bank may become exposed over a forward-looking planning horizon, due to changes in the economic environment for example.

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 2020, the applicable capital conservation buffer was 2.50% of Risk Weighted Assets (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. On 24 March 2020 the FPC took the decision to reduce the countercyclical capital buffer rate to 0%. As at 31 December 2020, the Bank's specific countercyclical buffer rate was 0%.

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.

6.2. 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 always ensures that it maintains sufficient liquidity to be able to support member borrowing (subject to credit approval) and deposit withdrawal requirements. The Bank supports all lending activity through attracting deposits and using its own capital, it does not have access to wholesale funding, and it does not utilise any committed bank borrowing lines to support business growth. It recognises that growth can only be permitted where sufficient deposit funds are available to support that growth. This approach reflects its low-risk appetite.

Risk Appetite

The Bank aims to maintain a minimum liquidity position that is well above regulatory requirements, even under stressed scenarios as well as above an internal liquidity limit, reflecting the Bank's low risk appetite.

Mitigation

The Bank's liquidity risk exposure is controlled through two elements: its own internal liquidity measurement and the regulatory liquidity coverage ratio:

- **Internal limit**

The Bank uses several measures to ensure that it maintains a minimum liquidity position sufficient to meet demands for repayment from depositors in addition to the minimum regulatory requirement of having 100% cover from High Quality Liquid Assets to meet 30-day outflows, it has a board minimum requirement of 125%. The further measures are designed to enable the bank to meet its client's requirements for repayment within contractual terms.

These include:

a. having more than 100% cover from funds held with other banks, available funding lines and High-Quality Liquid assets sufficient funding to meet a demand for repayment from the aggregate balances of the largest three depositors, plus 30% of all cash individual savings account balances and 15% of all remaining deposits.

b. always ensuring that there are sufficient surplus funds available to cover 15% of total depositor balances.

c. monitoring the depositor book to ensure that depositor growth does not impact the ability to operate within the above parameters

d. forecasting outflow and inflow trends

Further details of the maturity profile of the banks depositor balances and their maturity are published in tabular form in the financial statements on page 31.

The bank has adopted a low-risk appetite in respect of liquidity risk and has carried out stress tests to assess its ability to meet both idiosyncratic and market wide stresses and had sufficient liquid assets as at the 31st of December 2020 to cover at least 100% of anticipated outflows under a 90-day continuous period of market-wide, Bank-specific, and combined stresses.

- **Liquidity coverage ratio (LCR)**

The Bank's policy is to always maintain a LCR of at least 125%, using only high-quality liquid (level 1) assets. As at the 31st of December 2020 the Bank was holding UK Treasury Bills with a maturity value of £5.5M.

Additional liquid assets will also be held for internal liquidity management.

6.3. Market and Interest Rate Risk

Market and interest rate risk could arise from adverse movements in external markets, e.g., interest rate movements, equity movements or currency movements, which could potentially reduce income and/or increase expenses. The principal market risk to which the Bank is exposed is the risk of loss from fluctuations in the future cash flows because of a change in market interest rates.

Risk Appetite

The Board's risk appetite for interest rate risk is to manage its assets and liabilities to limit the effect of a 2% market rise in interest rates (as calculated in the interest rate gap report) to a maximum of 15% of the Bank's regulatory capital.

As at the 31 December 2020 the amount at risk was 6.55% of capital measured as a percentage of a 2% upward shift in rates.

The average remaining period to maturity for fixed interest investments (excluding investments held by bond funds) will not exceed 1year. In addition, no fixed interest investment will be held with a remaining maximum term of longer than one year.

The Board acknowledges that there is some additional interest rate sensitivity. Consequently, the Bank will not hold investment assets without a specific maturity date which exceeds 100% of the Bank's regulatory capital.

Mitigation

The Bank has restricted its investments to highly rated, easily realisable fixed interest assets. The Bank does not expect to incur significant losses upon the sale of these investments. Trigger points are in place to respond quickly to adverse market value movements.

The interest rate profile of assets and liabilities are matched where possible to provide a natural hedge against interest rate movements. There are no interest rate derivatives in place for hedging purposes.

The Bank's Treasury function is responsible for the day-to-day management of the Bank's liquidity and funding. The Board sets limits over the level, composition, and maturity of liquidity and deposit funding balances, reviewing these limits at least annually. Compliance with these limits is monitored daily by Treasury and additionally, forward looking reviews of liquidity and funding are undertaken based on forward cash flow projections and linked to the Bank's 3-year plan.

The Bank reports its liquidity position against its Liquidity Coverage Ratio, Net Stable Funding Ratio, and other key regulatory ratios for regulatory purposes.

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 2020 (measured as the effect of a 2% parallel shift in Sterling interest rates) was as follows:

Net Present value sensitivity to:	**£**
Positive Shift (+2%)	186,000
Negative Shift (-2%)	171,000

The interest rate sensitivities above are illustrative only and are based on simplified scenarios. The figures represent the effect on net interest income and fixed interest security values arising from a parallel fall or rise in the yield curve and do not consider the effect of any further actions taken to mitigate the effect.

6.4. Operational Risk

Operational risk is the risk of reductions in 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 Risk Committee receive regular 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 undertakes a process to identify the key operational risks within the business and performs an evaluation of the effectiveness of the existing control framework covering each of the operational risks to which the business is exposed. The evaluation considers both the financial risk and non-financial risk (i.e., customer impact and reputational damage). The estimation of impact and event likelihood is undertaken for each material risk identified and appropriate action is taken to mitigate or minimise the risk. This is embedded into the Bank's operational procedures.

6.5. 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.

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), or allow placements exceeding the Bank's large exposures capital base (subject to the PRA pre-notification rules). The value of deposits placed with any one bank is limited to 25% of the Bank's regulatory capital.

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

External Credit Assessment Institution ("ECAI") ratings are not used for loan book exposures given the unrated nature of our target client market and therefore apply the standard unrated risk weight for retail or corporate exposures with the appropriate SME supporting factor. We do use ECAI ratings for institution exposures. There are no derivative counterparty exposures at 31 December 2020.

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. All facilities above £200,000 are subject to reporting to the board via the Large Exposure Committee.

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.

Member lending shall include loans directly to the Membership concerned but also connected loans, i.e., Directors, Directors' families and / or other associated companies and senior staff members.

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, Inter-Bank Placement, 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
- Insurance Premium Loans

Asset class policies are structured based on Policy Rules which must be adhered to. Any planned exceptions to Policy Rules require approval and reporting to the Large Exposure Committee.

Geographical and Sectoral Breakdown of exposures
A geographic and sectoral breakdown of credit risk exposures on 31 December 2020 is shown below:

	UK £'000	**Non-UK £'000**	**Total £'000**
Credit Institutions	1,807	Nil	1,807
UK Treasury Bills	5,500	Nil	5,500
Loans and advances to customers	11,194	Nil	11,194
Prepayments and accrued income	48		48
Fixed and other assets	104	Nil	104
Total credit risk exposure	**18,653**	**Nil**	**18,653**

Breakdown of loans advanced
A breakdown of loan balances (excluding undrawn loans) as at 31 December 2020 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	1,174	507	4,034	1,538					**7,253**

Personal					650	3,143	124		**3,917**
Insurance Premiums								23	**23**
									11,194

Residual maturity table

The table below details the contractual maturity profile of assets.

	On demand	< 3 Months	Between 3 months and 6 months	Between 6 months and 1 year	Over one year	No defined maturity	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Credit Institutions	1,541,702	249,960	15,671	0	0	0	1,807,333
UK Treasury Stocks	0	3,750,000	1,750,000	0	0	0	5,500,000
Loans and advances to customers	0	1,376,752	1,423,652	2,279,614	6,070,609	0	11,150,627
Exposures in default	43,096	0	0	0	0	0	43,096
Other Items	0	0	0	0	0	0	151,498
Total	1,584,798	5,376,712	3,189,323	2,279,614	6,070,609	0	18,652,554

Provisions

The Bank has a Provisioning Policy which is reviewed by the Board at least annually. Bad debt losses have historically been low. The provisioning policy includes a general and a specific provision. The general provision is set at 0.25% of loans outstanding.

On 31 December 2020, the total provisions were £40,645. This comprised a general provision in respect of higher risk loans of £29,645 and a specific provision in respect of loans where in the opinion of the directors the loan is not fully recoverable. The breakdown of general and specific provisions for the year are detailed below.

Provisions for loans and advances

Loans and advances to customers are stated net of the following provisions:

Bad debt provisions (specific)	2020 £	2019 £
Balance at 1 January	**6,954**	*18,908*
Applied in writing off advances	**-**	*(63,929)*
Recoveries in respect of advances previously written off	**(1,282)**	*(1,604)*
Additional provision and amounts written off in year	**5,328**	*53,579*
Balance at 31 December	**11,000**	*6,954*

Bad debt provisions (general)	2020 £	2019 £
Balance at 1 January	**-**	-
Additional provision and amounts written off in year	**29,645**	-
Balance at 31 December	**29,645**	-

6.6. 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's target is to maintain its capital resources at a level which is above the regulatory minimum and above an internally calculated buffer to cover potential stresses as identified in the Bank's ICAAP document.

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.

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.

See section 5 for further details on capital risk.

6.7. Conduct, Legal and Compliance Risk

Conduct, legal and compliance risk arises in the event there is an event which causes customer detriment or where there is a failure to meet legal or regulatory requirements. This can impact a Bank operationally in terms of cost of compliance as well as damage its reputation.

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, resulting in unfair outcomes for its customers.

The Bank continually reviews its risk management approach to reflect the regulatory and legal environment in which the Bank 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 program 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.

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 does not make any bonus payments. Notwithstanding, the performance of individuals is assessed in relation to their responsibilities during the year.

The Remuneration Committee was not purely a Bank committee but was a committee within BIRA Group. The Bank did not have any staff as all staff were technically employees of BIRA Group.

The Bank's small size and small number of employees means that it does not have a Remuneration Committee. However, the Nomination Committee makes recommendations to the Board in relation to the development of a recruitment and remuneration strategy and succession plans for the Board and its Committees and for its staff. The Bank seeks to ensure that its remuneration decisions are in line with its business strategy and long-term objectives, and consistent with the Bank's ethos, current financial condition, and prospects.

Remuneration for staff is considered by the Nomination 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 qualified and experienced staff.

The remuneration of all non-executive Directors is reviewed annually by the Board as a whole and approved by the shareholders at the AGM.

In the exceptional case of other payments to Directors, these are proposed and approved by the shareholders at the AGM before the payment is made.

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

8. Asset Encumbrance

At 31 December 2020, the Bank had charged finance agreements with a written down value of £1,770,234 to Lloyds Bank Group by way of security for a standby facility of up to £2,000,000. Pursuant to the specific terms and conditions of the standby facility with Lloyds Bank the agreement was cancelled on the 8th of January 2021 following the change in control.

9. Securitisation

At 31 December 2020, 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 2020.

	31 December 2020
	£'000s
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	2,000
of which: Ordinary shares	2,000
Retained earnings	796
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	0
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)	0
Common equity tier 1 (CET1) capital	2,796
Tier 1 capital	2,796
Total capital	2,796
Total risk weighted assets	9,029
Capital ratios and buffers	
Common equity tier 1 (as a percentage of risk exposure amount)	31.41%
Tier 1 (as a percentage of risk exposure amount)	31.41%
Total capital (as a percentage of risk exposure amount)	31.41%
Institution specific buffer requirement (CET1) requirement 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)	7.0%
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)	10.93%

11.Key Features of Capital Instruments

The following table shows the key features of capital instruments of the Bank as at 31 December 2020.

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)	2,796
9	Nominal amount of instrument	1.00
9a	Issue price (£'000)	2,000
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