Habib Bank AG Zurich

Habib Bank Zurich Plc – Pillar 3 Disclosures

31 December 2024

Table of Contents

1. Overview

1.1. Company information

Habib Bank Zurich plc (“the Bank”) was established as a 100% owned subsidiary of Habib Bank AG Zurich (HBZ or Parent bank) on 01 April 2016. The Bank acquired the operations of the UK branch of the Parent which was established in 1974, subsequent to authorisation from the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) and successfully transferred business of UK Branch of Habib Bank AG Zurich, Switzerland to the Bank, vide business transfer scheme (“Scheme”) under Part VII of the Financial Services and Markets Act 2000 (“FSMA”).

1.2. Purpose

The disclosures in this document (“the Disclosures”) are set out in accordance with the requirements of the Capital Requirements Regulations, Part Eight and the rules of Prudential Regulation Authority revised disclosure requirements in the PRA Rulebook applicable from 1 January 2022 following the UK implementation of the remaining provisions of Capital Requirements Regulation II ('CRR 2') and were implemented by the Prudential Regulation Authority (‘PRA’) through the PRA Rulebook. Articles 431 to 455 of CRR specify the requirements of the Pillar 3 framework.

The document includes information related to the Bank’s capital, liquidity, risk management and remuneration code and other relevant data. The Disclosures also provide useful information on the capital and risk profile and activities of the Bank.

The information in this document is based on data as at 31 December 2024, as appearing in the Audited Financial Statements for the year 31 December 2024. The statement has not been subjected to an external audit.

Audited Financial Statements can be found on website www.habibbank.com

1.3. Regulatory changes

PRA issued PS9/24 on 12 September 2024, second near-final policy statement on the implementation of Basel 3.1 standards. It follows PS17/23 and provides further clarity and finalisation on areas such as the credit risk, operational risk, and market risk frameworks. The publication delayed the implementation date by six months to 1 January 2026.

On 17 January 2025, the PRA announced a further delay to the implementation date, moving it to 1 January 2027. The PRA maintains that the full implementation deadline remains set for 1 January 2030, with the transitional periods adjusted accordingly to ensure a smooth and coordinated adoption of the standards.

1.4. Attestation

I confirm that these disclosures meet the requirements for Pillar 3 disclosures proportionate to the size, nature of complexities of the products and services offered by the Bank. They have been prepared in accordance with our internal controls framework. The process ensures accuracy, consistency, and regulatory compliance.

Kamran Qazi
CFO
22 July 2025

2. Key metrics (KM1)

The table below provides an overview of Bank's prudential regulatory metrics:

In £'000

Available Funds	**2024**	**2023**	**2022**
Share capital	80,000	70,000	70,000
Retained earnings	40,022	33,077	20,525
Fair value through other comprehensive income reserve	(126)	(198)	(1,017)
Common Equity Tier 1 Capital: instruments and reserves (Total equity as per audited financials)	119,896	102,879	89,508
Deferred tax assets on carried forward losses	(4,307)	(4,845)	(3,036)
Other deductions	(162)	(115)	(46)
Common Equity Tier 1 Capital after deductions	115,427	97,919	86,426
Additional Tier 1 Capital	-	-	-
Total Capital (CET 1 + Tier 1)	115,427	97,919	86,426
Tier 2 Capital (Subordinated liabilities as per audited financials)	20,296	20,340	20,273
Total Regulatory Own Funds (CET 1 + Tier 1 + tier 2)	135,723	118,259	106,699
Total Risk-Weighted Assets	664,889	587,448	575,205

Risk-based capital ratios as percentage of RWA			
CET 1 ratio (%)	17.36%	16.67%	15.03%
Total capital ratio (%) – (CET 1 + Tier 1)	17.36%	16.67%	15.03%
Capital Adequacy Ratio (CET 1 + Tier 1 + Tier 2)	20.41%	20.13%	18.55%
Additional CET1 buffer requirements as a percentage of RWA:			
Capital conservation buffer requirement	2.50%	2.50%	2.50%
Countercyclical capital buffer (CCyB)* requirement	2.00%	2.00%	1.00%
Total of bank CET 1 specific buffer Requirement	4.50%	4.50%	3.5%

Basel III leverage ratio			
Total Basel III leverage ratio exposure measure	1,133,461	999,212	931,009
Basel III leverage ratio (%)	10.18%	9.80%	8.74%

Liquidity coverage ratio (LCR)			
Total high-quality liquid assets (HQLA)	224,688	183,751	108,775
Total net cash outflow	89,737	64,332	26,883
LCR ratio (%)	243%	286%	405%

Net stable funding ratio (NSFR)			
Total available stable funding	904,473	830,973	729,215
Total required stable funding	660,742	608,890	573,467
NSFR ratio	137%	136%	127%

Qualitative narrative for each key metric is covered in later sections of this Pillar 3 document:

- Liquidity and Funding: Section 6
- Capital Management and Capital Adequacy: Section 8
- Leverage Ratio: Section 9

3. Background

3.1. Application of Basel Framework

The Basel III regulatory framework commonly CRD IV implemented through Capital Requirement Regulations (CRR) and Capital Requirement Directive (CRD), requires firms to disclose quantitative and qualitative information on capital adequacy and key risks. Following Brexit, the United Kingdom ('UK') replicated the European prudential regime in UK legislation referred to as the Capital Requirements Directive ('UK CRD IV') and the Capital Requirements Regulation (575/2013) as amended by the Capital Requirements (Amendment) (EU Exit) Regulations 2018 ('UK CRR'). For the purpose of this document, references to CRD and CRR include the equivalent legislation implemented into UK law.

Pillar 3 disclosure requirements apply to banks, building societies and investment banks. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

The framework categorises the capital and prudential requirements under three pillars:

- Pillar 1 Minimum Capital Requirements, setting rules for the calculation of credit risk, counterparty credit risk, market and operational risk; and

- Pillar 2- Supervisory review, framing requirements for the institution to hold additional capital against risks that are not fully captured under Pillar 1. The subject process of assessing additional capital requirement to guard against risk elements, in addition to those categorised under Pillar 1, is adequately supported by the institution's internal models and assessments support. The details of the subject assessment are contained in the Bank's "Internal Capital Adequacy Assessment Process" ("ICAAP"), narrating the underlying assumptions and elements of related assessment. The adequacy of any additional capital requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process and is considered while determining the overall capital resources required by the Bank.

- Pillar 3 – External communication which provides market participants key information about the Bank's capital, risk assessment process and risk exposure, which complements the TCR that allows market participants to assess the institution's capital adequacy.

3.1.1. The Bank maintains Total Capital Ratio (TCR) through at least 75% of Common Equity Tier1 capital (CET1) and 25% from Tier 2.

3.1.2. Bank, as a mandatory requirement, maintains requisite CRD Buffers: (i) - Capital Conservation Buffer (CCB), designed to ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses occur; (ii)- Countercyclical Buffer (CCyB), duly ensuring that banking sector capital requirements take account of the macro-financial environment in which bank operates.

3.1.3. PRA also sets a buffer called 'PRA Buffer' which is in addition to TCR and CRD buffers.

3.1.4. Leverage ratio disclosure requirements as per BCBS, Basel III leverage ratio framework and disclosure requirements as updated from time to time.

3.1.5. The Leverage ratio calculated as Bank's capital measure divided by total exposure measure calculated as per Leverage Ratio (CRR) effective from 1 January 2022.

3.2. Basis and frequency of disclosure

The Bank applied the provisions of CRR and Prudential Source Book to cover the qualitative and quantitative disclosure requirements of Pillar 3 based on data as at 31 December 2024. Pillar 3 requires firms to publish a set of disclosures, allowing market participants to assess key pieces of information on that firm's risk assessment process, risk exposure and capital.

The Bank annually updates and publishes the aforesaid disclosures, aiming to provide information in addition to the one provided in the Annual Financial Statements. The said report, read in conjunction with Annual Financial Statements, with particular focus on the sections concerning risk, liquidity, leverage ratio, and capital management and corporate governance along with the related Notes to the Financial Statements, enables the reader to make a more informed and calculated decision.

The Bank is a single entity in the UK and no consolidation is performed.

Pillar 3 Disclosures have not been prepared for any other purpose. Therefore, it does not constitute any form of financial statement of the Bank, nor does it constitute a forward-looking projection of the Bank.

The Bank does not seek any exemption from disclosure on the basis of materiality or on the basis of proprietary or confidential information.

3.3. Principal activities

The Bank's business model is built on delivering high-quality products and services and taking a long-term view on building customer relationships. The model is geared towards focusing on selected segments to deliver their strategic objectives. The Bank's core value of 'Service with security' has led to a natural longevity in customer relationships, which are cross-generational and cross-border, strengthening the Bank's reputation as an entrepreneur's bank.

The strategic focus of the Bank is to serve its target market within the South Asian diaspora. This strategy is delivered through the Bank's core business lines:

- Real estate finance (income generating properties)
- Depository products
- Transactional services and forex exchange
- Trade finance and Financial Institutions
- Investments

The Bank's offering comprises conventional and Islamic products and services. Its customer acquisition channels include branch network, web channel for internet deposits and intermediaries whilst servicing is delivered through a relationship based model.

The Bank's primary customer base and target market are often family-owned and managed businesses from the South Asian Diaspora owned by SMEs' or high net worth individuals. These traditionally mercantile communities are known for their business and entrepreneurial traits. The key attribute of this segment is generational continuation and expansion of their business interests across generations. This is a substantial and growing segment, which provides an opportunity for the Bank to build a sustainable business model.

The Bank combines modern and efficient banking services with a personal approach through a network of eight branches across the UK offering commercial and retail banking services to the target market. Services are primarily delivered through the Business Relationship team comprising of branch managers, specialist lending relationship managers and personal bankers for deposit mobilisation. The customer takes comfort in continuity with a relationship manager and quick turnaround on their requests as well as continued access to the decision makers at the Bank. The Bank has a dedicated relationship team for Sirat, which operates across the network supported by trained branch staff. Intermediary channel is another source of new to bank lending customers through empanelled brokers.

The Bank differentiates itself from the competition based on its relationship management model which offers bespoke solutions according to customer's banking needs in contrast to 'one size fits all' packaged product and distant customer service model. The Bank is a niche player focused on commercial banking having a natural fit with the family owned and managed enterprises of South Asian origin.

The Bank has continually improved its digital offering to complement the relationship model affording the customers multiple channels. This conforms to the dynamic operating environment whilst catering to evolving customer preferences. Over the recent years, the Bank has built on its digital presence in various ways including enhanced online banking services.

The Bank is a member of Bank of England Sterling Monetary Framework with access to Reserve Account Discount Window Facility (DWF) and Indexed Long Term REPO (ILTR) facilities. This allows the Bank to borrow from BoE by placing eligible collateral as a tool which can be used in the event of any stress on liquidity without having to sell available eligible securities.

The Bank is covered by the Financial Services Compensation Scheme (FSCS).

3.4. Key changes since the last disclosure

3.4.1. Bank Monetary Policy & Economic update

The UK's macroeconomic environment has been highly challenging in recent years, though signs of improvement have emerged. In many ways, 2024 marked a period of relative stability, in contrast to the turbulence of the previous year.

The UK economy in 2024 displayed a mix of cautious optimism and persistent challenges. The first half of the year experienced a robust recovery after a technical recession in late 2023. Growth stabilized in the second half as the initial momentum diminished, and uncertainty increased following the Budget announcement. By mid-2024, CPI inflation had returned to its target, but it rose in October due to energy price pressures, ending the year at 2.5%.

Throughout 2024, interest rates were reduced twice, with the base rate dropping from 5.25% to 4.75%—a smaller decrease compared with economists and financial markets prediction. At the year's outset, it was anticipated that the Bank of England would execute up to five to six rate cuts, with forecasts suggesting a year-end base rate as low as 3.75%. However, a resurgence in inflation, robust wage growth, a resilient economy, and low unemployment led the Bank to pause many of these expected reductions.

Geopolitical factors have also played a significant role in shaping the UK economy's trajectory. Domestically, the Labour Government has concentrated on strengthening the UK's trade relationships post-Brexit, particularly with the European Union (EU). While this approach shows promise for long-term stability, immediate challenges, such as stagnant productivity and high public debt, present significant obstacles. Addressing these issues will necessitate targeted investments in innovation and skills, along with structural reforms to enhance competitiveness in global markets. Together, these factors underscore the need for a careful balance in managing external pressures while reinforcing economic resilience at home.

3.4.2. Consumer Duty

Consumer Duty elevates the standards of care expected from firms operating in retail financial markets. Underpinned by three fundamental rules—acting in good faith, avoiding foreseeable harm to retail customers, and enabling and supporting customers in pursuing their financial objectives—Consumer Duty aligns seamlessly with our core values of Trust, Integrity, Respect, Responsibility, Commitment & Teamwork.

The Bank consider it a privilege to offer personalized and tailored services to its customers with an unwavering commitment to placing their best interests at the forefront of all our actions. Ensuring good customer outcomes involves transparent communication and a thorough understanding of the products and services we provide. Guided by the principle of 'Service with Security,' we have nurtured enduring customer relationships, empowering them to be well-informed and make confident decisions.

The Bank is dedicated to exceptional customer support, which is evident from its prompt, respectful, and genuinely caring responses. Whether through its Branch Banking, Sirat, or other dedicated business teams, the Bank strive to maintain consistently high standards of service and support across all branches and offices in the UK. By prioritizing Consumer Duty, the Bank aim to not only reinforce its existing client relationships but also extend additional support where needed and attract new relationships. This commitment underscores the Bank mission to uphold trust and deliver excellence in customer service.

3.4.3. Operational resilience

A key priority for the Bank of England (BOE), Prudential Regulation Authority (PRA), and Financial Conduct Authority (FCA) is to establish a robust regulatory framework that enhances the operational resilience of firms and financial market infrastructures (FMIs).

To advance this objective, the FCA and PRA have published multiple guidance documents outlining regulatory expectations for operational resilience, with full compliance required by the March 2025 deadline. During the transition period, the Bank proactively worked on critical deliverables, including:

- Identifying Important Business Services (IBSs),
- Conducting comprehensive mapping exercises,
- Defining impact tolerance levels,
- Developing a communication strategy for disruption scenarios; and
- Continuously performing scenario testing to strengthen operational understanding and resilience.

The Bank has now fully implemented all regulatory requirements under the Operational Resilience (OR) framework. Moving forward, as part of its Business-as-Usual (BAU) activities, the Bank will focus on:

- Horizon scanning for emerging risks,
- Reviewing real-life disruptions and lessons learned,
- Conducting scenario and vulnerability analyses,
- Assessing critical outsourced services,
- Refining communication plans; and
- Performing annual self-assessments.

Where necessary, the Bank will continue to invest in strengthening its overall Operational Resilience.

The operational resilience framework in the Bank is subject to continuous improvement and process re-engineering design to increase effectiveness and robustness while maintaining secure and efficient service delivery to customers by minimising adverse impact due to operational disruption as part of HBZ commitment to build up general resilience.

The Bank has considered four main areas in its business services to identify Important Business Services (IBS):

1. Deposits, Lending and Transaction Banking
2. Payments, Clearing and Settlement
3. Wholesale Funding
4. Investments and Money Markets

In accordance with FCA and PRA regulatory guidance, industry standards, and considering the Bank's market position, scale, and business model, the following services have been classified as critical due to their potential impact to customers and safety and soundness of the Bank:

1. Payments
2. Balance Check
3. Access to Cash
4. Debit card

The Bank has reasonable contingency measures in place to ensure continued service availability in the event our primary systems experience downtime. These include backup systems and failover protocols, which are designed to sustain a baseline level of service to customers, encompassing but not limited to Payments IBS. To ensure reliability, these measures undergo regular and periodic testing to validate effectiveness and identify areas for improvement. This proactive approach not only strengthens the Bank’s resilience capabilities but also ensure consistent service delivery during unforeseen disruptions.

The Management and the Board are playing an active role in building up an effective operational resilience framework, through clear communication of its objectives to comply with operational resilience policy. This is mainly achieved through steps taken to:

- provide appropriate management information available to inform decisions which have consequences for operational resilience;
- articulate and maintain a culture of risk awareness and ethical behaviour for the Bank, which influences the Bank's operational resilience; and
- have adequate knowledge, skills and experience in order to provide constructive challenge to senior management and meet their oversight responsibilities in relation to operational resilience.

The Board is provided with progress reports, issues highlighted, areas of improvement, areas of investment and on overall implementation of Operational Resilience framework.

3.4.4. Climate Change

Climate Change is a much-discussed topic in recent times at a global level. Risks highlighted by scientific research and changes in natural phenomenon have played a significant role in attracting focus at governmental level across the globe. Various initiatives have been introduced in the UK including legislation and regulatory requirements.

The Bank has considered the effects of climate change on its business model and profile in line with the PRA Supervisory Statement (SS3/19) with oversight by the board and senior management. The Bank has also taken steps to embed consideration of climate change in the key decision making and risk management.

As part of its approach to manage climate change risk, the Bank undertook a review of the following areas to consider relevant physical and transition risks to assess the materiality:

- Business model
- Customer base and target segments
- Investment book and strategy
- Bank's physical footprint and supply chain

The Bank assessment included the primary target industry segments, customer profile and business activity, product offering, industry risk categorisation of segments combined with contractual terms of products and investments to arrive at the materiality view.

Overall, the Bank's customer base and target segments primarily comprise of real estate, wholesale and retail segments.

The lending exposures are focussed on real estate financing which is > 90% of the lending book. Consequently, the focus is on the property collateral. The Bank's focus is on residential, mixed use and commercial real estate with contractual loan terms not exceeding 5 years. The Bank does not offer finance for development and/or industrial units with high-risk characteristics.

In the context of the UK property market, the two relevant risks are flooding (physical risk) and cost of compliance with new/forthcoming climate related legislation (transition risk). Both risks are covered by the Bank's collateral review through a valuation by panelled surveyors for all real estate transactions with a consideration by the management committee where any relevant risks are highlighted.

The Bank's consideration of financial risks arising from climate change in the context of its collateralised real estate lending take into account:

- The contractual term of its loan products (5 years)
- Collateral location (all in the UK, primarily within 50 mile radius of its branch footprint – London, Manchester, Leicester and Birmingham)
- EPC rating (through valuation reports by independent surveyors)
- Flood risk (through valuation reports by independent surveyors)
- Collateral type (residential, mixed use and commercial properties with defined property type and risk acceptance criteria)

The Bank's investment strategy includes a cap on max tenure of 5-10 years with an average maturity profile of 2.5 years. Whilst the existing holdings comprise less than 10% of exposure to segments considered as elevated risk, the Bank takes into account climate change risk in its decision-making process.

At present, the Bank deems the materiality of climate change risk as low based on its assessment.

The Board and the management are cognisant that climate change risk impact can have an effect on the Bank's financial position in terms of the collateral valuation leading to credit quality risk, valuation of assets, probability of default which can in turn impact the financial risk disclosures.

In view of the above and given its evolving nature, climate change risk type is subject to periodic review to take into consideration any material changes to strategy and profile along with new legislative or regulatory expectations.

3.4.5. Disclosures and Policy

The capital and liquidity disclosures contained in this document cover both the qualitative (e.g. processes and procedures including governance) and quantitative (e.g. actual numbers) requirements.

The capital and liquidity disclosures are required to be made on at least an annual basis and, if appropriate, some disclosures will be made more frequently. The capital and liquidity disclosures are prepared by management and reviewed and approved by the Board of Directors of the Bank. The Bank has an Accounting Reference Date of 31 December 2024, and such disclosures are made as soon as practicable after publication of the Annual Report and Accounts.

3.4.6. Pillar 3 Disclosure Review and Governance process

The Pillar 3 disclosures have been reviewed and approved by the Board Audit and Compliance (BACC) on behalf of the Board of Directors and approved thereafter by the Board of Directors. The disclosures of risk management objectives and procedures are detailed further in Section 5 within this Pillar 3 document. The disclosures in this document have also been subject to senior management sign-off. On the recommendation of the BACC and Board, the Chief Financial Officer (CFO) has approved the publication of the disclosures on the Bank's website.

4. Governance Framework

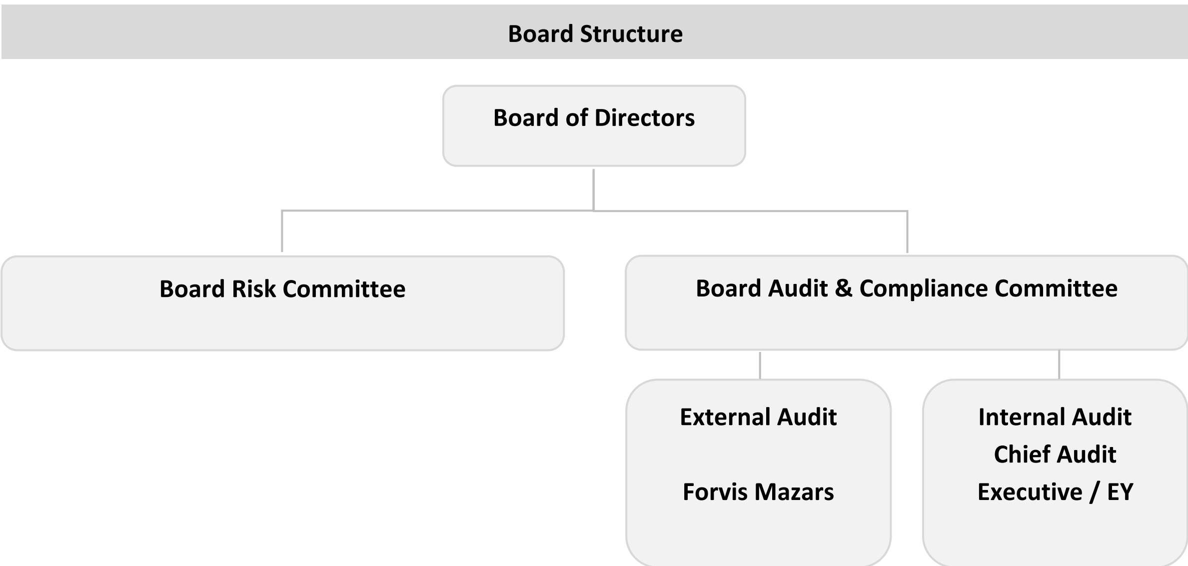
The Governance and Control framework of the Bank is managed through a Board Structure and a Management Committee Structure. The Board structure comprises of a Board of Directors (BOD), which acts as the highest governance authority in the organisation and two Board Committees namely, a Board Risk Committee (BRC) and a Board Audit and Compliance Committee (BACC).

The BoD is responsible for setting strategic objectives, risk appetite, broad policy outlines, monitoring business performance and maintaining oversight of governance and enterprise-wide risk management. In performing its duties, the BoD is assisted by the BRC and BACC through oversight of risk and control arrangements, compliance oversight and audit assurance. The BoD reviews and approves the capital structure and the ICAAP under advice from the BRC and is responsible for the Bank's capital adequacy.

The Board reviews and approves the overall risk appetite of the Bank. The Board has established and maintained a framework for the overall sound and proper internal control and risk management processes. The Board regularly receives reports on, and reviews the effectiveness of, the risk and control processes to support the Bank's strategy and objectives.

The governance model, roles and responsibilities and reporting are shown below:

4.1.1. Board Structure and Responsibilities:



The Board monitors and periodically assesses the effectiveness of governance arrangements and takes appropriate steps to address any deficiencies. The Board evaluates the principal risks to the Bank's business model and the achievement of its strategic objectives, including risks that could have material impact its capital or liquidity. The Board reviews risk management process and internal control systems and satisfy itself that they are functioning effectively and corrective action is being taken where necessary. The Board ensures that an appropriate risk culture is instilled in the Bank.

The Board's responsibilities specific to risk include:

- Review and determine the risk appetite of the Bank
- Identify and evaluate the principal risks to the Bank's Business model and the achievement of its strategic objectives, including risks that could threaten its capital or liquidity.
- Review of the risk management and internal control systems and satisfy itself that they are functioning effectively and corrective action is being taken where necessary
- Ensure that an appropriate risk culture is embedded in the Bank.

- Review and approval of the Enterprise Risk Management Framework.
- Approval of the Bank's ICAAP, ILAAP, Recovery and Resolution Plan

4.1.2. Board Risk Committee

The Board Risk Committee (BRC) assists the Board in the review and oversight of Risk Management Framework, ICAAP, ILAAP and other governance documents. The BRC is designed to raise awareness of the whole risk landscape and has responsibility of its oversight. BRC ensures that a wider management membership is engaged in the capital and liquidity management process cycle. This includes involvement in the formulation of stress tests, the reasonableness of assumptions and likely outcomes given current and prospective market conditions. The BRC periodically review the risk framework to evaluate its adequacy and appropriateness under the prevailing business environment and in light of major changes in internal or external factors. It provides assurance on the Bank-wide risk framework and monitors the overall risk profile of bank through effective control processes. The BRC annually review the Risk Appetite Statement and consider the adequacy of risk limits and returns.

4.1.3. Board Audit and Compliance Committee

Board Audit and Compliance Committee (BACC) oversees and challenges the internal audit, external audit functions and Compliance function to ensure that governance arrangements, and system and internal controls are evaluated and managed properly. The BACC approves accounting policies and changes therein to comply with the requirements of International Financial Reporting Standards. The BACC is responsible to ensure that the Bank has an effective compliance monitoring program in place. It also ensures that recommendations to combat money laundering, terrorist financing and financial crime risks are incorporated into the Bank's on-going procedures and monitoring infrastructure.

4.1.4. Management Committee Structure and Responsibilities

The Management committee structure comprises of the Executive Committee ("EXCO) and six sub-committees. The EXCO presides over the committees and is responsible for implementing Bank's strategic objectives and managing the business with adequate controls within the risk appetite of the Bank.

The ALCO is the responsible committee to review and recommend to the EXCO the capital calculations, capital structure and the ICAAP. The EXCO reviews and further recommends the same to the Board through the BRC for its consideration, review and approval.

The implementation of an effective Governance and Control framework is managed through a management committee structure:

Executive Committee

Asset & Liability Committee	Audit, Risk & Compliance Committee	Country Credit Committee	Operations & Technology Committee	HR Committee
CFOCEO Head of Credit Head of Treasury Head of Comm. Banking CRO Head of Sirat/Interm.	**Head of Compliance.** **CRO** Head of Credit CEO CFO Head of Operations Head of IT CAE	**Head of Credit** CEO Head of CAU Dy. Head of CAU Head of Comm. Banking Head of Sirat/Interm. CRO (non-voting)	**Head of Ops** **Head of IT** Head of Compliance CRO Risk Control Manager Head of Credit Head of Finance	**Head of HR** CEO CFO Head of Compliance Head of Comm. Banking Head of Operations Head of IT Head of Credit

The aforesaid executive committee style of management enables the Bank to benefit from an enterprise-wide integrated approach to managing risk by involving a great many experts in the risk assessment process and thereby drawing on information dispersed among many thoughtful and prudent minds. This structure ensures that management of the Bank's operations, strategic decision-making and risk management is undertaken on a consultative basis at committee level by experienced functional and business personnel.

The management committees as above have specific Risk Management responsibilities.

4.1.5. Executive Committee (EXCO)

The Executive Committee assess the availability of adequate capital and liquidity resources under normal going concern as well as under stressed scenarios and crisis conditions for the purpose of advance planning for remedial management.

The EXCO through the CEO assists the Board in drawing up strategies and polices for management of capital and liquidity risks. It also supports the Board in determining the appropriateness of capital and liquidity risk tolerance, keeping in view the Bank's business strategy, financial condition and funding capacity.

4.1.6. Asset & Liability Committee (ALCO)

ALCO ensures that Board approved capital, liquidity and funding and balance sheet strategies and policies are appropriately executed. ALCO oversee the development and implementation of appropriate risk measurement strategies, risk tolerance, policy and stress testing as approved by the Board.

The ALCO ensures that capital and liquidity risk management limits are established and communicated in a manner that allows all levels of management to clearly understand the Bank's approach to managing the capital and liquidity risk. This is carried out by ALCO through implementation of appropriate procedures and systems and controls.

The ALCO is responsible for determining the structure, responsibilities and controls for managing capital and liquidity risks and report to the EXCO on risk profile. ALCO is also responsible for the supervision of the capital and liquidity risk exposures; risk limits adherence, early warning indicators as well as the review of capital planning and liquidity adequacy to support future business growth and stress and scenario testing to assess capital and liquidity adequacy with changing internal and external factors. Members include representatives from all functions that have duties to perform adherence of this process.

Country Credit Committee (CCC)

The primary purpose of the CCC is to ensure the effective management of credit risk in the Bank.

CCC maintains an effective working relationship with the EXCO, other management committees, the Bank's Board and other committees as required ensuring effective functioning of the credit risk function. The CCC review Credit Line Proposals (CLP) along with the Risk report, position summary and any other relevant documents for credit decision-making purposes.

4.1.7. Operations and Technology Committee

The OTCO is the governing forum for Operational Risk, which is defined by the Basel Committee on Banking Supervision "as the risk of losses stemming from inadequate or failed internal processes, people and systems or from external events. OTCO receive and review management information and reports based on the data pertaining to the Operational Risk matters, including but not limited to the Operational Risk, Business Continuity and Disaster Recovery. The Operations & Technology Committee ("OTCO") provides governance and oversight in ensuring matters related to:

- Operations
- Technology
- Information security
- Business continuity
- Operational resilience
- Regulatory compliance within O&T and IS domain.

4.1.8. Audit, Risk and Compliance Committee

The ARCC is responsible for providing independent assurance on the bank-wide risk management framework and monitoring the overall risk profile of Bank through effective control processes. ARCC ensure that risks are identified, accepted, measured, controlled, monitored and reported independent from the business. This is performed through a fully embedded risk event reporting process, which allows employees to report risk events to the independent Risk Assurance function. All risks reported are assessed and addressed with escalation at an appropriate level. Risk Assurance function also carries out root cause analysis of reported risks and makes appropriate recommendation for changes in systems and controls to the reverent function and committee.

The ARCC is jointly chaired by Chief Risk Officer (CRO) and Head of Compliance. The CRO is responsible for overseeing all aspects of risk management within the Bank including the implementation and effectiveness of the risk management framework.

5. Risk Management Framework

5.1. Overview

The Bank's approach to risk management is built upon risk identification and risk response in order to minimise crystallisation of risk and have a cost-effective way of dealing with it if it does occur.

The approach is driven by the principle of low to medium risk appetite and Investment return horizon which is medium to long term. In order to achieve this, the Bank's business strategy is built upon:

- a clearly defined target market (selected customer and industry segments);
- conventional products & service offering;
- robust governance and control framework.

5.2. The Bank's Risk Management Strategy

The Bank's risk management strategy is founded on the principles of Enterprise Risk Management with key emphasis on:

- Understanding Firm wide Risk Profile
- Articulated Risk Appetite
- Proactive approach to risk management
- Ownership of risk across the organisation
- Multiplier effect of risk to account for combined stress scenarios
- Oversight of key risks at Management and Board level

The key elements of the Bank's risk management framework are as follows:

- Governance at the Board and Management level
- Risk Oversight
- Risk management controls

The Bank's risk management strategy and risk appetite are aligned with its motto 'Service with Security', Core Values and strategic intent of delivering sustainable growth.

The Bank has a Risk Management Framework (RMF) in place which sets out a high-level framework for the consistent management of risk. It has been developed in line with the commitment of the Board of Directors (the "BoD") and the Senior Management of the Bank for establishing and sustaining adequate risk management practices.

The Bank's RMF is a structured approach for evaluating the risks associated with the Bank's strategy and business model and proactively managing them in an efficient manner. It enables:

- the board and senior management to make informed decisions balancing risk and reward;
- business decisions at the operational level to be aligned with the Bank's risk appetite;
- the identification and management of risks at an aggregate level by executive management;
- both new and existing investments to be assessed on individual and portfolio bases; and
- operational costs and losses to be minimised.

The RMF lays out the Bank's framework for development and embedding of processes that enable the Bank to:

- Identify and understand the spectrum of risks inherent to its business model and operating environment;
- Define its appetite for risk, based on its strategic objectives;
- Assess, measure and quantify the risks;
- Develop risk mitigation and control techniques;
- Enhance the overall performance of the Bank; and
- Comply with regulatory requirements with respect to risk management practices.

The key elements of the RMF are as follows:

- the Bank's risk philosophy, culture and objectives;
- the Bank's risk management governance framework;
- Articulation of the Bank's risk management stakeholders and development of an action plan to meet their risk management expectations; and
- Establishment of policies and procedures to identify, measure, monitor, report and control the risks the Bank faces.

In developing the RMF, significant emphasis was placed on:

- establishing an independent Risk Management Function to champion, coordinate and monitor the enterprise-wide risk methodology across the Bank;
- Ownership of risk across the organisation;
- Risk reporting at management and Board forums; and
- Oversight of risk at the Board level

5.3. Risk Management Process

5.3.1. Risk Management Cycle

Effective Risk Management is the combination of identification, assessment, and prioritisation of risk followed by coordinated and economical application of resources to minimise, monitor, and control the probability and /or impact of risk events.

Risk Management cycle can be broken down in two broad sections with first focusing on the identification, categorisation and prioritisation of risk. The second section focuses on the mitigation and monitoring of the risks. The diagram below represents the main activities undertaken in the two broad sections:

Identification of individual Risks within the broad risk types allows the Bank to focus on the key threats. The risk identified is weighted based on the probability of occurrence and the impact it will have on the organisation. Low probability and impact are acceptable and preferred, however the controls and mitigation in place derive the final residual risk.

Residual risk sets the basis for the organization's willingness to accept a level of risk in a given scenario or to allocate resources to bring it down to the acceptable level. Residual Risk also forms a key indicator for the Bank to prioritise the various risks and focus on the areas identified to mitigate the risk by enhancing controls and prioritising reviews to establish the effectiveness of risk mitigation.

5.4. Overall Risk Appetite

The Bank's risk appetite is set by the Board of Directors and takes into account the Bank's Strategic Intent. The executive management of the Bank is responsible for implementation of the risk appetite throughout the Bank's operations and business. The BRC maintains oversight of the business performance against the risk appetite. Management review is conducted by the relevant management committee and monitoring by Audit, Risk & Compliance Committee (ARCC).

Risk appetite is the aggregate level and types of risk the Bank is willing to assume within its risk capacity in order to achieve its strategic objectives and business plan. This is measured by the extent of return variability the Bank is prepared to tolerate to reach a desired outcome, balancing the relationship between risk and return.

Risk appetite incorporates a balanced mix of both quantitative and qualitative measures. Quantitative measures include financial targets (e.g. capital adequacy). Qualitative measures refer to reputational impact, management effort and regulatory compliance. The BoD reviews the Bank's risk appetite on an annual basis through a review and recommendation process at the BRC. The BRC also maintains oversight and monitoring of the risk appetite on a quarterly basis.

The Bank's risk appetite is calibrated at a level that minimises potential erosion of earnings or capital due to avoidable losses, including those from the banking book, fraud, operational errors, and inefficiencies.

The following factors act as guiding principles for setting the Bank's risk appetite:

- **Financial**
  - Losses due to frauds and operational lapses;
  - Maintenance of sustainable returns;
  - Financial and Prudential ratios at a level more conservative than regulatory requirements;

- **Reputational**
  - Regulatory expectations and audit recommendations;
  - Minimal reputational damage from adverse publicity in domestic and international press; and
  - Zero appetite for association with disreputable elements.

- **Credit**
  - Business expertise and experience;
  - NPL ratio;
  - Understanding of markets, industry segments and target market;
  - Portfolio concentration by sectors;
  - Country risk

- **Customer Service**
  - Servicing standards in line with customer preferences and expectations
  - Regulatory expectations and evolving regulations

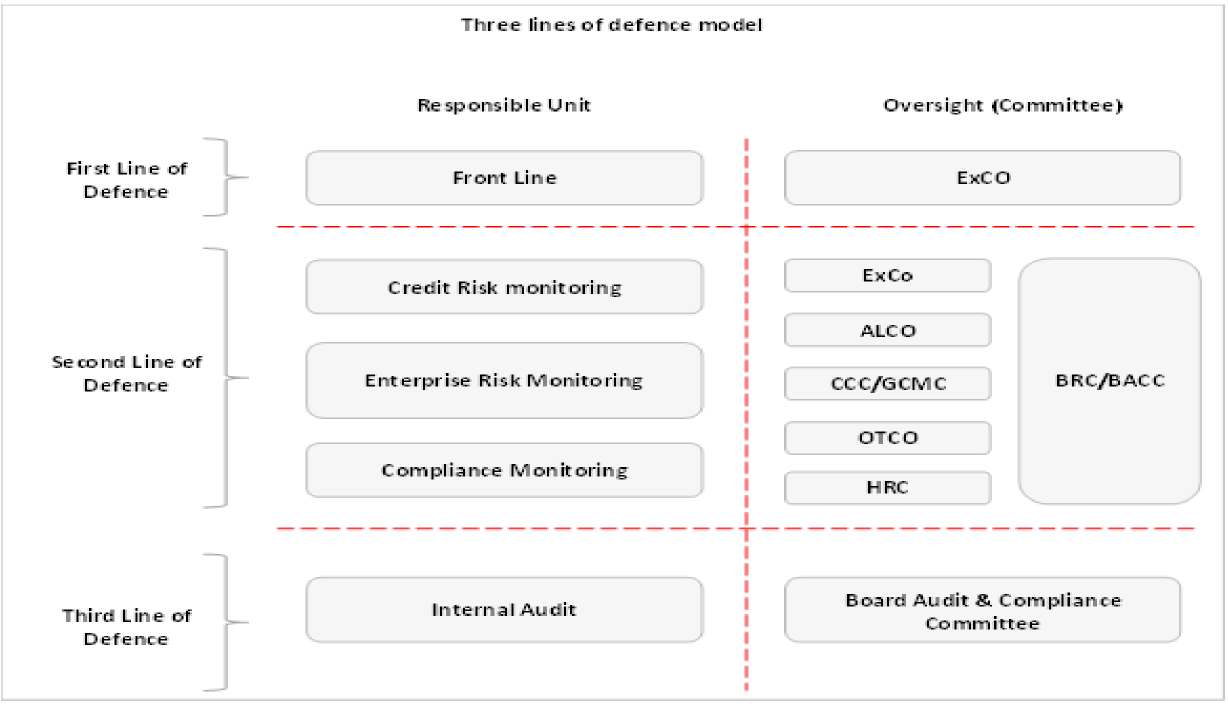
- **Regulatory**
  - Zero tolerance to non-compliance with regulatory rules and expectations

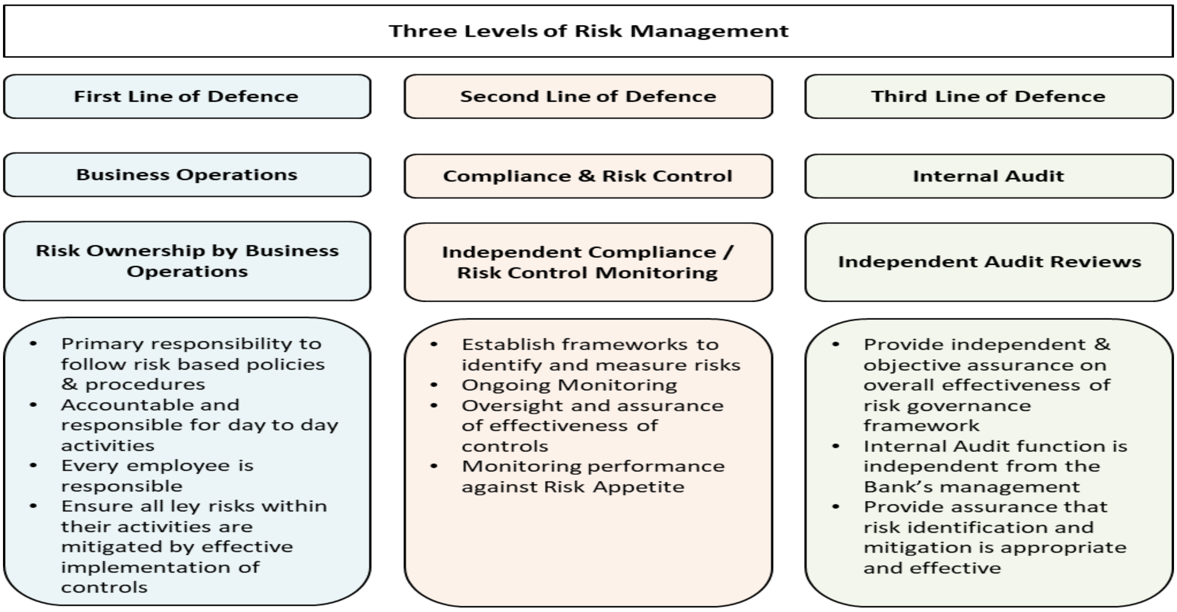
- **Operational**
  - Minimal operational errors and inefficiencies which impact customers
  - Compliance with regulatory rules and expectations
  - Information and cyber security impact for the Bank and its customers

5.5. Three lines of defence

For effective risk / threat identification and mitigation, the Bank operates on the 3 lines of defence model.

First line of defence	**Own and manage risks** Business Function / revenue generating functions &/or some business support functions have ownership, responsibility and accountability for assessing, managing, controlling and mitigating risks together with maintaining effective internal controls.
Second line of defence	**Oversight of risks** The second line of defence is covered by Risk / Compliance and other control functions. These functions facilitate and monitor the implementation of effective risk management practices by the first line of defence and assist the risk owners in defining target risk exposure and independently monitoring and reporting adequate risk related information. They also provide advisory and challenge.
Third line of defence	Internal audit is the third line of defence and reports directly to the BACC. Audit ensures independent challenge to the levels of assurance provided by the front line and Management committees. Through a risk-based approach, audit shall provide assurance to the BACC, as to how the Bank is assessing and managing its risks, including the manner in which the first and second lines of defence are operating.





The Bank regularly review, monitor and update the 3LOD model to ensure it remains current as part of overall review of Risk Management Framework.

5.6. Internal Audit

Our commitment to transparency, accountability, and effective risk management is underscored by the pivotal role played by our Internal Audit function. Throughout the year, our internal auditors assessed and reviewed the effectiveness of our internal control systems, risk management processes, and compliance with regulatory requirements. The Internal Audit Department operates independently to provide objective and unbiased evaluations of our operations, ensuring that our governance practices align with industry standards and best practices.

The internal audit team executed a comprehensive audit plan, covering various aspects of our organization, including financial controls, operational processes, and IT systems. Their efforts not only identified areas of improvement but also validated the robustness of our internal control environment. Their findings were communicated to the management and the Board Audit and Compliance Committee, facilitating prompt corrective actions and reinforcing our commitment to continuous improvement.

The Chief Audit Executive directly reports to the Chairman of the BACC with administrative reporting to the CEO.

5.7. Risk Appetite for different Risk Types

Capital

- Maintain capital of 2% over and above the minimum regulatory capital requirement*

Liquidity

- Minimum survival period of 90 days under firm's own stress test
- Minimum LCR of 110%
- AD ratio not to exceed 100%

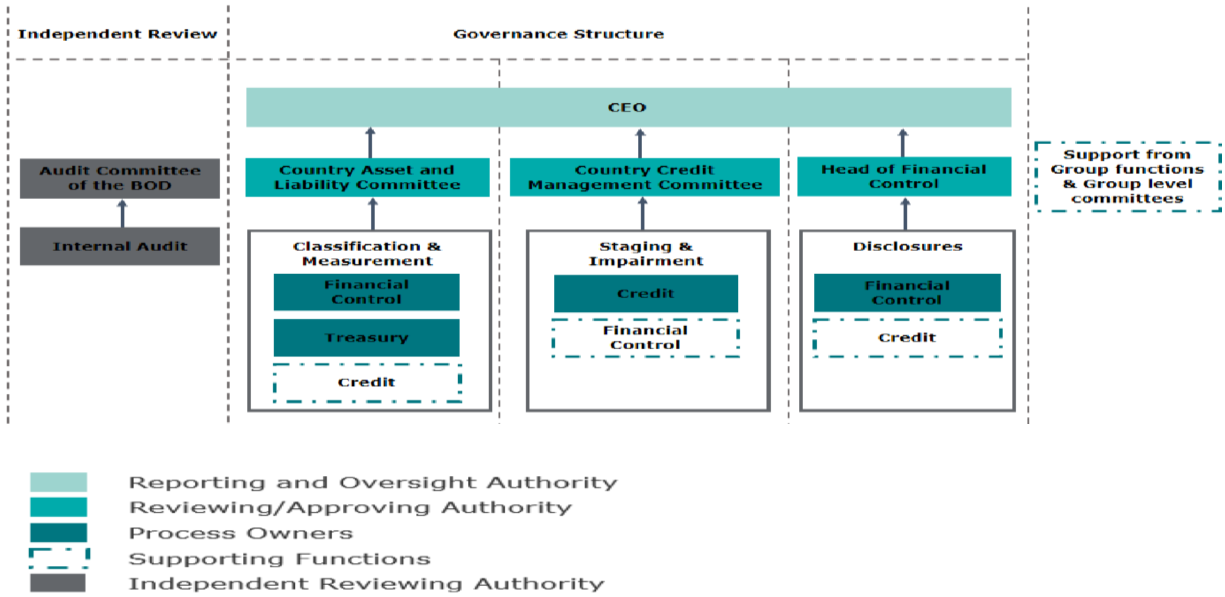
** Minimum regulatory capital requirements include countercyclical buffer and capital conservation buffer and the recently imposed scalar*

5.8. IFRS 9 – ECL methodologies

The Bank followed a general approach in designing ECL methodologies, which commensurate with its size, complexity, structure, economic significance and profile of exposure. The approach taken is considered proportionate in the context of the size of the Bank within the UK financial market, its relative lack of complexity as well as minimal volatility in its credit losses over the past five years.

IFRS 9 Impairment applies to financial instruments that are not measured at fair value through profit and loss (FVTPL). Financial assets falling within the scope of impairment are provided for by calculating their Expected Credit Loss (ECL). This requires considerable judgement regarding how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. ECL is an estimate of present value of cash shortfalls over the life of the financial instrument and is computed as a product of probability of default (PD), loss given default (LGD) and exposure at default (EAD). The present value of cash shortfalls is calculated by taking into account the time value of money and forward-looking information.

Post implementation of IFRS 9, the Bank established principles for ongoing IFRS 9 governances to ensure effective oversight of IFRS 9 processes. IFRS 9 governance structure incorporates Credit, Risk and Finance departments as central support functions for each component of IFRS 9, defines clear process owners and reviewing functions and utilises the three lines of defence to ensure an effective framework.



Financial assets falling within the scope of impairment are provided for by calculating their Expected Credit Loss (ECL). This requires considerable judgement regarding how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. ECL is an estimate of present value of cash shortfalls over the life of the financial instrument and is computed as a product of probability of default (PD), loss given default (LGD) and exposure at default (EAD). The present value of cash shortfalls is calculated by taking into account the time value of money and forward-looking information.

5.9. Measurement of ECL

In determining ECLs, the Bank has considered two economic scenarios for selected macroeconomic variables, (i) Debt service ratio and (ii) unemployment rate and weighted these according to their likely occurrence. The scenarios include a baseline scenario, based on the current economic environment, an upturn scenario and a downturn scenario. Scenario forecasts were weighted by the scenario's probability of occurrence in order to arrive at the probability-weighted macroeconomic impact over the 5-year forecast horizon.

The estimation and application of this forward-looking information will require significant judgement and be subject to appropriate internal governance and scrutiny.

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments, off balance sheet items and financial guarantees: generally, as a provision;

where a financial instrument includes both a drawn and an undrawn component / off balance sheet item, and the Bank cannot identify the ECL on the loan commitment component separately for those on the drawn components: The Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and recognised in the fair value reserves.

5.9.1 Significant increase in credit risk (SICR)

A critical element to the implementation of IFRS 9 for assessing Impairment is determining whether there has been a significant increase in risk of a credit exposure since origination to classify the assets into one of three stages as set out below.

The Bank considers days past due (DPD), marking the status of a loan as non-performing, a rating downgrade, restructure tag, or cross product defaults as being strong indicators of a significant increase in credit risk of an account. Hence, staging rules have been determined based on these criteria, as explained below:

Impairment is measured as either 12 months ECL, or Lifetime ECL depending on the change in credit risk associated with the financial instrument. The approach allocates financial instruments into three stages:

5.9.2 Staging Criteria

Stage 1 - 12-month ECL

The Bank assesses ECLs on exposures where there has not been a significant increase in credit risk since initial recognition and that were not credit impaired upon origination.

Stage2 - Lifetime ECL

The Bank assesses ECLs on exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired. Bank recognizes a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset).

Stage3 - Lifetime ECL

The Bank identifies ECLs on those exposures that are assessed as credit impaired based on whether one or more events that have a negative impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognized as a specific provision, and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

The following tables show reconciliations from the opening to the closing balances of the loss allowance by class of financial instrument.

Amount in £ 000

Due from banks at amortised cost	2024				2023
	Stage 1	Stage 2	Stage 3	TOTAL	TOTAL
Balances at the beginning of the year	26	-	-	26	10
New provisions	6	-	-	6	3
Increased provisions	31	-	-	31	15
Recovered / settled / reduced	(3)	-	-	(3)	(2)
Net measurement of loss allowance	**34**	-	-	**34**	16
Balances at the closing of the year	**60**	**-**	-	**60**	**26**

Amount in £ 000

Loans and advances to customers at amortised cost	2024				2023
	Stage 1	Stage 2	Stage 3	TOTAL	TOTAL
Balances at the beginning of the year	**501**	**245**	**3,419**	**4,165**	**5,107**
New provisions	40	0	0	40	107
Increased provisions	-	132	57	189	437
Recovered / settled / reduced	(274)	(151)	(1,066)	(1,491)	(1,454)
Net measurement of loss allowance	(234)	(19)	(1,009)	(1,262)	(910)
Transferred to 12 months' ECL Stage 1	-	-	-	-	-
Transferred to lifetime ECL stage 2 Credit not impaired	(12)	12	-	-	-
Transferred to lifetime ECL stage 3 Credit impaired	(1)	(7)	8	-	-
Uncollectable written off / other	-	-	(11)	(11)	(32)
Balances at the closing of the year	**254**	**231**	**2,407**	**2,892**	**4,165**

The contractual amounts outstanding on financial assets that were written off during the year ended 31 December 2024 is subject to enforcement activity.

Amount in £ 000

Financial investments	2024				2023
	Stage 1	Stage 2	Stage 3	TOTAL	TOTAL
Balances at the beginning of the year	38	-	-	38	**10**
New provisions	65	-	-	65	20
Increased provisions	3	-	-	3	10
Recovered / settled / reduced	(23)	-	-	(23)	(2)
Net measurement of loss allowance	**45**	**-**	**-**	**45**	**28**
Other movement	-	-	-	-	-
Impairment of FVOCI investment shown under OCI	-	-	-	-	-
Balances at the closing of the year	**83**	**-**	**-**	**83**	**38**

The following table provides reconciliation between:

- Amounts shown in above tables reconciling of opening and closing balances of loss allowance per class of financial instrument; and
- The impairment losses on financial instruments' line item in the statement of profit and loss.

Amount in £000

	Due from banks at amortised cost	Loans and advances to customers at amortised cost	Financial investments	Total
New provisions	6	40	65	111
Increased provisions	31	189	3	223
Recovered / settled / reduced	(3)	(1,491)	(23)	(1,517)
Total – 2024	**34**	**(1,262)**	**45**	**(1,183)**
Total – 2023	**16**	**(910)**	**28**	**(866)**

IFRS 9 models are reviewed on a periodic basis with any material change being approved at the Board

5.10. Credit risk model governance risk

The Bank has also put in place appropriate control to cover credit risk model governance risk. The objective was to set out the governance for the development, validation / review, deployment and maintenance of the credit risk related models. The implemented controls put in place framework for governance along the different stages of the model lifecycle.

The purpose of these controls is to set out in particular the principles and requirements for effective governance of the Bank's Expected Credit Loss (ECL) models and methodologies used for estimating the respective risk components. The main statistical models in scope of these controls include the following:

- credit risk rating model for rating of obligors belonging to the Corporate / SME portfolios
- probability of default ("PD") models (and /or methodologies)
- loss given default ("LGD") models (and /or methodologies)
- exposure at default ("EAD") models (and /or methodologies)
- credit conversion factor ("CCF") models (and /or methodologies), and
- macroeconomic models.
- For the purpose calculating ECL Bank has developed models for types of financial assets

5.11. Scenario Analysis and Stress Testing

A stress test is commonly described as the evaluation of a Bank's financial position under a severe but plausible scenario to assist in a forward-looking decision making within the bank.

The Bank conducts an annual assessment of its capital and liquidity adequacy through ICAAP and ILAAP evaluations. The bank identifies and evaluates significant risks each year, measuring them against existing controls and mitigants to ensure they remain within the bank's risk appetite. If necessary, additional capital under Pillar 2 is maintained. The Bank's capital position is reinforced by stress tests covering idiosyncratic, market, and combined scenarios of increasing severity. The latest ICAAP results showed sufficient capital under stress for the projected period. Under ILAAP, the Bank analyses its liquidity profile and behaviour to assess fund stability for meeting outflows. Liquidity is further evaluated through stress scenarios covering idiosyncratic, market, and combined stresses over 30, 90, and 180-day horizons, conducted monthly to detect emerging risks and implement corrective actions. The latest liquidity stress test indicated adequate capital under stress across all evaluated periods.

Stress testing is an important risk management tool that is used by the Bank and supplements other risk management approaches and measures. It plays a particularly important role in:

- providing forward-looking assessments of risk;
- feeding into capital and liquidity planning procedures;
- informing the setting of a Bank's risk appetite and thresholds; and
- facilitating the development of risk mitigation or contingency plans across stressed conditions.

The Board and senior management ensure the appropriate use of stress testing in the Bank's risk governance and capital planning. This includes setting stress testing objectives, defining scenarios, discussing the results of stress tests, assessing potential actions and decision-making.

The Stress Testing scope covers the following key risk areas:

- Capital
- Liquidity
- Credit Risk & Provisions
- Earnings – P&L

The Stress testing scenarios cover Bank specific risks, market specific risks and a combined impact to arrive at the impact on the key measures of capital, liquidity, provisions and earnings. The frequency of review is once a year except for the property stress test, which is conducted twice a year.

The process for reverse stress testing involves defining the point of failure of the firm (in this case full capital erosion) and working backwards to identify the scenarios leading to that. The challenge in the exercise is to identify scenarios that are both sufficiently extreme and relevant to the Bank.

Details of stress testing, related financial impact and actions to deal with the stressed scenarios are covered in the ICAAP & ILAAP.

5.12. Key Risks

The key risks as assessed by the Bank are as follows:

5.12.1 Credit Risk

Credit Risk is defined as of loss of principal or a loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation resulting in financial loss to the Bank. It is also measured in terms of credit losses or provisions charged to the profit and loss account. Qualitative information also used to assess issues related to the effectiveness of the risk appetite.

The Bank's mitigation of credit risk is based on a combination of focused strategy, defined target market, secured lending, quality of underwriting standard, ongoing monitoring and pre-set thresholds for single party exposure, industry concentration and type of collateral.

The Bank has a well-defined and articulated credit risk management framework ("CRMF"), which comprises its credit risk appetite, credit policies, terms of reference of management and board level committees, target market analysis, collateral management, credit monitoring and other credit related policies. The Board Risk Committee ("BRC") has oversight responsibilities of the CRMF. The Country Credit Committee ("CCC") and Board Risk Committee review and approve credit exposures based on delegated authorities.

The Bank has put in place detailed policies and guidance for the business and credit team to deal with impact of IFRS 9. Regular monitoring of credit portfolio is carried out by analytics team which provides early warning to business team where customers start showing irregular repayments. Regular interaction between customers and relationship managers also helps in identifying any issues which might lead to significant increase in credit risk. Indicators, if any identified are closely monitored through a well-established watchlist process in place.

One of the key focus areas of the Bank during period of uncertainties such as pandemic or external conflicts remains effective credit risk management. The credit team carried out frequent rapid reviews of the portfolio covering industries and sectors more severely affected by such uncertainties.

Business teams remained at the forefront of managing customers expectation and providing them the required support in addressing concerns due to market uncertainties. This was clearly demonstrated through their various discussions with the customers to ensure impact on their repayment capacity as a result of increase in interest rate and ability to provide further cashflows or collateral to reduce the risk. As a responsible lender the Bank continues to support its customers to manage rising debt burden.

5.12.2 Counterparty credit risk (CCR)

A Counterparty Credit Risk (CCR) Exposure is the risk of financial loss in derivative, foreign exchange trading or securities financing activities, due to a counterparty's failure to perform at any time from trade date to settlement date. It is the credit risk of the counterparty and is additionally subject to market risk. The exposure is calculated based on the regulatory requirement.

5.12.3 Credit value adjustment (CVA)

Credit Valuation Adjustment is an adjustment to the mid-market valuation accounting for the current market value of credit risk. Bank calculates a regulatory CVA capital charge. The purpose of this charge is to improve the resilience of banks to potential mark-to-market losses associated with deterioration in the creditworthiness of counterparties against non-cleared derivative trades.

5.12.4 Credit Quality Analysis

The following table set out information about the credit quality of financial assets measured at amortised cost and FVOCI debt. Unless specifically identified, for financial assets, the amounts in the table (**CR1**) represent the gross carrying amount:

					Amount in £000
			2024		**2023**
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Cash in hand and with central bank	232,380	-	-	232,380	215,342
Due from banks	122,212	-	-	122,212	112,816
Loans and advances to customers	642,436	37,276	5,650	685,362	636,314
Financial investments - amortised cost	191,989	-	-	191,989	130,715
Financial investments - FVOCI debt instruments	35,895	-	-	35,895	32,704
	227,884	-	-	227,884	163,419
Total	1,224,912	**37,276**	**5,650**	**1,267,838**	**1,127,891**
Loss allowance	(397)	(231)	(2,407)	(3,035)	(4,229)
	1,224,515	**37,045**	**3,243**	**1,264,803**	**1,123,662**

Contingent liabilities excluding undrawn commitments pertains to loans and advances to customers as at reporting date is £5.9m (2023: £6.5m) and the total ECL amounted to £101k (2023: £3k).

The following table (**CR1-A**) provide information about the credit quality of financial assets outstanding as at the balance sheet date in terms of regular, past due and impaired.

Amount in £000

2024	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Total
Current and past due up to 1 month	232,380	122,212	683,954	227,884	226	1,266,656
Past due 1 to 3 months	-	-	-	-	-	-
Past due over 3 months	-	-	1,408	-	-	1,408
Gross exposure	**232,380**	**122,212**	**685,362**	**227,884**	**226**	**1,268,064**
Less: impairment	-	(60)	(2,892)	(83)	-	(3,035)
Net exposure	**232,380**	**122,152**	**682,470**	**227,801**	**226**	**1,265,029**

5.12.5 Credit Risk Ratings

For the purpose of credit risk ratings, the Bank segregates its loans and advances portfolio into two categories namely, property sector lending and other lending (primarily comprising of commercial lending). Property sector lending covers major portion of the total lending portfolio. The Bank follows a program-based lending approach for property sector lending with clearly defined Risk Acceptance Criteria (RAC) for this segment rather than a credit risk rating methodology.

The Bank recognises loans and advances as past due when the customer does not meet its contractual payment obligations. The Bank regards a loan and advance or a debt security as impaired if there is objective evidence that a loss event has an impact on future estimated cash flows from the asset.

The following table sets out the credit quality of non-trading financial assets split by external rating, where applicable:

Amount in £000

2024	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
AAA to AA-	220,505	-	-	148,102	-	-	368,607
A+ to A-	7,364	58,810	-	51,237	226	-	117,637
BBB+ to B-	84	-	-	28,442	-	-	28,526
Unrated	4,427	63,342	682,470	20	-	31,078	781,337
Total	**232,380**	**122,152**	**682,470**	**227,801**	**226**	**31,078**	**1,296,107**

Bank uses the external credit agencies Fitch, S&P and Moody's to obtain ratings for its credit exposures relating to financial institutions, banks and sovereign agencies or entities.

5.12.6 Concentration of Risk

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar features that would cause their ability to meet contractual obligations to be affected by changes in economic, political or other conditions. The Country Credit Committee primarily manages concentration risk. The Bank Assets and Liabilities Committee also monitor credit concentration. All material exposures are reported to the Board Risk Committee, which escalates material concerns to Board of Directors.

Segmental concentration of financial assets and credit related contingent liabilities:

Amount in £000

2024	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
Supernational	173,123	-	-	98,804	-	-	271,927
Financial Institutions	58,591	122,152	-	72,196	121		253,060
Industrial & commercial	-	-	594,121	56,800	105	31,078	682,104
Individual	-	-	79,935	-	-		79,935
Other	666	-	8,414	-	-	-	9,080
Total	**232,380**	**122,152**	**682,470**	**227,801**	**226**	**31,078**	**1,296,107**

Super-nationals include investment made by the Bank in high rated bonds issued by sovereigns and multilateral development banks.

Geographical concentration of financial assets and credit related contingent liabilities:

Amount in £000

2024	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
United Kingdom	199,874	75,794	595,707	44,952	226	21,955	938,508
Europe excluding UK	22,140	-	63,545	76,665	-	3,371	165,721
Asia	8,856	28,823	6,427	60,497	-	3,882	108,485
North America	17	-	1,556	10,082	-	-	11,655
Africa	69	17,535	15,235	-	-	1,870	34,709
United States of America	1,424	-	-	30,402	-	-	31,826
Australia	-	-	-	5,203	-	-	5,203
	232,380	**122,152**	**682,470**	**227,801**	**226**	**31,078**	**1,296,107**

5.12.7. Collateral Management

Collateral Risk is mitigated through the use of readily marketable collateral, avoidance of collateral with high volatility and use of haircuts as per approved Bank's policy.

Collateral values are assessed by professional valuers. The Bank uses panel of valuers selected through a robust due diligence process. Residential or commercial collateral used by the Bank are on vacant possession, which provides fair degree of conservativeness to the values used for calculating Loan to Value (LTV). The Bank generally performs valuation of properties every three years.

Key threat arising along with controls & mitigations in place are tabulated below:

Collateral Risk	Controls & Mitigation in Place
Risk Arising from reduction in collateral values	1. Generally acceptable collateral - Cash, Residential & Commercial Property, Bank Guarantees, Shares & Bonds & life insurance with surrender value. 2. Lien is marked against cash taken as collateral 3. Charge is recorded in Bank's name in land registry relating to residential and commercial properties taken as collateral. 4. Other collateral like Bank Debenture, Stocks, Receivables, Personal Guarantees also available but discounted for lending and provision decisions. 5. Well defined haircuts for all collateral with Property haircuts arrived at on the basis of type of property, location and market conditions. 6. Property Stress tests conducted every six months
Risk arising from inadequate perfection of Security for Customer Borrowing	7. Standardisation of documents and processes for Risk mitigation 8. Duly reviewed and approved panel of solicitors & valuation firms.

The Bank accepts collateral subject to legal review and appropriate documentation in accordance with the Credit Risk Management Policy. The Credit Department keeps a comprehensive record of collateral received and is responsible for regular updates to the valuation of the underlying collateral. The documentation entered into with the obligor specifies the Bank's rights and ability to liquidate the collateral, if required. The Country Credit Committee is responsible for decisions regarding liquidation or appropriation of collateral based on recommendations from the Head of Credit and advice from the Legal Department. Further details of collateral can be found in the audited financial statements.

The carrying amount of financial assets recorded in the balance sheet, net of any allowances for losses, represents the Bank's maximum exposure to credit risk without taking account of any collateral obtained. The fair value of collateral and security enhancements held against loans or advances to customers is shown below:

Amount in £000

Collateral Type	2024		2023	
	Collateral Value	Advances	Collateral Value	Advances
Commercial real estate	1,042,059	483,842	935,413	445,370
Residential real estate	301,544	142,326	284,010	145,128
Cash collateral	66,995	47,800	62,589	30,278
Unsecured	-	11,394	-	15,538
Total	**1,410,596**	**685,362**	**1,282,012**	**636,314**

5.12.8 Credit Risk Weighted Exposures

The Bank has adopted Standardized Approach as set out by CRR and approved by the PRA under which Credit risk weighted exposures are calculated on the basis of the rating regime as prescribed in Standardised Approach by PRA Supervisory Statement SS10/13 effective September 2024 (updating May 2020 version).

Following table provides the breakdown of credit risk weighted exposures post credit risk mitigation (CRM) and credit conversion factors (CCF) as at December 2023 segregated as per the sectors:

Amount in £000

Exposures as per Sectors	On Balance Sheet	Off Balance Sheet	TOTAL	Total
	2024	2024	2024	2023
Retail	43	-	43	21
Secured by mortgages on immovable properties	423,337	2,448	425,785	388,137
Exposures in default	3,016	-	3,016	13,948
Institutions	90,025	3,446	93,471	65,207
Central governments or central banks / Regional govts	3,459	-	3,459	2,409
Corporates	60,976	10,828	71,804	60,213
Other	15,736	-	15,736	17,243
	596,592	**16,722**	**613,314**	**547,178**

Following table provides the breakdown of credit risk exposures post credit risk mitigation (CRM) and credit conversion factors (CCF) as at December 2024 as per geographical breakdown:

Amount in £000

Country wise Exposures	2024	2023
United Kingdom	429,606	430,509
Europe excluding UK	59,306	18,700
Asia	53,226	44,084
North America	16,934	9,617
Africa	31,992	26,451
United States of America	18,026	15,333
Australia	4,224	2,622
	613,314	**547,316**

5.12.9 Credit Risk Mitigation (CRM)

Risk mitigation mechanisms are employed to minimize credit risk in the event of credit quality deterioration. This primarily includes cash and bank guarantees. The reported credit risk weighted assets in the above schedule are reflected after employing the risk mitigation techniques.

5.13. Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk arises from changes in interest rates that could affect future profitability or the fair value of financial instruments. The Bank's primary IRRBB metrics are Net Interest Income (NII) and Economic Value of Equity (EVE) risk sensitivity measures. NII sensitivity measures the 12-month impact of net interest income arising from a 200 basis point parallel shift to the yield curve and on a constant balance sheet. This metric captures short term sensitivity of earnings due to a change in interest rates. EVE risk sensitivity measures the change in the net present value of our assets and liabilities under an immediate 200 basis point parallel shift to the yield curve. Interest rate risk at the Bank is managed and contained and the Bank has no significant long term or complex interest rate positions or products. The Bank seeks to minimise the negative impact on net interest income of adverse movement in interest rates.

The Bank's performs IRRBB assessment on a quarterly basis. Assessments made in terms of 'Value Perspective' and 'Earning Perspective'.

Value perspective: The Economic Value of Equity (EVE) change measurement. This sensitivity estimates the percentage by which the net present value (NPV) of the cash flows arising from the Banks' on and off-balance sheet positions under the prevailing term structure of interest rates, changes under different instantaneous interest rate shocks.

Earning perspective: The Net Interest Income (NII) change (which does not include ECL movement). This sensitivity looks at the expected/ potential increase or reduction in NII over a shorter time horizon (1 to 3 years typically) resulting from defined interest rate scenarios that are composed of either a gradual or a one-time large interest rate shock.

The analysis includes vigorous stress testing assessments, monitoring and mitigation. The analysis carefully incorporates the currency wise values, the duration, repricing dates, repricing gaps and other necessary assumptions.

5.14. Operational Risk

Operational Risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external parties. Specifically, this includes employees (e.g. fraud or key man dependencies), third party intermediaries, information technology (systems), and processes including failure to meet regulatory/legislative requirements or internal procedures.

The Bank's operational processes exist to support the servicing of customers and to maintain compliance with relevant regulation. These imperatives will be robustly protected. The Bank ensures that it remains compliant with the latter but its approaches to the former will vary according to priority and need. In terms of customer services, the Bank will actively employ flexible approaches to maintaining and protecting delivery and to this end will incur reasonable costs as required.

Operational Risk is the risk that the Bank triggers one or more of the below situations due to failed internal processes, people and systems – these can be internal or external to the Bank:

- Adversely impacts customers (customers are defined as customer of the Bank as well as internal "customers" such as colleagues with a dependency on particular output or service)
- Incurs losses e.g. operational losses (this includes temporary losses i.e. where recovery is made or is in progress of being made)
- Breaches in regulatory requirements or other policies and practices of the Bank

The Bank manages operational risk through an articulated risk appetite and ongoing monitoring with oversight at management and board level committees. The Bank has a fully operational risk control function, which monitors various operational risks under supervision and guidance from the Chief Risk Officer.

To mitigate occurrence of loss as a result of operational risk, the management has implemented systems and controls some of which includes introduction of operation risk register, risk event reporting process and centralisation of process.

The Bank sets various tolerance trigger points in accordance with regulation and guidance from the UK Financial Conduct Authority ("FCA") and Prudential Regulation Authority ("PRA"). In the event of these tolerances being breached, reporting to the Operations and Technology Committee ("OTCO") is made. OTCO reviews the breaches and considers whether further escalation to Audit, Risk and Compliance Committee ("ARCC") and Executive Committee is required. Reporting is made together with confirmation of remediation plans. All key operational risks indicators and risk events are also reported to the BRC.

The Bank has adopted the Basic Indicator approach for calculating Operational Risk capital as set out in the CRR and consequently embarks on rigorous risk identification exercises to establish any Pillar 2 requirements for Operational Risk.

5.15. Cyber Risk

The Bank takes risks associated with cyber security extremely seriously and is constantly engaged in not only improving and strengthening its transactional gateways but also its internal operating environment. Bank's core systems are integrated with Security Incident Event Monitoring (SIEM) solution which provides real time alerts of events related to managing cyber risk.

The implemented various controls to enhance mitigation against cyber risk such as deployment of Network Access Control (NAC) to enforce policies that restrict or quarantine noncompliant devices, thereby preventing insecure nodes from infecting the network. Fully operational Data Loss Prevention (DLP) for endpoints ensures unauthorized data uploads to non-whitelisted sites are blocked. A Data Classification tool has been introduced to assist staff in making informed decisions regarding data access and sharing based on established policies. Mobile Device Management (MDM) solutions have been enabled to monitor and manage connected mobile devices, while the deployment of Sentinel One antivirus enhances endpoint security. The organization has also conducted penetration testing on the UK subnet and regularly tests server vulnerabilities to safeguard critical systems.

In addition to the above measures the Bank conducts comprehensive security awareness training for all staff. This training is designed to equip employees with the knowledge and skills necessary to identify and mitigate potential cyber threats, thereby strengthening the overall security posture of the organization. Through these initiatives, the Bank is committed to maintaining a robust and resilient cyber security environment.

5.16. Regulatory Compliance Risk

"Regulatory Compliance" means compliance with relevant UK and other regulatory rules and requirements. At its highest level this means the Bank's "arrangements" to ensure that it comply with the regulator's threshold conditions, Statements of Principle, rules, codes and guidance and any relevant directly applicable provisions of a European or group Directive or Regulation.

Regulations are constantly evolving and could impact the Bank including capital, liquidity and funding requirements, enhanced data privacy requirements and the management of financial crime. The Bank implements new and updated regulatory requirements, where applicable, and incorporates the implications of related changes in its strategic and financial plans.

Compliance and Risk functions have responsibility for monitoring and oversight of new regulations, which are implemented by relevant functions such as finance, operations and IT. Where required the Bank also seek support and guidance from market experts to ensure best practices are adopted by the Bank. The Bank also receives regular updates from different market sources such as the Association of Foreign Banks on new regulatory requirements. The Bank has an effective compliance function, which operates independently and, which has the following responsibilities:

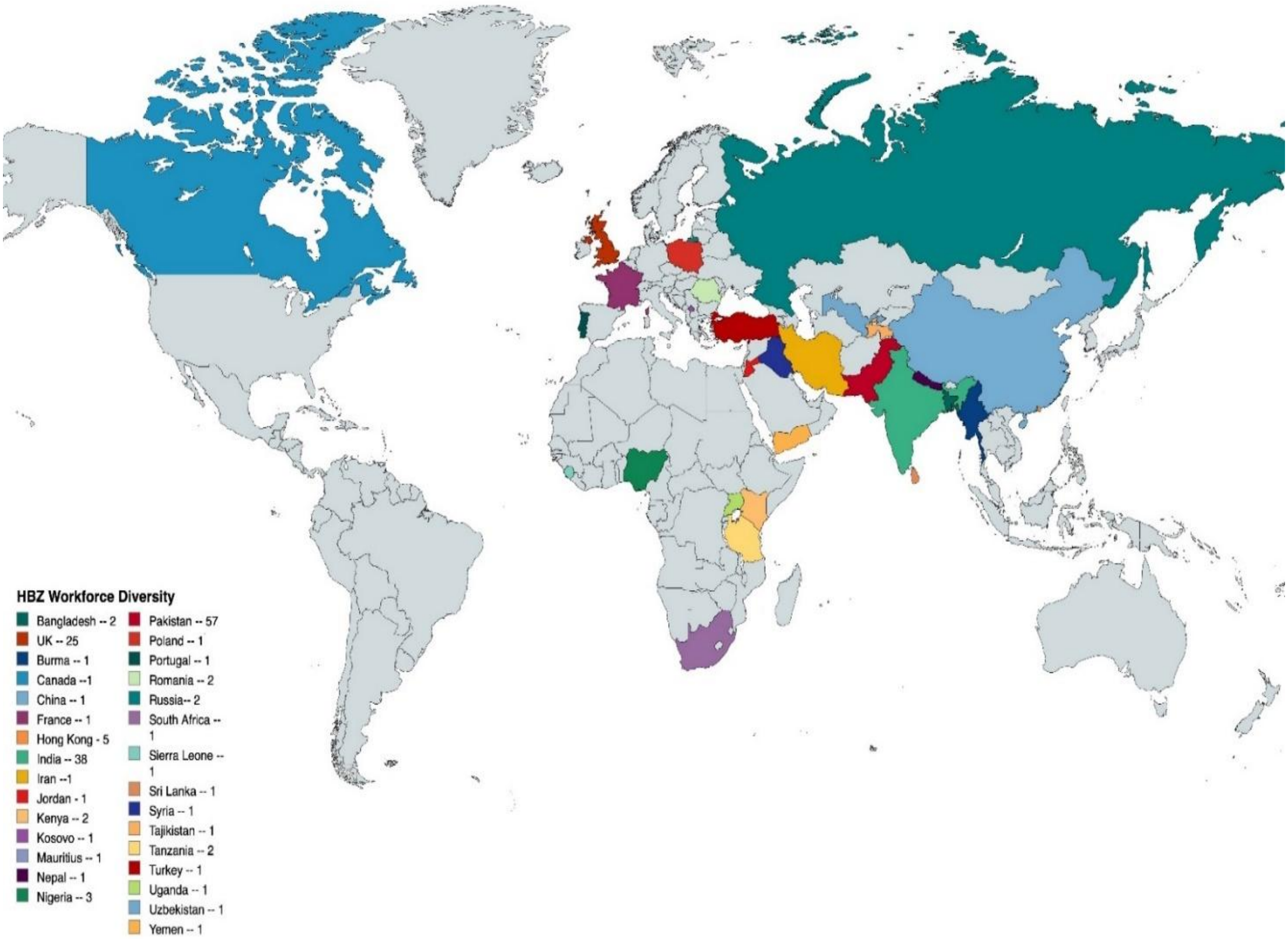
- to monitor and, continually assess the adequacy and effectiveness of the measures and procedures put in place in accordance with SYSC 6.1.2 R, and the actions taken to address any deficiencies in the firm's compliance with its obligations; and

- to advise and assist the relevant persons responsible for carrying out regulated activities to comply with the Bank's obligations under the regulatory system.

The Compliance function measures and monitors regulatory compliance through the HBZ UK Compliance Monitoring Plan, and through its interactions with the first line of defence.

5.17. Diversity and Inclusion

At the Bank, diversity and inclusion are not just ideals; they are fundamental values that we actively champion and celebrate. Our workforce is wonderfully diverse, creating an environment where all individuals feel valued, respected, and empowered to contribute their best. We make a conscious effort to recognize and embrace the various ethnic celebrations that are important to our employees at all levels of the organization.



Throughout the year, the Bank organized events to foster diversity and inclusion (D&I). For instance, during National Inclusion Week, we host a National Cuisine Day, where individuals from diverse backgrounds proudly share their culinary heritage, bringing us together through the universal language of food.

6. Liquidity and Market Risk

6.1 Liquidity Risk Management Framework

The Bank's approach to liquidity risk is comprehensively detailed in its *Liquidity Risk Management Policy (LRMP)*, which has been formally approved by the Board of Directors. This policy forms a cornerstone of the Bank's risk management framework and is regularly reviewed to reflect evolving regulatory expectations, market developments, and internal strategic priorities.

6.1.1 Definition and Nature of Liquidity Risk

Liquidity risk refers to the potential inability of the Bank to meet its financial obligations as they come due, and in the required currency, without incurring unacceptable losses or jeopardising its financial stability. This typically results from a mismatch between the maturities and cash flows of assets, liabilities, and contingent exposures.

6.2 Liquidity Strategy and Risk Appetite

To mitigate both short-term and medium-term liquidity risks, the Bank maintains a diversified portfolio of liquidity reserves. These reserves are calibrated to cover a wide range of business-as-usual (BAU) and stress scenarios across varying time horizons, including intraday, daily, and multi-week liquidity stress events. The Bank's liquidity risk appetite—set and approved by the Board—provides a quantitative and qualitative foundation for managing liquidity across all entities and operations.

The Bank's liquidity strategy is underpinned by the following objectives:

- Ensure the ability to meet financial obligations as they fall due.
- Maintain access to diversified sources of funding.
- Comply with all regulatory liquidity requirements under the UK CRR.
- Sustain market and customer confidence under both normal and stressed conditions.

6.2.1 Liquidity Buffers and Funding Sources

To fulfil these objectives, the Bank holds a prudently sized stock of High-Quality Liquid Assets (HQLA) in line with the Liquidity Coverage Ratio (LCR) and other regulatory metrics. In addition, the Bank maintains:

- A deposit account with the Bank of England to support core liquidity needs.
- Short-term money market placements to provide readily accessible funding.
- A diversified funding base that includes retail deposits and limited wholesale market access to reduce dependency on any single funding source.

6.2.2 Governance and Oversight

The Board of Directors has ultimate responsibility for the oversight of liquidity risk and ensures that the risk profile remains aligned with the Bank's strategic plan and approved business model. The Board Risk Committee (BRC) and the Asset and Liability Committee (ALCO) provide oversight and direction for all aspects of liquidity risk management, including approval of the risk appetite, review of stress testing outputs, and validation of contingency funding plans.

6.2.3 Operational Management and Reporting

On a day-to-day basis, the Treasury Department manages liquidity and funding operations, with a focus on minimising cash flow mismatches and maintaining appropriate currency alignment. The Finance Department supports this by producing daily liquidity reports and dashboards, ensuring full compliance with regulatory metrics and internal management information (MI) requirements. Any deviations or adverse developments are escalated through a clearly defined reporting structure.

6.2.4 Liquidity Risk Identification and Monitoring

The Bank employs robust strategies, systems, and processes to identify, measure, monitor, and manage liquidity risk across all relevant time horizons. This includes dynamic cash flow forecasting, liquidity stress testing, scenario analysis, and early warning indicators. These tools help to ensure the Bank maintains sufficient liquidity buffers, even under adverse market or idiosyncratic conditions.

6.2.5 Key Liquidity Risk Drivers

As part of its comprehensive risk assessment, the Bank has identified the following key components that contribute to its overall liquidity risk profile:

- Wholesale funding risk (secured and unsecured)
- Retail funding risk
- Intraday liquidity risk
- Intra-group liquidity risk
- Cross-currency funding risk
- Off-balance sheet exposure risk
- Franchise viability and reputational risk
- Marketable asset liquidity risk
- Non-marketable asset risk
- Funding concentration risk

These risk components are continuously monitored and evaluated to ensure that emerging threats to liquidity are identified and addressed promptly.

6.2.6 Continuous Improvement and Regulatory Engagement

The Bank's liquidity risk framework is subject to ongoing enhancement in light of internal assessments, peer benchmarking, and supervisory feedback—particularly from the Prudential Regulation Authority (PRA). The Bank is committed to maintaining high standards of prudence and transparency in its liquidity management and seeks to adopt emerging best practices as part of its continuous improvement ethos.

Amount in £000

2024	Carrying amount	Gross nominal inflow/(outflow)	Within 1 month	1-3 months	3 months-1 year	1-5years	> 5 years
Financial asset by type							
Non-derivative assets							
Cash in hand & with central bank	232,380	230,022	216,890	13,132	-	-	-
Due from banks	122,152	124,192	27,051	13,839	83,302	-	-
Loans & advances to customers	682,470	808,471	73,812	64,582	98,951	571,126	-
Financial investments							
- Fair value through other comprehensive income	35,761	39,573	-	2,023	8,422	29,128	-
- Amortised cost	192,040	208,073	4,011	14,774	41,833	147,435	20
	1,264,803	**1,410,331**	**321,764**	**108,350**	**232,508**	**747,689**	**20**
Derivative assets							
Risk management	226	226	159	57	10	-	-
Outflow							
Inflow	226	226	159	57	10	-	-
	226	**226**	**159**	**57**	**10**	**-**	**-**

Amount in £000

2024	Carrying amount	Gross nominal inflow/(outflow)	Within 1 month	1-3 months	3 months-1 year	1-5years	> 5 years
Financial liability by type							
Non-derivative liabilities							
Due to banks	108,224	(109,315)	(34,573)	(18,981)	(54,567)	(1,194)	-
Due to customers	1,023,002	(1,036,514)	(460,755)	(173,035)	(402,423)	(301)	-
Subordinated liabilities	20,296	(20,376)	-	-	(20,376)	-	-
Lease liability	2,833	(3,361)	(123)	-	(358)	(1,434)	(1,446)
	1,154,355	**(1,169,565)**	**(495,451)**	**(192,016)**	**(477,723)**	**(2,929)**	**(1,446)**
Derivative liabilities							
Risk management	187	(187)	(124)	(16)	(46)	-	-
Outflow	187	(187)	(124)	(16)	(46)	-	-
Inflow							
	187	**(187)**	**(124)**	**(16)**	**(46)**	**-**	**-**

The Bank has disclosed a contractual maturity analysis for its financial instruments. This includes a maturity analysis for financial assets that it holds as part of its managing liquidity risk - e.g. financial assets that are expected to generate cash inflows to meet cash outflows on financial liabilities - because the Bank considers that such information is necessary to enable financial statement users to evaluate the nature and extent of its liquidity risk.

6.3 Liquidity risk management

The liquidity and funding management and liquidity oversight ranges from high-level annual strategic plans and firm wide management engagement in stress-testing exercises to daily liquidity monitoring and management. The Bank has developed and consistently been following a business strategy of balanced and manageable growth in light of known capital and funding resources and the prospective economic environment. The Bank also have ICAAP & ILAAP documents which are reviewed on annually and placed in the Board committees for the approvals.

6.3.1 Liquidity and funding risk management governance

The Bank has a governance structure in place to ensure that its liquidity position is kept under close review, principally under the supervision of the ALCO. Treasury department is responsible for day-to-day management of liquidity and funding. Finance Department is responsible for daily monitoring and reporting on liquidity positions. Risk management as part of Enterprise Risk Management Framework keeps an oversight on the liquidity risk indicators. The ALCO and EXCO get the daily liquidity MI that includes regulatory thresholds as well as the assurance on the Bank's 90 days survivability.

The primary goal of liquidity risk governance is to establish operating parameters and hold people accountable for performance. The Bank has established a governance framework to ensure that all risks are covered adequately and monitoring is effective at all levels.

6.3.2 Funding and liquidity sources

Bank has stable and diverse range of funding base including deposits from retail and non-retail customers with long length of relationship, deposits covered by Financial Service Compensated Scheme (FSCS) Tier1 and Tier2 Capital base and wholesale deposits.

6.3.3 Net Stable Funding Ratio

Net Stable Funding Ratio (NSFR) is a regulatory liquidity standard introduced by the Basel III framework, designed to promote the stability of financial institutions by ensuring they maintain a stable funding profile.

The NSFR requires the Bank to maintain a ratio that compares the amount of available stable funding (ASF) to the required stable funding (RSF) over a one-year timeframe. Specifically, the ratio must be equal to or greater than 100%. This helps ensure that the Bank is using stable sources of funding to support their longer-term assets, reducing the risk of liquidity problems during periods of financial stress. In essence, the NSFR aims to enhance the resilience of the Bank by requiring it to fund activities with a stable source of funds, thus promoting a more stable financial system overall.

The Bank monitors Net Stable Funding Ratio (NSFR) to ensure that there is sufficient stable funding to support the business activities.

Amount in £000

Net stable funding ratio (NSFR)	2024	2023
Total available stable funding	904,473	830,973
Total required stable funding	660,742	608,890
NSFR ratio	137%	136%

6.3.4 Derivatives

The Bank transacts derivatives to manage and hedge its own risk and that of its customers. The Bank uses derivatives for hedging purposes for an economic perspective in the management of its own asset and liability portfolios. This enables the Bank to mitigate the market risk, which would otherwise arise from structural imbalances.

Forward foreign exchange currency contracts are Over the Counter agreements to deliver, or take delivery of, a specified amount of an asset or financial instrument based on a specific rate applied against the underlying asset or financial instrument, at a specific date.

Derivatives are measured at their fair value, which is calculated as the present value of the future expected net contracted cash flows at market related rates as of the balance sheet date.

6.3.5 Liquid Assets

The Bank holds extremely high-quality liquid assets in the form of Bank of England Reserves and level 1 Securities.

The LCR disclosure template with liquidity risk limits are provided hereunder:

Amount in £000

Liquidity coverage ratio (LCR)	2024	2023
Total high-quality liquid assets (HQLA)	224,688	183,751
Total net cash outflow	92,341	64,332
LCR ratio (%)	243%	286%
Regulatory requirement (%)	100%	100%

6.4 Market Risk

Market risk refers to the risk of losses in on- and off-balance-sheet positions arising from movements in market prices. These price movements can be due to various factors, such as changes in interest rates, exchange rates, commodity prices, and equity prices.

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial markets. Banks involved in proprietary trading are exposed to market risk due to change in interest or foreign exchange rates.

6.4.1 Interest Rate Risk

This is the risk that changes in interest rates will affect the bank's profitability and the value of its assets and liabilities. Interest rate risk at the Bank is well managed and falls under the oversight of ALCO and BRC. The Bank has no significant or complex long-term interest rate positions. The Bank's lending book is on variable interest rate, which allows re-pricing of all lending products within 90 to 120 days. Customer deposits have a longer behavioural rollover history as compared to contractual maturities, which stems from the strength of relationship-based business model.

The Bank Investments portfolio is well diversified with mix of HQLA and non HQLA bonds classified as held to collect and held to collect and sell. As at 31st December 2024, 71% of the Bank portfolio was invested in fixed rate bonds with the remaining in floating rate note.

The Bank effectively monitors interest rate risk in the banking book ("IRRBB"), through range of stress scenarios on economic value of equity and net interest margin. The Bank monitors impact on EVE and NII on a quarterly basis against the set threshold. In addition, Investments portfolio performance is monitored on a daily basis by

Treasury and Risk functions with key emphasis on change in CDS, rating changes and risks related to specific industry sector.

The Bank uses its own base rate for pricing of products, which can be changed with 60 days' notice to the customers. Therefore, any significant fluctuation in interest rate is unlikely to have a material impact on the Bank as it can re-price its lending and customer deposit books. The Bank is exposed to interest rate risk on its fixed rate investment portfolio maintained to meet the Liquidity Coverage Ratio (LCR) requirement. However, this is only limited to a portion, which is monitored in ALCO.

6.4.2 Foreign Currency (FX) Risk Management

Foreign Exchange risk – is the risk that the Bank will suffer a loss as a result of an adverse movement in exchange rates.

The Bank has identified FX its risk component of its market risk that could lead to losses considering the nature of Bank's business. As the Bank is not running a trading book it is not exposed to FX risk to a large extent.

The Bank has developed various management reports to measure and manage foreign exchange risk. The Bank's open foreign exchange positions are monitored intraday. The foreign exchange exposures are managed by the treasury front office with a maximum allowable net open position ("NOP") of £1m with a maximum amount of £250,000 in a single currency. The Bank considers this an acceptable risk exposure. Client transactions are generally executed on a matched basis reducing the risk of losses. The Bank's does not engage in proprietary trading. This eliminates the likelihood of FX losses.

Key Risk Indicators exceeding tolerance are reviewed in the CCC & ALCO & reported to the Audit Risk and Compliance Committee (ARCC) together with remedial action plans.

The Bank's net open position (NOP) as at 31 December 2024 was £0.38m (2023: £0.09m)

Currency	2024 (£000)	2023 (£000)
USD	49	35
EUR	(35)	(14)
ZAR	(1)	6
CAD	-	(12)
INR	18	-
Others	7	21

7 The Internal Capital Adequacy Assessment Process (ICAAP)

The Bank's capital adequacy assessment process demonstrates a sound and effective Risk Management Framework. The ICAAP has been structured to evidence the ongoing processes established to ensure that existing and new risks to the Bank's corporate objectives and operations are promptly identified and assessed. This ensures the Bank has sufficient capital to withstand these risks.

The Bank's ICAAP is an integral part of our risk management framework, ensuring that our capital resources are adequate to cover identified risks under both normal and stressed conditions. The Board oversees the ICAAP process, with implementation led by senior management and supported by our risk management function. Regular reviews and reports ensure alignment with strategic objectives and regulatory expectations. The document quantifies risks in the Business Plan and summarises their potential impact on capital. Having assessed these risks, the document sets out the management and mitigation strategies employed. Key risks identified in the ICAAP include credit, market, liquidity, operational, and other emerging risks such as cyber risk and climate change. Quantitative assessments include risk-weighted assets (RWAs) and stress testing. The Bank conducts annual stress tests and ad hoc scenario analyses to evaluate the resilience of our capital levels. These scenarios simulate adverse economic conditions and assess their impact on the Bank's RWAs, income, and capital adequacy.

The ICAAP is undertaken annually, involving the Board's review and endorsement of underlying assumptions and anticipated scenarios. The process also includes the analysis of the Pillar 2 capital requirement, which covers risks not addressed under Pillar 1. Additionally, this process accounts for various stress testing exercises and their potential impacts on RWAs, income, and capital adequacy. The results are used to refine risk mitigation strategies and determine appropriate capital buffers.

The available capital demonstrates the Group's commitment to operating a sustainable and viable franchise in the UK. The ICAAP also confirms the adequacy of non-financial resources—such as people, systems, policies, and procedures—to manage the sufficiency of financial resources on an ongoing basis.

The Bank's current capital ratio comfortably exceeds regulatory minima, with a buffer for unexpected losses. The Bank maintains an internal target capital surplus aligned with our risk appetite. Capital planning remains ongoing, incorporating stress test results, business growth forecasts, and strategic initiatives.
Given the Bank's size and complexity, it uses standardized approaches for risk measurement, supported by internal data and models where appropriate.

During 2024, our ICAAP process was refined to incorporate updated stress scenarios and enhanced internal risk assessments. No material deficiencies were identified, and the process continues to align with best practices and PRA expectations.

The ICAAP confirms the Bank's capacity to absorb adverse financial conditions while supporting strategic growth. The Bank will continue strengthening its risk management and capital planning processes to maintain an appropriate risk and capital profile.

8 Capital Management and Capital Adequacy

The primary objective of capital management is to maintain strong capital to support medium to long-term business growth. An effective capital management process provides resilience arising from both internal and external factors resulting in additional capital requirements. The Bank maintains strong capital ratios not only to support its business and maximise shareholders' value but also to maintain depositors' and market confidence. The Prudential Regulation Authority sets and monitors the capital requirement for the Bank.

The Bank's capital has been invested by the Parent bank to support long-term business growth of the Bank, which includes capital resources to meet Total Capital Requirement (Pillar 1 and Pillar 2), CRD Buffers and PRA Buffer. The Bank also maintains an internal capital buffer over and above the minimum regulatory capital requirement. The Bank also takes into account changes in economic conditions; risk characteristics of its activities and regulatory requirement in managing its capital structure and make adjustments to it in the light of such changes. The Bank has put in place processes and controls to monitor and manage its own funds and no breaches were reported to the PRA during the period.

The Bank's regulatory capital consists of the sum of the following elements:

Common equity Tier 1 (CET 1) capital, which includes ordinary share capital and retained earnings, and Tier 2 capital which includes qualifying subordinated liabilities.

Table CC1	**2024 £000**	**2023 £000**
Share capital	80,000	70,000
Retained earnings	40,022	33,077
Fair value through other comprehensive income reserve	(126)	(198)
Total equity as per audited financials	**119,896**	**102,879**
Regulatory Deductions:		
Deferred tax assets on carried forward losses	(4,307)	(4,845)
Other deductions	(162)	(115)
Total regulatory deductions	(4,469)	(4,960)
Common Equity Tier 1 Capital	**115,427**	**97,919**
Subordinated liability as per audited financials	20,296	20,340
Total Regulatory Own Funds (CET 1 + Tier 1 + tier 2)	**135,723**	**118,259**

The Bank increased the share capital by £10 million to £80 million in April 2024 through injection of fresh equity from the shareholders to support business growth.

8.1 Own Funds (Capital Resources)

Own funds or capital resources are the minimum amount of capital the institution must hold as per relevant regulatory rules and Total Capital requirement (TCR) set by the PRA. This is also called as regulatory capital. The Bank in accordance with CRDIV requirements must hold sufficient quantity and quality of own funds to absorb losses and support its operation.

Own funds are typically divided into different tiers based on their characteristics and quality.

Bank's own funds comprise of Tier 1 and Tier 2 capital. Bank successfully complied with the capital requirements throughout the year 2024 and actively managed capital base to cover the risks exposed to the Bank.

8.2 Own Funds Requirements

Bank successfully maintained its regulatory capital substantially above what actually required.

The table below (**OV1**) provides the detail of own funds or capital requirement for the bank:

Capital Adequacy Ratio of the Bank as at 31 December 2024 was as under:

Amount in £	Risk Weighted Assets	Capital Requirement
Credit Risk (excluding CCR)	611,684	48,935
Counterparty Credit Risk including CVA	1,895	152
Market Risk	42	3
Operational Risk	51,268	4,101
Pillar 1 Total (8% of RWAs)	**664,889**	**53,191**
Total Capital Requirement - £ 000'	**664,889**	**108,576**
Total Capital Requirement - %		16.33%

Risk Weighted Assets – Amount in £	664,889
Regulatory Capital – Amount in £	135,723
Capital Adequacy Ratio - %	20.41%

Capital Adequacy Ratio of the Bank as at 31 December 2023 was as under:

Amount in £	Risk Weighted Assets	Capital Requirement
Credit Risk (excluding CCR)	547,178	43,774
Counterparty Credit Risk including CVA	137	11
Market Risk	42	3
Operational Risk	40,092	3,208
Pillar 1 Total (8% of RWAs)	**587,449**	**46,996**
Total Capital Requirement - £ 000'	**587,449**	**102,392**
Total Capital Requirement - %		16.43%

Risk Weighted Assets – Amount in £	587,449
Regulatory Capital – Amount in £	118,259
Capital Adequacy Ratio - %	20.13%

9 Leverage Ratio

The Basel III framework introduced a simple, transparent, non-risk-based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements. The leverage ratio is intended to:

- Restrict the build-up of leverage in the banking sector to avoid destabilising deleveraging processes that can damage the broader financial system and the economy; and
- Reinforce the risk-based requirements with a simple, non-risk based "backstop" measure.

The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as a percentage:

- Leverage ratio = Capital measure / Exposure measure

The PRA has proposed that the leverage ratio requirements will apply to all banks from 1 January 2018. This proposed requirement comprises of a minimum ratio of 3.25%. As at 31 December 2024 Bank has a leverage ratio of 9.37% (2023: 8.81%).

The tables below summarised the information as per the formats prescribed by the European Banking Authority (EBA). Rows with Nil balances are not deleted.

Summary comparison of accounting assets vs leverage ratio exposure measure (LR1)

£ 000	**2024**	**2023**
Total assets as per published financial statements	**1,284,398**	**1,144,096**
Adjustment for off-balance sheet items / derivatives (i.e. conversion to credit equivalent amounts of off-balance sheet exposures / derivatives)	**24,636**	**22,052**
Other adjustments- Including Central Bank Claims	(175,471)	(166,936)
Leverage ratio exposure measure	**1,133,563**	**999,212**

Leverage ratio common disclosure (LR2)

£ 000	**2024**	**2023**
Capital and total exposure		
Tier 1 capital	115,427	97,919
Total exposure	1,307,352	1,166,461
Total exposure measure excluding claims on central banks	1,133,461	999,212
Leverage ratio (%)	**8.83%**	**8.39%**
Leverage ratio excluding claims on central banks (%)	**10.18%**	**9.80%**

10 Asset Encumbrance

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

Certain assets are pledged as collateral to secure liabilities under Credit Support Annex ("CSA") for derivative liabilities and as security deposits relating to FX forward transactions. The holders of these securities do not have the right to sell or re-pledge the asset except where specifically disclosed. The aggregate amount of collateral pledged under CSAs is £150,000.

In addition, borrowing is also made by pledging investment securities under Repo arrangement with counterparties. The Bank also availed financing under TFSME scheme by placing investment securities with Bank of England.

The carrying amount of financial assets recorded in the balance sheet, net of any allowances for losses, represents the Bank's maximum exposure to credit risk without taking account of any collateral obtained. The fair value of collateral and security enhancements held against loans or advances to customers is shown below:

Amount in £000

Collateral Type	2024 Collateral Value	2024 Advances	2023 Collateral Value	2023 Advances
Commercial real estate	1,042,059	483,842	935,413	445,370
Residential real estate	301,544	142,326	284,010	145,128
Cash collateral	66,995	47,800	62,589	30,278
Unsecured	-	11,394	-	15,538
Total	**1,410,596**	**685,362**	**1,282,012**	**636,314**

The Bank doesn't hold collateral against any of the financial asset other than loans and advances to the customers.

The following table stratifies credit exposures from mortgage loans and advances to customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of gross amount of the loan – to the value of the collateral. The value of the collateral for mortgage loans is based on the collateral value at origination updated based on changes in valuation. For credit-impaired loans the value of collateral is based on the most recent appraisals and taking into account any reduction in values as a result of forced sales.

Loans and Advances **Amount in £ 000**

	2024				2023			
LTV Bracket	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Less than 50%	226,486	4,890	1,044	232,421	196,251	2,204	2,003	200,458
51-70%	356,361	24,854	1,340	382,555	390,956	19,054	12,740	422,750
71-90%	7,545	6,796	1,408	15,749	3,767	-	278	4,045
91-100%	41,385	0	0	41,385	2,326	-	-	2,326
More than 100%	10,659	736	1,858	13,253	-	4,446	2,289	6,735
Grand Total	**642,436**	**37,276**	**5,650**	**685,362**	**593,300**	**25,704**	**17,310**	**636,314**
Collateral	**1,335,033**	**66,962**	**8,601**	**1,410,596**	**1,209,843**	**44,401**	**27,768**	**1,282,012**

11 Employee Remuneration Policy Overview

The Bank's remuneration approach is rooted in simplicity, fairness, and strategic alignment, designed to support long-term business objectives and uphold its distinctive organizational culture. It aims to attract, retain, and motivate talented individuals while reinforcing core values through performance-based recognition. The system emphasizes not only achieving results but also demonstrating ethical conduct, collaboration, and customer-centric behaviours, fostering a culture of integrity and responsible performance.

Governance of the remuneration framework involves the UK Human Resource Committee (HRC), which supports the Executive Committee by overseeing employee development, talent retention, and succession planning. The HRC reviews and approves performance appraisal frameworks to ensure they are aligned with the Bank's strategic goals, cultural values, and regulatory requirements. Additionally, the Board of Directors holds ultimate responsibility for HR policies and remuneration strategies, ensuring fairness and consistency in reward practices aligned with long-term sustainability.

	2024	2023
UK Human Resource Committee (HRC) meetings held during the year	**4**	**4**

The Bank's remuneration philosophy promotes a high-performance culture without encouraging excessive risk-taking. Staff are eligible for discretionary bonuses based on annual assessments that use a balanced scorecard approach, evaluating quantitative results through Key Performance Indicators and qualitative factors such as conduct and values. Performance reviews include self-assessment and manager discussions, fostering open dialogue, personal growth, and clear goal-setting.

As part of its remit, the HRC is responsible for reviewing and approving the Bank's **performance appraisal framework**, ensuring it remains aligned with the Bank's strategic goals, cultural values, and regulatory expectations. The HRC also monitors the implementation of HR-related policies and procedures to ensure **ongoing compliance** with all applicable UK employment laws and regulations, including the Senior Managers and Certification Regime **(SM&CR)**. This oversight ensures that accountability, competence, and conduct standards are consistently upheld throughout the organisation. At its core, the Bank's remuneration approach is guided by its **foundational values**—with *trust* as the cornerstone, supported by *integrity, teamwork, respect, responsibility,* and *commitment*. These values are embedded throughout the organisation and upheld consistently across all levels, reinforcing a culture of accountability, professionalism, and ethical conduct.

Details of Bank's remuneration are disclosed as required by CRR.

Table REM1		Supervisory Function (Non-Executive Directors)	Senior Management Functions (SMFs)	All other staff
31 December 2024				
Number of identified staff		5	8	154
Fixed remuneration	Total fixed remuneration	125	1,944	12,933
	Of which: cash-based	125	1,944	12,933
Variable remuneration	Total variable remuneration	-	224	637
	Of which: cash-based	-	224	637
Total remuneration		**125**	**2,168**	**13,570**
31 December 2023				
Number of identified staff		5	8	141
Fixed remuneration	Total fixed remuneration	185	1,704	10,917
	Of which: cash-based	185	1,704	10,917
Variable remuneration	Total variable remuneration	-	209	518
	Of which: cash-based	-	209	518
Total remuneration		**185**	**1,913**	**11,435**

£ 000	2024	2023
Total Fixed Remuneration	15,002	12,806
Total Variable Remuneration	861	727
Ratios of fixed and variable remuneration	**95:5**	**95:5**

The Bank's remuneration governance is also aligned with the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) guidelines. As a Level 3 firm under FCA classification, the Bank is not subject to deferral requirements and therefore does not operate a bonus deferral mechanism. Bonuses are paid annually in cash, with no portion deferred or subject to long-term vesting.

Currently, the Bank does not operate any **Long-Term Incentive Plans (LTIPs)** or other **executive incentive schemes**, and there are no plans to introduce such schemes in the foreseeable future. This reflects the Bank's focus on simplicity, transparency, and sustainability in remuneration practices.

The Bank also confirms that its Capital Adequacy Ratio (CAR) is not adversely affected by its remuneration structure. The cost of remuneration is managed prudently and proportionately, ensuring that it does not impair the Bank's financial strength, capital position, or ability to meet regulatory capital requirements.

Overall, the Bank's reward system is designed to motivate staff ethically and responsibly, supporting long-term strategic aims. The emphasis on meritocratic evaluation, transparency, and core values ensures that performance and behaviour are equally recognized. This structure sustains a culture of professionalism, accountability, and integrity, aligning individual contributions with the Bank's purpose and stakeholder expectations.

Appendix 1 Standardised approach – *Credit risk exposure and CRM effects – CR4*

2024	**Exposures before CCF and CRM**		**Exposures post-CCF and post-CRM**		**RWA and RWA density**	
Asset classes	**On-balance sheet**	**Off-balance sheet**	**On-balance sheet**	**Off-balance sheet**	**RWA**	**RWA density**
Sovereigns and their central banks	212,057	-	212,045	-	3,459	2%
Multilateral development banks	59,796	-	59,785	-	-	0%
Financial institutions	223,840	5,794	223,754	5,793	93,471	42%
Corporates	100,262	53,123	94,805	11,292	71,804	72%
Retail	58	-	58	-	43	74%
Exposures secured against real estate	665,025	9,790	606,680	2,993	425,785	64%
Exposures at default	5,650	140	3,016	-	3,016	53%
Other assets	19,162	-	19,162	-	15,736	82%
	1,285,850	**68,847**	**1,219,305**	**20,078**	**613,314**	**48%**

2023	**Exposures before CCF and CRM**		**Exposures post-CCF and post-CRM**		**RWA and RWA density**	
Asset classes	**On-balance sheet**	**Off-balance sheet**	**On-balance sheet**	**Off-balance sheet**	**RWA**	**RWA density**
Sovereigns and their central banks	180,467	-	180,467	-	2,409	1%
Multilateral development banks	84,921	-	84,921	-	-	-
Financial institutions	175,218	3,129	175,218	3,129	65,207	37%
Corporates	105,395	46,103	105,395	46,103	60,213	57%
Retail	28	-	28	-	21	75%
Exposures secured against real estate	564,269	7,950	564,269	7,950	388,137	69%
Exposures at default	17,309	234	17,309	234	13,948	81%
Other assets	20,910	-	20,910	-	17,243	82%
	1,148,517	**57,416**	**1,148,517**	**57,416**	**547,178**	**48%**

Appendix 2 Standardised approach – ***Exposure by asset class and risk weights – CR5***
Total credit exposure amount (post-CCF and post-CRM)

December 2024

Asset classes	0%	20%	50%	100%	150%	Other	Total
Sovereigns and their central banks	197,789	12,228	2,028	-	-	-	212,045
Multilateral development banks	59,785	-	-	-	-	-	59,785
Financial institutions	-	109,948	96,235	23,364	-	-	229,547
Corporates	-	9,491	52,023	38,729	5,854	-	106,097
Retail	-	-	-	-	-	58	58
Exposures secured against real estate	-	-	-	439,435	-	170,238	609,673
Exposures at default	-	-	-	3,016	-	-	3,016
Other assets	3,426	-	-	15,736	-	-	19,162
Total	261,000	131,667	150,286	520,280	5,854	170,296	1,239,383

December 2023

Asset classes	0%	20%	50%	100%	150%	Other	Total
Sovereigns and their central banks	173,821	3,042	1,578	-	-	-	178,441
Multilateral development banks	84,907	-	-	-	-	-	84,907
Financial institutions	-	114,348	43,255	20,709	-	-	178,312
Corporates	-	2,145	24,194	122,298	2,800	-	151,437
Retail	-	-	-	-	-	28	28
Exposures secured against real estate	-	-	-	416,943	-	154,588	571,531
Exposures at default	-	-	-	13,997	-	-	13,997
Other assets	3,667	-	-	17,243	-	-	20,910
Total	**262,395**	**119,535**	**69,027**	**591,190**	**2,800**	**154,616**	**1,199,563**