Habib Bank Zurich Plc – Pillar 3 Disclosures

31 December 2025

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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 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 2025, as appearing in the Audited Financial Statements for the year 31 December 2025. Except where otherwise stated, Pillar 3 disclosures are unaudited and are not part of the statutory financial statements.

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

1.3. Future regulatory changes

On 12 December 2023, the PRA published its Policy Statement 'Implementation of the Basel 3.1 standards near-final part 1' (PS17/23), which covers the Credit Valuation Adjustments (CVA), Counterparty Credit Risk (CCR), market risk and operational risk elements of the Basel 3.1 standards.

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. PS9/24 additionally includes updates on model permissions, transitional arrangements, and certain technical adjustments based on industry feedback. The publication delayed the implementation date by six months to 1 January 2026 based on consultation feedback and the PRA's ongoing monitoring of the implementation timelines of other jurisdictions.

On 17 January 2025, the Prudential Regulation Authority ("PRA"), in consultation with HM Treasury, announced a one-year delay to the implementation of the Basel 3.1 standards in the UK, moving the implementation date to 1 January 2027 in light of uncertainty regarding the timing of implementation in other major jurisdictions and broader competitiveness considerations. Subsequently, in PS1/26, published on 20 January 2026, the PRA finalised the UK Basel 3.1 framework and confirmed that the majority of the rules, reporting requirements and supervisory expectations will take effect from 1 January 2027, while the Internal Model Approach under the Fundamental Review of the Trading Book ("FRTB") will apply from 1 January 2028.

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
31 July 2026

2. Key metrics

The table below provides an overview of Bank's prudential regulatory metrics: **In £'000**

Available Funds	**2025**	**2024**	**2023**
Share capital	80,000	80,000	70,000
Retained earnings	44,501	40,022	33,077
Fair value through other comprehensive income reserve	86	(126)	(198)
Common Equity Tier 1 Capital: instruments and reserves	124,587	119,896	102,879
Regulatory Deductions:			
Deferred tax assets on carried forward losses	(3,426)	(4,307)	(4,845)
Proposed dividend for the year	(3,341)	(5,544)	(4,142)
Other deductions	(56)	(162)	(115)
Common Equity Tier 1 Capital after deductions	117,764	109,883	93,777
Additional Tier 1 Capital	-	-	-
Total Capital (CET 1 + Tier 1)	117,764	109,883	93,777
Tier 2 Capital – Subordinated liabilities	20,000	20,000	20,000
Total Own Funds (CET 1 + Tier 1 + tier 2)	137,764	129,883	113,777
Total Risk-Weighted Assets	773,493	664,889	587,448
Risk-based capital ratios as percentage of RWA			
CET 1 ratio (%)	15.22%	16.53%	15.96%
Total capital ratio (%) – (CET 1 + Tier 1)	15.22%	16.53%	15.96%
Capital Adequacy Ratio (CET 1 + Tier 1 + Tier 2)	17.81%	19.53%	19.37%
Additional CET1 buffer requirements as a percentage of RWA			
Capital conservation buffer (CCoB) requirement	2.50%	2.50%	2.50%
Countercyclical capital buffer (CCyB) requirement	1.50%	2.00%	2.00%
Total of bank CET 1 specific buffer Requirement	4.00%	4.50%	4.50%

Basel III leverage ratio			
Total Basel III leverage ratio exposure measure	1,272,426	1,133,563	999,212
Basel III leverage ratio excluding claims on central banks (%)	9.26%	9.69%	9.39%

Liquidity coverage ratio (LCR)			
Total high-quality liquid assets (HQLA)	306,567	224,688	183,751
Total net cash outflow	170,300	89,737	64,332
LCR ratio (%)	180%	250%	286%

Net stable funding ratio (NSFR)			
Total available stable funding	966,189	904,473	830,973
Total required stable funding	728,485	660,742	608,890
NSFR ratio	133%	137%	136%

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 is 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 process of assessing additional capital requirement to guard against risk elements, in addition to those categorised under Pillar 1, is adequately supported by the Bank's internal models and assessments. The details of the assessment are contained in the Bank's "Internal Capital Adequacy Assessment Process" ("ICAAP"), narrating the underlying assumptions and elements of the 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. The Bank, as a mandatory requirement, maintains requisite CRD Buffers: (i) - Capital Conservation Buffer (CCoB), 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 Basel III leverage ratio framework and disclosure requirements as updated from time to time.

3.1.5. The Leverage ratio calculated as the 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 2025. 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 in relation to the Bank. 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 has prepared this document to ensure compliance with the Pillar 3 disclosure requirements set out in the UK CRR. The Bank does not seek any exemption from disclosure on the basis of materiality or 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)
- Deposit taking (Branch banking and Islamic banking)
- Transactional services and forex exchange
- Trade finance and Financial Institutions
- Investments and money market

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 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, personal bankers and relation risk service officers 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 its Islamic banking offerings (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 customers' 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 introduced or enhanced its digital presence with the following:

- 24/7 Faster Payments
- Enhanced online banking services
- Mobile banking application
- Digital wallets
- Confirmation of Payee

The digital enhancements are at the forefront of transformative efforts covering security for customers' interests, diverse channels of access to banking services for a wide range of customers, keeping abreast with market developments with a focus on improved customer experience.

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. Basel 3.1 implementation

Given continued uncertainty regarding the timing of implementation of the Basel 3.1 standards in certain major jurisdictions, particularly the United States, and taking into account competitiveness and growth considerations, the PRA, following consultation with HM Treasury, confirmed a further delay to the implementation of the UK Basel 3.1 framework to 1 January 2027.

As reflected in PS1/26, the PRA maintained the original end date for the transitional arrangements, such that full implementation will still be achieved by 1 January 2030. Accordingly, the PRA shortened the transitional and phase-in periods to preserve the overall implementation timetable set out in the original proposals, while confirming that the Internal Model Approach under the Fundamental Review of the Trading Book ("FRTB") will instead take effect from 1 January 2028.

3.4.2. Bank Monetary Policy & Economic update

The UK's macroeconomic environment has been highly challenging in recent years, though signs of improvement have emerged. The United Kingdom entered 2025 in recovery rather than crisis. The economy continued to adjust to the inflation shock of 2022–2024, which was driven by energy price volatility, supply-chain disruptions and tight labour markets. By early 2025, policymakers generally judged that inflation had peaked, although a strong expansion was not anticipated. The prevailing consensus expected easing inflation, a gradual loosening of monetary policy and modest growth.

Actual outcomes broadly aligned with these expectations. The UK avoided recession and recorded positive GDP growth, though the recovery remained fragile. Households, businesses and labour markets continued to absorb the effects of earlier price rises and relatively high borrowing costs. Real income growth improved only gradually and economic confidence remained cautious.

Inflation and interest rates were the dominant influences on economic conditions. The year began with the Bank of England base rate at 4.75%. Over the course of 2025, the Monetary Policy Committee reduced the rate on four occasions to 3.75% at year-end. While markets had anticipated rate cuts, the timing and pace were more measured than initially expected. The Bank pursued a cautious "cut-and-pause" approach in response to persistent wage growth and services-sector inflation, aiming to entrench disinflation while avoiding a downturn.

Consumer price inflation remained above target throughout the year, ending 2025 at approximately 3.6%–3.8%. Domestic price pressures particularly within services slowed the pace of disinflation. As a result, borrowing costs, although easing, remained relatively elevated for households and businesses, constraining purchasing power and spending.

The escalating geopolitical tensions particularly in Middle East region continue to introduce operational strain and market volatility that may influence our 2026 performance. Recent military escalation has resulted in temporary market closures, airspace restrictions and heightened supervisory oversight across key financial centres in the region, creating increased risk-management demands at group level. Although underlying banking conditions in the region remain broadly supported by resilient economic momentum, solid capitalisation and steady credit demand, ongoing geopolitical uncertainty and fluctuations in energy-linked sentiment may affect funding costs, investor confidence and group-wide balance-sheet allocation.

In summary, the economic outlook for the UK is influenced by a variety of factors, including geopolitical tensions, fiscal changes, and monetary policies. As we move deeper into 2026, we aspire to see recovery as a result of growth measures taken by the Government. The macroeconomic backdrop for 2026 remains one of gradual stabilisation with heightened two-sided risks. Global growth is still expected to be modest, consistent with the IMF's January 2026 update, which projects world GDP growth of 3.3%; however, the balance of risks has shifted following the recent widening of conflict in the Middle East and associated disruptions to key energy and shipping chokepoints. Tensions have elevated the geopolitical risk premium in oil and gas markets and re-intensified disruptions to maritime trade.

On current evidence, a base case of modest UK growth and gradually easing inflation remains plausible, supported by prior disinflation and still-benign core dynamics; the latest outlook points to CPI averaging 2.3% in 2026, while cautioning that an extended energy shock would be a key upside risk to prices.

3.4.3. Middle East conflict and impact on UK economy

The evolving Middle East geopolitical environment presents a range of indirect risks that may influence economic conditions, market stability and operational resilience across regions. Key transmission channels include energy price volatility, shifts in inflation and interest rate expectations, global market fluctuations, trade route disruptions, refinancing challenges and heightened cyber activity. These external pressures can shape asset valuations, liquidity dynamics, funding conditions and broader confidence levels, while operational dependencies, people related considerations and technology resilience remain important under heightened uncertainty. Monitoring early warning indicators such as market spreads, credit signals, property trends and liquidity movements supports preparedness and timely response as conditions evolve.

The Bank's financial, liquidity and operational positions remain stable, with continued close monitoring of interest rate developments, property market trends, funding conditions and Group operational dependencies.

At present, there is no observed impact on financial strength, liquidity position or operational continuity. The situation will continue to be closely tracked, should geopolitical changes or early warning indicators signal a material shift in the risk landscape.

3.4.4. Cyber incident

During the year, the Bank identified and contained an incident involving unauthorised external access to the Group's data centre, originating from vulnerabilities in a third party application. An independent cyber security specialist was engaged to conduct a forensic review and support remediation. Banking operations remained fully functional, with no impact on customer account balances. Regulatory authorities were promptly notified and stakeholder and customer communications were issued in line with applicable requirements. The HBZ Group has since implemented strengthened security controls and additional remediation measures to further enhance the resilience of its technology infrastructure. The Group also engaged an independent firm to perform Post-Incident Review. ICAAP Pillar 2A Operational Risk add-on includes cyber-attack loss estimates.

The Bank recognises the increasing risks associated with cyber threats and continues to strengthen its cyber security framework to protect its systems, data and banking services. Cyber security remains a key focus area for the Bank given the evolving nature of digital threats across the financial sector as further detailed in Section 5.13: Cyber Risk.

The Bank maintains a range of preventative and detective controls designed to safeguard its technology infrastructure and transactional systems. These controls include continuous monitoring of cyber alerts, vulnerability management, system updates and regular security assessments performed by the Information Security function.

The Bank also continues to enhance its cyber resilience capabilities, including incident detection, response and recovery processes, to ensure that potential cyber events can be identified and managed in a timely and effective manner.

Cyber risk oversight forms part of the Bank's broader operational risk framework and is subject to regular reporting and review through the established committees.

3.4.5. Operational resilience

A key priority for the Bank of England, Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) is to put in place a stronger regulatory framework to promote operational resilience of firms and financial market infrastructures (FMIs). To this end, FCA and PRA published a few other related documents detailing the regulatory expectations regarding Operation Resilience ahead of implementation deadline in March 2025.

Operational resilience remains a key area of focus for UK regulators, with the Bank of England, Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) implementing a strengthened framework to ensure that firm's infrastructures can withstand, adapt to and recover from operational disruptions. In line with the regulatory expectations set out by the PRA and FCA culminating in a March 2025 implementation deadline, the Bank successfully completed all required activities ahead of schedule. Throughout this period, the Bank has continued to enhance its resilience posture through targeted initiatives, including the enhancement of operational efficiency, accelerated digitisation, investment in modern and robust technology infrastructure, the strengthening of information and cyber security capabilities and the implementation of resilient remote access arrangements.

The Bank's Operational Resilience Framework builds on our established capabilities and reflects the lessons learned from past operational events, ongoing horizon scanning, and industry-wide developments. It is designed to ensure that the Bank can continue to deliver critical services to customers and stakeholders in the face of severe but plausible disruptions. The Framework aligns with the expectations set by the FCA and PRA and provides a structured approach to identifying, managing and testing operational vulnerabilities. To achieve the desired resilience outcomes, the Bank undertook a comprehensive set of activities, including:

- Leveraging organisation-wide assessments: Conducting Business Impact Assessments and defining recovery objectives across all business areas, ensuring that resilience considerations are embedded consistently throughout the organisation.
- Prioritising Important Business Services (IBS): Identifying and prioritising key services that are essential to end users, reflecting the Bank's business model, customer segments, and the potential harm that disruption could cause.
- Completing end-to-end process mapping: Mapping the full lifecycle of each IBS, covering people, processes, technology, data flows, third-party dependencies, and physical premises. This comprehensive view enables the Bank to understand where vulnerabilities may exist and to plan targeted interventions.
- Establishing robust impact tolerances: Setting clear, time-based impact tolerances for each IBS, with consideration given to combined or secondary metrics where appropriate. These tolerances define the maximum level of disruption the Bank can accept before it risks causing intolerable harm.
- Developing tailored scenario testing: Creating a suite of severe but plausible disruption scenarios specific to the Bank's operations. These scenarios draw on historical incident and near-miss data, supplemented by ongoing horizon scanning to capture emerging risks, industry trends and evolving threat landscapes.
- Preparing a comprehensive self-assessment: Producing a detailed self-assessment document for review and approval by the Board. This document outlines the activities undertaken, the insights gained, and the Bank's current level of alignment with regulatory expectations, ensuring transparent governance and clear oversight.

The ongoing management of Operational Resilience is jointly overseen by the Head of Operations and the Head of Information Technology. Their remit includes the day to day coordination, monitoring and enhancement of the Bank's resilience capabilities. Ultimate accountability for the Bank's operational resilience posture, however, rests with the senior management team, the Board Risk Committee and the Board of Directors, who provide strategic direction, ensure appropriate governance structures are in place and receive regular reporting on resilience performance and key risks.

The Bank has assessed four key areas of its business services to determine its Important Business Services:

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

In line with its size, business model, and market presence, the Bank has identified several of its business services as critical in assessing the potential impact of operational disruption on customers and on the Bank's safety and soundness. Impact Tolerance Levels (ITOLs) for these services have been established in accordance with industry expectations. Both the Important Business Services (IBS) and their associated ITOLs are re-evaluated regularly following any material change, and in any case reviewed at least annually.

Having implemented the Operational Resilience Framework ahead of the March 2025 regulatory deadline, the Bank continues to proactively monitor, assess and test a range of disruption scenarios to enhance resilience across all Important Business Services. Particular focus is placed on cyber security readiness and the resilience of critical third-party service providers (including other group companies), recognising that their response and recovery capabilities are integral to the Bank's own operational continuity and communication strategy. Insights gained from these reviews and test exercises are carefully evaluated, with enhancements, process refinements and targeted investments made where required to strengthen resilience further. This cycle of assessment, learning and improvement remains ongoing, ensuring the Bank maintains a strong and adaptive operational resilience posture.

The Bank maintains a strong focus on managing its third-party and outsourcing arrangements in accordance with the Prudential Regulation Authority's Supervisory Statement SS2/21, which outlines expectations for effective governance, oversight and risk management throughout the entire lifecycle of third-party and outsourced services. Consistent with these regulatory requirements, the Bank undertakes review and ongoing monitoring of arrangements classified as critical or material, recognising that any disruption involving a key external provider could significantly affect operational continuity and the Bank's ability to deliver and continue services under disruption for its Important Business Services. To mitigate these risks, the Bank ensures that contractual, operational and resilience standards covering areas such as business continuity, incident management, data protection and recovery capabilities are clearly defined. This disciplined and structured oversight forms an integral pillar of the Bank's wider resilience strategy, helping to ensure that external dependencies are effectively controlled and remain fully aligned with regulatory expectations.

The Bank's work to strengthen operational resilience including enhancements in areas such as end-to-end mapping and scenario testing forms a central component of its formal self-assessment. This assessment provides a detailed reflection of the Bank's methodology, progress and alignment with regulatory expectations. The documented framework is subject to independent review and validation by the internal audit function on an annual basis, and additionally whenever material changes arise, such as updates to the list of Important Business Services or revisions to impact tolerances. Both the self-assessment and associated assurance activities are refreshed at least annually to ensure continued alignment with the Bank's operational resilience objectives and evolving risk landscape.

The Bank has also implemented robust contingency arrangements to safeguard continuity of service should primary systems become unavailable. These measures include resilient backup capabilities and failover mechanisms designed to ensure uninterrupted delivery of essential customer services. As part of the regular testing cycle, these contingencies are periodically exercised to validate their performance and to pinpoint opportunities for improvement. This proactive and iterative approach strengthens the Bank's overall resilience posture and helps ensure the dependable delivery of services during unexpected or severe disruptions.

Senior management, the Board Risk Committee and the Board of Directors maintain an active and strategic role in overseeing the Bank's operational resilience framework. Their engagement is supported by clear communication of objectives, expectations and governance requirements to ensure full alignment with the Bank's operational resilience policy. This oversight is reinforced through:

- Ensuring timely and relevant management information is available to support decision-making and to assess operational resilience implications.

- Promoting a strong culture of risk awareness, accountability and ethical conduct across the organisation, directly influencing the Bank's resilience maturity.
- Maintaining the necessary knowledge, expertise and experience to provide constructive challenge, exercise sound judgement and fulfil their governance responsibilities.

The Board receives regular reporting on progress, emerging issues, areas requiring enhancement, planned investments and the overall operational resilience posture of the Bank. This oversight ensures that the Bank remains aligned with regulatory expectations while continuously adapting to its evolving operating environment and risk profile.

3.4.6. Consumer Duty

The introduction of Consumer Duty in July 2023 marked a significant regulatory milestone, setting a new and higher standard of care for firms operating in the UK retail financial markets. Grounded in three core principles—acting in good faith, avoiding foreseeable harm, and enabling customers to pursue and achieve their financial objectives—Consumer Duty is reshaping the way financial services are delivered and evaluated.

At the Bank, these principles are closely aligned with our core values of Trust, Integrity, Respect, Responsibility, Commitment, and Teamwork. We remain firmly committed to placing the best interests of our customers at the heart of our operations, with a focus on delivering consistently positive outcomes.

Our approach emphasises clear, transparent communication and a deep understanding of our products and services. Guided by our enduring principle of "Service with Security," we strive to build long-term, trust-based relationships that empower customers to make informed decisions confidently.

We continue to strengthen our customer support capabilities, ensuring that all interactions are prompt, respectful, and empathetic. Our Branch Banking Business and Sirat team play a vital role in upholding these standards, ensuring consistency in customer experience across all branches and offices. Through the lens of Consumer Duty, we are not only deepening existing client relationships but also identifying new opportunities to provide meaningful support. This proactive, customer-centric approach is integral to our mission of building trust and continuously enhancing the quality of our service.

In alignment with the FCA's Consumer Duty, the Bank has established robust controls, training and awareness and defined decision-making frameworks to ensure it consistently understands and responds to customer needs, treats customers fairly, and proactively prevents poor outcomes. These arrangements are regularly reviewed to support the delivery of good outcomes across the customer lifecycle.

3.4.7. 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.

PRA Policy Statement PS25/25 and Supervisory Statement SS5/25 – Enhancing banks' and insurers' approaches to managing climate related risks apply to all UK banks, building societies, PRA designated investment firms, insurance and reinsurance firms and groups. These documents replace the PRA's earlier Supervisory Statement SS3/19 and reflect updated supervisory expectations aligned with evolving international standards and industry practice. Supervisory Statement SS5/25 requires all the banks to complete the Climate Risk Gap analysis and to have an implementation plan in place within six months from the date of implementation of SS5/25 i.e. June 2026. HBZ is on track to comply with the requirement.

The Bank has considered the effects of climate change on its business model and profile 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 Credit 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 portfolio is conservatively managed, with a maximum permitted tenure of five to ten years and an average maturity of approximately 2.5 years. Exposure to industry segments assessed as having elevated climate risk sensitivity is limited to less than 10% of the portfolio. While this profile is not currently driven explicitly by climate risk constraints, the structure inherently limits exposure to long dated transition risks and allows the Bank to adapt its investment parameters as regulatory expectations and market practices evolve. Based on the current portfolio composition, the materiality of climate related financial risk within the investment book is assessed as low.

The Bank's lending exposures are primarily focused on real estate backed financing, representing over 90% of the lending portfolio. Consequently, the assessment of climate risk is centred on property collateral rather than long dated unsecured exposures.

Key characteristics of the lending portfolio include:
- Focus on residential, mixed use and commercial real estate
- Maximum contractual loan tenor of five years
- No exposure to property development or industrial asset classes with higher climate risk characteristics

This relatively short dated, collateralised portfolio structure supports frequent reassessment of risk and limits long term exposure to climate related uncertainty.

In assessing climate related financial risks within its collateralised real estate lending, the Bank takes into account:
- The short contractual tenor of loan products (maximum five years)
- Collateral location, with assets concentrated within the UK and primarily within a defined radius of the Bank's branch footprint (London, Manchester, Leicester and Birmingham)
- Energy Performance Certificate (EPC) ratings, as evidenced within independent valuation reports
- Flood and subsidence risk, assessed through valuations and property level searches

• Collateral type, restricted to residential, mixed use and commercial properties in line with defined risk acceptance criteria.

As explained above, based on the Bank's current business model, portfolio composition and geographic footprint, climate related financial risk is currently assessed as low. However, this assessment is not static and remains subject to periodic review, consistent with PRA expectations for forward looking, evidence based risk management.

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.

3.4.8. Loan management system – nCino

During the year, the Bank successfully implemented the loan management system nCino, which has become operational in 2026, providing a centralised view of borrowers, facilities and collateral. The platform strengthens monitoring of covenants and early warning indicators, improves underwriting consistency through automated approval workflows, and enhances oversight through real time portfolio reporting. These capabilities, including stronger management information and scalability, are integral to our growth agenda and broker connectivity.

3.4.9. Disclosures and Policy

The capital and liquidity disclosures contained in this document cover both the qualitative (e.g. processes and procedures) and quantitative (e.g. actual numbers) requirements. In addition, the disclosures should be read in conjunction with the Bank's most recent Annual Report.

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 2025 and such disclosures are made as soon as practicable after publication of the Annual Report and Accounts.

3.4.10. 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.

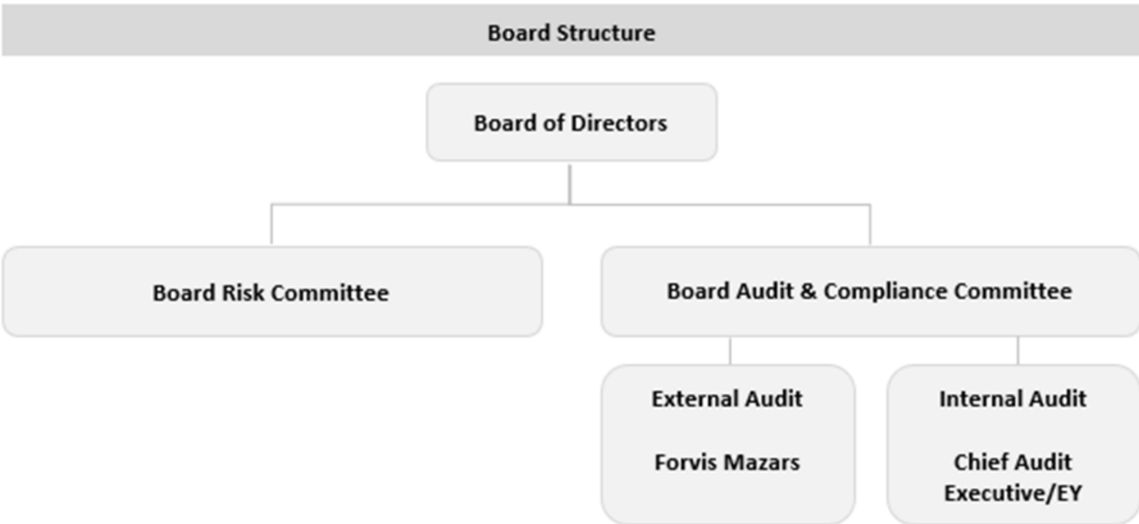
4. Governance Framework

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 Board 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 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 processes and internal control systems and satisfies 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. It also ensures adequate succession planning for the senior management so as to maintain an appropriate balance of skills and experience within 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 Plan, Liquidity Contingency Plan, Resolution Plan, Solvent Exit Plan
- Overseeing the Bank's remuneration framework, and approving HR and remuneration policies, the annual staff remuneration plan, and compensation arrangements for senior executives and Material Risk Takers (MRTs), ensuring that remuneration outcomes are fair, well-governed, and aligned with the Bank's business strategy, risk appetite, regulatory requirements, and long-term sustainability.

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 for its oversight. The BRC ensures wider management involvement in the capital and liquidity management process. This includes oversight 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 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 is actively engaged in providing oversight over financial risk assessment and financial reporting process. The Committee also 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. BACC has oversight of adequacy of processes put in place by the management to manage Conduct Risk including Culture and Ethics and effective implementation of Consumer Duty Rules.

4.1.4. Management 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 (EXCO) Members		
CEO	Chair	SMF 1 & 3
CFO	Alternate Chair	SMF 2 & 3
Head of Credit	Member	Certified
Head of Operation	Member	SMF 24
Head of IT	Member	SMF 24
Head of Compliance & MLRO	Member	SMF 16 & 17
Head of Commercial Banking	Member	SMF 18
Head of Sirat and Intermediary	Member	Certified
Head of HR	Member	Certified
Head of Products and Analytics	Member	Certified
CRO	Member/ Secretary	SMF 4

Executive Committee

Asset & Liability Committee	Audit, Risk & Compliance Committee	Country Credit Committee	Operations & Technology Committee	HR Committee
CFO CEO Head of Credit Head of Treasury Head of Comm. Banking CRO Head of Sirat & Intermediary Head of Finance Head of Trade & FI	**Head of Comp. & CRO** Head of Credit CEO CFO Head of Operations Head of IT CAE	**Head of Credit** CEO Dy. Head of Credit Head of CAU Head of Comm. Banking Head of Sirat and Intermediary CRO (non-voting)	**Head of Ops & Head of IT** Head of Compliance CRO CFO Risk Control Manager Head of Credit Head of Products Head of Sirat & Intermediaries	**Head of HR** CEO CFO Head of Comp. Head of Comm. Banking Head of Operations Head of Credit

The aforesaid executive committee style of management enables the firm to benefit from an enterprise-wide integrated approach to managing risk by involving experts in the risk assessment process. 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 presides over the committees and is responsible for implementing the Bank's strategic objectives and managing the business with adequate controls within the risk appetite of the Bank. At an operational level the Risk Management Framework is managed through a management committee structure with delegated authorities from the Board.

The management of the Bank through committee structure allows for Enterprise-Wide Risk Management through the consideration of different aspects and challenge at decision-making levels. Significant and relevant decisions and issues at other committees are escalated to EXCO for information and consideration as appropriate. This structure ensures that management of the Bank's operations, strategic decision-making and risk management are undertaken on a consultative basis at committee level by experienced functional and business personnel.

Capital is fundamental to the effective management of a bank and requires the full engagement of the Executive Management and the support functions. The Executive Committee assess the availability of adequate capital 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 risks. It also supports the Board in determining the appropriateness of capital 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 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 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 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 risk and report to the EXCO on capital 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.

Members of ALCO monthly review the capital position of the Bank. In addition, changes in the assets book are monitored by the EXCO on a daily basis. As part of Enterprise Risk Monitoring, the Audit Risk & Compliance Committee monitors capital related compliance and thresholds/breaches.

4.1.7. 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.

CCC review Credit Line Proposals (CLP) along with the Risk report, position summary and any other relevant documents for credit decision-making purposes. Other sub committees such as Credit Policy Committee, Provisioning Committee and Active Credit Portfolio Monitoring also support CCC in performing its responsibilities.

4.1.8. 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.

4.1.9. 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.

4.1.10.Human Resource Committee

Human Resource Committee (HRC) plays a critical advisory role in supporting the Executive Committee on all matters related to employee development and organisational people strategies. HRC responsibilities are covered in Section 12.1.

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 a 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 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 offers:

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

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 this 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.

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.

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).

The Overall Risk Appetite of the Bank, in respect of Capital and Liquidity is set out below:

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 should always be defined at a level that minimizes 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 (**Guided by following key factors)
  - 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

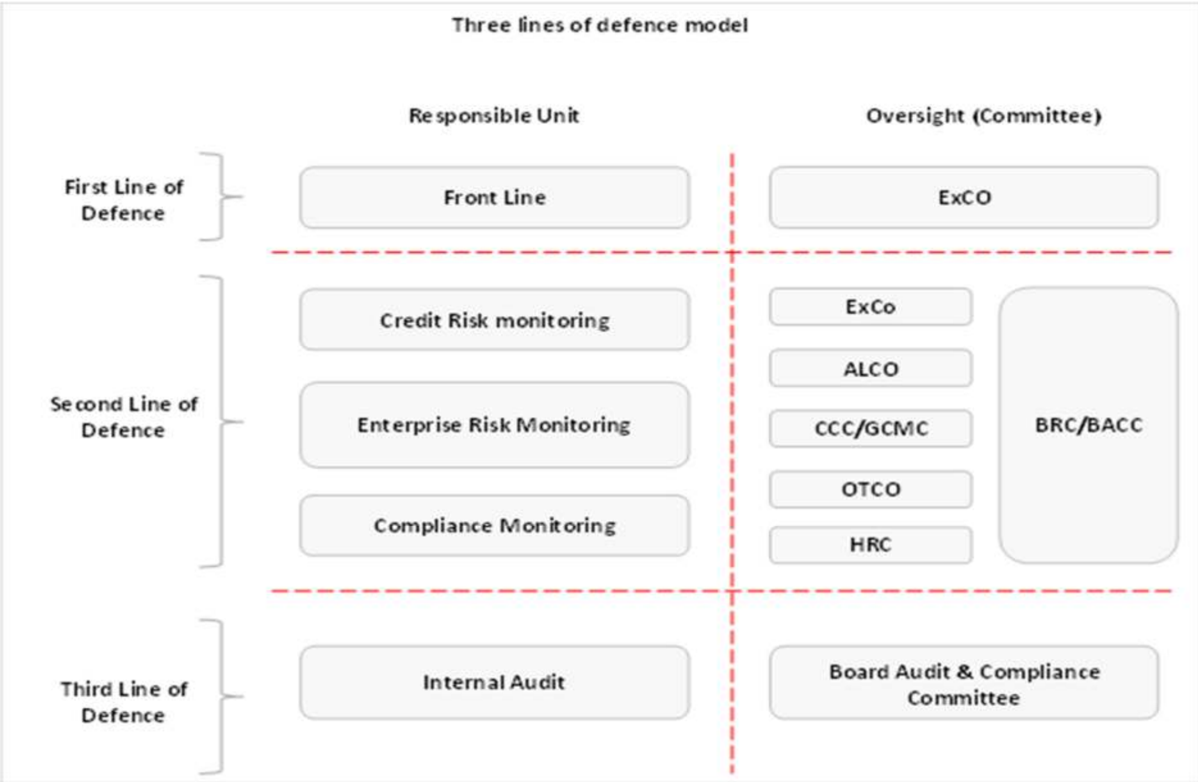
- **Operational**
  - Minimal operational errors and inefficiencies which impact customers
  - Compliance with regulatory rules and expectations
  - Information and cyber security impact for the Bank and its customers

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 provides 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.



Three Levels of Risk Management		
First Line of Defence	**Second Line of Defence**	**Third Line of Defence**
Business Operations	**Compliance & Risk Control**	**Internal Audit**
Risk Ownership by Business Operations	**Independent Compliance / Risk Control Monitoring**	**Independent Audit Reviews**
• Primary responsibility to follow risk based policies & procedures • Accountable and responsible for day to day activities • Every employee is responsible • Ensure all ley risks within their activities are mitigated by effective implementation of controls	• Establish frameworks to identify and measure risks • Ongoing Monitoring • Oversight and assurance of effectiveness of controls • Monitoring performance against Risk Appetite	• Provide independent & objective assurance on overall effectiveness of risk governance framework • Internal Audit function is independent from the Bank's management • Provide assurance that risk identification and mitigation is appropriate and effective

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

5.5.1. Risk Governance - roles and responsibilities

First Line of Defence
As the first line of defence, the business functions, as the owners of the risk, manage exposures arising in the Bank on a day-to-day basis. These business functions may be the front office, the back office or support functions.

The business functions identify, assess, control, and mitigate risks. As the first line of defence, they are also responsible for implementing corrective actions to address any process and control deficiencies. They also develop and implement internal policies and procedures ensuring that activities are consistent with goals and objectives of the Bank.

Second Line of Defence
The Bank has established a second line of defence to help build and/or monitor the first line of defence controls and to challenge the assumptions and assertions made by the business. Usually Risk, Compliance and Finance functions act as the second line of defence, however, if subject functions set to be the first line of defence in their capacity as the owner of a business process, other departments act as the second line of defence.

These functions facilitate and oversee the implementation of effective risk management and assist risk owners in defining the target risk exposure and generating adequate risk-related information for the Bank, the Parent Bank and the Regulators.

The senior management and committees such as ALCO, EXCO, OTCO and ARCC are also part of overall second line of defence providing an oversight, challenge and monitoring of the adequacy and implementation of effective internal control and risk management practices.

Third Line of Defence
Internal Audit Function, assisted by EY under a co-sourced internal audit model, act as the third line of defence. It provides independent assurance on the operations and the performance of the first two lines of defence. The Board Audit and Compliance Committee (BACC) has the remit to define the Internal Audit charter along with an annual internal audit plan to provide assurance on the efficiency and effectiveness of operations, safeguarding of assets, reliability and integrity of reporting processes and compliance with laws, regulations, policies, procedures, and contracts.

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 diligently 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.

5.6. Risk Appetite for different Risk Types

Capital

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

Liquidity

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

** Combined buffers include countercyclical buffer (CCyB) and capital conservation buffer (CCoB) which also covers the impact of most severe ICAAP stress scenario on the projected minimum CET1 capital.*

The implementation of Risk Management Framework and Risk Appetite is driven by policies and procedures, controls and ongoing monitoring. These different components enable effective implementation of risk management objectives of the Bank through creating an effective linkage between risk appetite and stress testing outcomes for capital and liquidity.

The implementation of Risk Management Framework is based on three lines of defence model for governance and control and independent assurance of mitigation of key risks.

5.7. Key Risk Policies

The Key Risk policies are used to implement and operationalise the Risk appetite and are a key component of the Risk management strategy. This helps in effective risk management of the identified key risks for the Bank.

- Credit Risk Management Framework
- Liquidity Risk Policy
- Investment Policy
- Operational Risk Policy
- Financial Crime
- AML/CTF Handbook
- Fraud Prevention Policy
- Conduct Risk Framework
- Market Risk Policy
- Data Protection Policy

The above list is not exhaustive. Various policies are in place for management and mitigation of other risks.

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 governance 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.

Governance Structure outlined below are the three lines of defence for the four key IFRS 9 processes, classification and measurement, staging, impairment and disclosures,

- The process owners i.e. Credit, Financial Control and Treasury form the first line of defence
- The reviewing/approving functions i.e. Chief Executive Officer, Country Credit Committee and Asset and Liability Committee form the second line of defence
- The independent review functions i.e. Internal Audit and the Audit and Compliance Committee of the BOD form the third line of defence

The Bank has also put in place appropriate controls 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

5.9. 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 ICAAP 2025 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-day and 90-day horizons, conducted monthly to detect emerging risks and implement corrective actions. The liquidity stress test results 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 Board has ultimate responsibility for the overall stress-testing programme, whereas senior management is accountable for the programme's implementation, management and oversight.

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.

5.10. Significant Risks

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

5.10.1 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.

5.10.2 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.

5.10.3 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, particularly in respect of non-centrally cleared derivative transactions.

5.10.4 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 represent the gross carrying amount.

Amount in £000

	2025				2024
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Cash in hand and with central bank	291,217	-	-	291,217	232,380
Due from banks	153,861	-	-	153,861	122,212
Loans and advances to customers	763,217	33,227	6,076	802,520	685,362
Financial investments - amortised cost	163,356	-	-	163,356	191,989
Financial investments - FVOCI debt instruments	55,222	-	-	55,222	35,895
	218,578	-	-	218,578	227,884
Total	1,426,873	33,227	6,076	1,466,176	**1,267,838**
Loss allowance	-594	-226	-1,278	-2,098	-3,035
	1,426,279	**33,001**	**4,798**	**1,464,079**	**1,264,803**

Contingent liabilities excluding undrawn commitments pertains to loans and advances to customers as at reporting date is £4.4m (2024: £5.9m) and the total ECL amounted to £14k (2024: £101k).

The following table 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

2025	**Cash and cash equivalent**	**Due from banks**	**Loans and advances to customers**	**Financial investments**	**Derivatives**	**Total**
Current and past due up to 1 month	291,217	153,861	797,909	218,578	742	1,462,307
Past due 1 to 3 months	-	-	683	-	-	683
Past due over 3 months	-	-	3,927	-	-	3,927
Gross exposure	291,217	153,861	802,520	218,578	742	1,466,918
Less: impairment	-	-101	-1,922	-75	-	-2,098
Net exposure	**291,217**	**153,760**	**800,598**	**218,503**	**742**	**1,464,820**

5.10.5 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

2025	Cash and cash equivalent	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
AAA to AA-	237,530	8,169	-	150,821	-	-	396,520
A+ to A-	37,567	25,653	-	59,518	681	-	123,419
BBB+ to B-	3,782	79,714	-	8,145	-	-	91,641
Unrated	12,338	40,224	800,598	19	61	28,400	881,640
Total	**291,217**	**153,760**	**800,598**	**218,503**	**742**	**28,400**	**1,493,220**

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. For loans and advances to customers, the Bank uses a rating model developed with the help of Moody's.

5.10.6 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

2025	Cash and cash equivalent	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
Supernational	236,146	-	-	77,460	-	-	313,606
Financial Institutions	54,456	153,760	-	91,986	738		300,940
Industrial & commercial	-	-	729,770	49,057	4	28,400	807,231
Individual	-	-	62,415	-	-		62,415
Other	615	-	8,413	-	-	-	9,028
Total	**291,217**	**153,760**	**800,598**	**218,503**	**742**	**28,400**	**1,493,220**

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

2025	Cash and cash equivalent	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
United Kingdom	262,512	30,300	643,466	53,964	412	23,715	1,014,369
Europe excluding UK	8,051	53,934	88,802	47,629	330	-	198,746
Asia	11,221	65,057	4,569	83,339	-	3,131	167,317
North America	2,247	0	49,812	4,169	-	-	56,228
Africa	4,897	4,469	13,949	-	-	1,554	24,869

United States of America	2,289	-	-	27,906	-	-	30,195
Australia	-	-	-	1,496	-	-	1,496
	291,217	**153,760**	**800,598**	**218,503**	**742**	**28,400**	**1,493,220**

5.10.7 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 to five 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	2025		2024	
	Collateral Value	Advances	Collateral Value	Advances
Commercial real estate	1,078,572	501,460	1,042,059	483,842
Residential real estate	469,825	239,793	301,544	142,326
Cash collateral	70,038	49,964	66,995	47,800
Unsecured	-	11,303	-	11,394
Total	**1,618,435**	**802,520**	**1,410,596**	**685,362**

5.10.8 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 May 2020.

Following table provides the breakdown of credit risk weighted exposures post credit risk mitigation (CRM) and credit conversion factors (CCF) as at December 2025 segregated as per the sectors:

Amount in £000

Exposures as per Sectors	On Balance Sheet	Off Balance Sheet	TOTAL	Total
	2025	2025	2025	2024
Retail	42	-	42	43
Secured by mortgages on immovable properties	465,714	1,690	467,404	425,785
Exposures in default	4,669	134	4,803	3,016
Institutions	111,218	3,369	114,587	93,471
Central governments or central banks / Regional govts	3,871	-	3,871	3,459
Corporates	91,633	9,905	101,538	71,804
Other	16,846	-	16,846	15,736
	693,993	**15,098**	**709,091**	**613,314**

Following table provides the breakdown of credit risk exposures post credit risk mitigation (CRM) and credit conversion factors (CCF) as at December 2025 as per geographical breakdown:

Amount in £000

Country wise Exposures	2025	2024
United Kingdom	450,174	429,606
Europe excluding UK	121,183	59,306
Asia	67,969	53,226
North America	35,893	16,934
Africa	17,261	31,992
United States of America	13,588	18,026
Australia	3,022	4,224
	709,091	**613,314**

5.10.9 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.

5.11 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.

The Bank's performs IRRBB assessment on a quarterly basis. Assessments are made in terms of 'Value Perspective' and 'Earning Perspective'. The Bank maintains a low appetite for IRRBB and manages exposures through established risk management and governance processes. Given the nature of its business model, the Bank does not maintain material long-term or complex interest rate positions. The Bank seeks to minimise the adverse impact of interest rate movements on earnings and economic value while operating within approved risk limits.

The Bank has initiated hedging strategies to mitigate IRRBB impact through entering into Interest Rate Swaps (IRS). The IRS, being a primary structural hedge for IRRBB, will allow the bank to convert fixed-rate exposures into floating, and adjust repricing profiles without changing customer products to target specific risk metrics such as EVE and NII.

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 stress testing assessments, monitoring and mitigation. The analysis incorporates the impact of currency fluctuations, the duration, repricing dates, repricing gaps and other necessary assumptions.

5.12 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'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 will ensure that it remains compliant with the latter but its approaches to the former will vary according to priority and need. In terms of customer service, the Bank will actively employ flexible approaches to maintaining and protecting delivery and to this end will incur reasonable costs as required. 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 risk identification exercises to establish any Pillar 2 requirements for Operational Risk.

5.13 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. The Bank recognises the increasing risks associated with cyber threats and continues to strengthen its cyber security framework to protect its systems, data and banking services. Cyber security remains a key focus area for the Bank given the evolving nature of digital threats across the financial sector. Regular real-time monitoring of all cyber alerts is performed and analysed by the Information Security function for corrective action and system updates.

The Bank maintains a range of preventative and detective controls designed to safeguard its technology infrastructure and transactional systems. These controls include continuous monitoring of cyber alerts, vulnerability management, system updates and regular security assessments performed by the Information Security function. The Bank has successfully completed/ in process of completing various projects as listed below:

- Enabled Network Access Control (NAC) which manages access through policy enforcement on devices and users of corporate networks. NAC can deny network access to noncompliant devices, place them in a quarantined area, or give them only restricted access to computing resources, thus keeping insecure nodes from infecting the network.
- Enabled fully working Data Loss Prevention (DLP) for endpoints, which prevents unauthorized uploads to non-whitelisted sites.
- Rolling out a Data Classification tool through which staff can make informed decisions about data access, sharing, and protection based on data classification guidelines and policies.
- Enabled Mobile Device Management (MDM) solutions to allow security teams to monitor, manage, and configure policies for all the mobile devices connected to their network, such as smartphones and tablets.
- Deployed new Antivirus Sentinel One to all endpoints.
- Conducted penetration testing of the UK subnet.
- Regular vulnerability and Penetration testing of servers hosting important business services.
- Rolled out software-based proxy, i.e., Zscaler
- Conducted an annual review of transaction process system’s access controls.

In addition to the above measures & initiatives, 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.

As a response to cyber incident as explained in Section 3.3.4, the Bank continues to enhance its cyber resilience capabilities, including incident detection, response and recovery processes, to ensure that potential cyber events can be identified and managed in a timely and effective manner. Cyber risk oversight forms part of the Bank’s broader operational risk framework and is subject to regular reporting and review through the established committees.

5.14 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.

With respect to the compliance risks associated with outsourcing and third-party vendors, the Bank has established a structured framework for the identification, assessment, and ongoing monitoring of third-party arrangements.

Prior to entering into outsourcing arrangements, the Bank performs risk assessments and due diligence to evaluate the operational, financial, legal and regulatory risks associated with the service provider. Material outsourcing arrangements are subject to enhanced oversight, including assessment of operational resilience considerations, data security requirements and business continuity capabilities.

5.15 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 composed of individuals from 28 different countries, reflecting the Bank's commitment to diversity and inclusion. We take pride in fostering an inclusive environment that promotes a culture of collaboration and respect. The Bank is committed to promoting equality and ensuring fair treatment for all employees, underpinned by comprehensive policies that support equal opportunities across the organisation.

We offer family-friendly policies to help employees balance their personal and professional lives. In addition, the Bank provides a range of benefits to all staff, including pension contributions, private medical insurance, life insurance, and Employee Assistance Programme (EAP) services, reinforcing our commitment to employee wellbeing and financial security. Our Bank offers a flexible Hybrid Working Policy, designed to support employees in achieving a healthy work-life balance. In addition, we have implemented a comprehensive Wellbeing Policy, which provides a range of benefits to enhance the physical and mental wellbeing of our staff. As part of our commitment to employee health, private medical insurance members and non-members receive a discount on gym membership. These initiatives reflect our ongoing commitment to the wellbeing and work-life balance of our workforce.

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.

With a team representing a multitude of cultural and national identities, we understand the importance of embracing diversity. Our goal is to ensure that every member feels valued, included, and empowered to contribute their unique perspectives to our shared success. This commitment underscores our belief in the strength that diversity brings to our workplace and the positive impact it has on our collective achievements.

6 Liquidity 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 Capital Requirements Regulation (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

Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due and in the currency in which they are due. Typically, this arises from a mismatch in the cash flows arising from assets, liabilities and contingencies. To limit this risk, the Bank manages the maturities of its assets and liabilities and its cash flows on a daily basis.

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. A table showing breakdown of financial assets and liabilities in their respective maturity buckets is set out below.

Amount in £000

2025	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	291,217	291,023	279,777	11,246	-	-	-
Due from banks	153,760	158,555	37,615	19,311	101,629	-	-
Loans & advances to customers	800,598	946,042	26,436	82,543	124,459	711,133	1,471
Financial investments							
- Fair value through other comprehensive income	55,222	59,452	-	3,537	11,589	44,326	-
- Amortised cost	163,281	178,791	5,559	14,534	28,818	129,861	19
	1,464,078	**1,633,863**	**349,387**	**131,171**	**266,495**	**885,320**	**1,490**
Derivative assets							
Risk management	742	742	17	3	722	-	-
Outflow							
Inflow	742	742	17	3	722	-	-
	742	**742**	**17**	**3**	**722**	**-**	**-**
Financial liability by type							
Non-derivative liabilities							
Due to banks	186,139	-186,198	-99,410	-62,432	-24,356	-	-
Due to customers	1,142,802	-1,155,468	-488,821	-192,950	-471,843	-1,854	-
Subordinated liabilities	20,265	-20,305	-	-	-20,305	-	-
Lease liability	2,562	-3,015	-127	-	-382	-1,272	-1,234
	1,351,768	**-1,364,986**	**-588,358**	**-255,382**	**-516,886**	**-3,126**	**-1,234**
Derivative liabilities							

Amount in £000

2025	Carrying amount	Gross nominal inflow/(outflow)	Within 1 month	1-3 months	3 months-1 year	1-5years	> 5 years
Risk management	164						
Outflow	164	-164	-47	-61	-56	-	-
Inflow							
	164	**-164**	**-47**	**-61**	**-56**	**-**	**-**

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 Bank's liquidity risk is clearly articulated in its "Liquidity Risk Management Policy" (LRMP) approved by the Board of Directors. The Bank holds liquidity reserves to mitigate short- and medium-term liquidity risks across various timeframes, encompassing both standard business operations (BAU) and scenarios of heightened stress. The Bank keeps a liquid asset buffer of High-Quality Liquid Assets as required by UK CRR. The Bank also maintains liquidity in the Bank of England Reserve account and in short term money market placements to meets its liquidity requirements.

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.

The Bank has put in place strategies, policies, processes and systems that enable it to identify measure, manage and monitor liquidity risk over an appropriate set of time horizons, including intraday, so as to ensure that it maintains adequate levels of liquidity buffers. The Bank's liquidity policy is based on maintaining sufficient liquid resources to ensure there is no significant risk that its liabilities cannot be met as they fall due.

The Board oversees liquidity risks. The risks identified in the Bank's risk profiles are all at a level, which are in line with the current business operations and the Business Plan. The Bank has a clearly defined liquidity risk appetite approved by the Board. This forms the basis of its liquidity risk policy as well as systems and controls around the management of liquidity adequacy. The Bank will continue to review and update its liquidity risk management framework based on feedback from PRA experience and from developments in market and industry best practices.

The Treasury Department is responsible for the day-to-day management of funding and liquidity with particular attention to the level of mismatch between assets and liabilities as well as currency exposure. The Finance Department provides daily monitoring reports against the regulatory and MI requirements, with a clear escalation process for reporting adverse outcomes. The ALCO coordinates and provides direct oversight on the whole process of liquidity risk management in accordance with their terms of reference approved by the Board.

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.

The model helps the Bank's stakeholders in conducting effective and efficient risk management as it provides a simple and effective way to enhance communications on risk management and control by clarifying essential roles and duties under the departmental level Functional Charters.

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 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.

6.3.4 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)	**2025**	**2024**
Total high-quality liquid assets (HQLA)	306,567	224,688
Total net cash outflow	170,300	92,341
LCR ratio (%)	180%	243%
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. Most of the Bank's lending book (approximately over 90% as at 31 December 2025) is based on variable interest rate, which allows re-pricing of all lending products within 60 to 90 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 2025, 96% 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 Credit Default Swap, 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. However, the Bank is considering switching to BoE base rate in the near future. 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 foreign exchange risk as the principal component of market risk relevant to its business model. FX risk arises from adverse movements in exchange rates that may impact the value of assets, liabilities, income or capital denominated in foreign currencies. The Bank has established policies, limits and monitoring procedures to identify, measure, manage and control FX risk, ensuring that exposures remain within the Board-approved risk appetite.

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 £1.5m with a maximum amount of £1m for USD and £0.5m in other 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 2025 was £0.089m (2024: £0.038m)

Currency	2025 (£000)	2024 (£000)
USD	30	49
EUR	-12	-35
ZAR	8	-1
CAD	-3	-
INR	12	18
AUD	10	-1
AED	39	-
Others	5	7

7 The Internal Capital Adequacy Assessment Process (ICAAP)

The Bank's capital adequacy assessment process demonstrates its sound and effective Risk Management Framework. The ICAAP has been structured to evidence the on-going processes established to ensure existing and new risks to the Bank's corporate objectives and operations are promptly identified and the impact assessed to ensure the Bank has sufficient capital to meet these risks.

The document quantifies the risks in the Business Plan and summarises the impact of those risks on capital. Having assessed the risks, the document sets out the management and mitigation of these risks.

The ICAAP is undertaken annually, entailing the Board's review and endorsement of underlying assumptions and anticipated scenarios. ICAAP process includes the analysis of the Pillar 2 capital required in addition to the risks not covered under Pillar 1 requirements. Additionally, this process also accounts for various stress testing exercises and their potential impacts on Bank's capital and profitability.

The available capital demonstrates the commitment of the Group to operate a sustainable and viable franchise in the UK. The ICAAP also demonstrates the adequacy of non-financial resources (in the form of people, systems, policies and procedures) to manage the adequacy of these financial resources on an on-going basis.

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.

	2025 £000	2024 £000
Share capital	80,000	80,000
Retained earnings	44,501	40,022
Fair value through other comprehensive income reserve	86	-126
Total Equity	**124,587**	**119,896**
Deferred tax assets on carried forward losses	-3,426	-4,307
Dividend announced	-3,341	-5,544
Other deductions	-56	-162
Total Tier 1 Capital after regulatory deductions	117,764	109,883
Subordinated liability	20,000	20,000
Total Regulatory Own funds	**137,764**	**129,883**

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 2025 and actively managed capital base to cover the risks exposed to the Bank.

The table below summarizes the composition of regulatory capital for the Bank on a solo basis as at 31 December 2025:

Tier 1 Capital – Called up share capital includes 80 million of ordinary shares fully paid up.

Tier 2 Capital – Subordinated liabilities include the loan of £20 million issued by Habib Bank AG Zurich, the parent Bank. The loan carries interest at a rate of 6-month SONIA plus 150 bps per annum to be paid semi-annually. The term of the loan has been renewed for a further 5-year period from 1 April 2026.

8.2 Own Funds Requirements

During the year 2025, the Bank successfully maintained its regulatory capital substantially above the capital requirement including the combined buffers.

The table below provides the detail of own funds or capital requirement for the bank:

Capital Adequacy Ratio of the Bank as at 31 December 2025 was as under:

Amount in £	Risk Weighted Assets	Capital Requirement
Credit Risk	709,091	56,727
Operational Risk	63,924	5,114
Market Risk including CVA	478	38
Pillar 1 Total (8% of RWAs)	773,493	**61,879**
Total Capital Requirement - £ 000'	773,493	**125,234**
Total Capital Requirement - %		15.20%

Risk Weighted Assets – Amount in £	773,493
Regulatory Capital – Amount in £	137,764
Capital Adequacy Ratio - %	17.81%

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

Amount in £	Risk Weighted Assets	Capital Requirement
Credit Risk	613,313	49,065
Operational Risk	51,268	4,101
Market Risk including CVA	308	25
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 £	129,883
Capital Adequacy Ratio - %	19.53%

8.3 Capital Adequacy Ratio reconciliation with published financial statements

Capital Adequacy Ratio as at December 2025	Own Funds	RWAs	CAR
		£000	
Reported in published financial statements based on COREP submission	130,865	773,493	16.92%
Reported in Pillar-3 including audited profit of £10m and adjusted for proposed dividend of 33%	137,764	773,493	17.81%

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%. The tables below summarised the information as per the formats prescribed by the PRA:

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

£ 000	**2025**	**2024**
Total assets as per published financial statements	**1,483,269**	**1,284,398**
Adjustment for off-balance sheet items / derivatives (i.e. conversion to credit equivalent amounts of off-balance sheet exposures / derivatives)	**25,594**	**24,636**
Other adjustments- Including Central Bank Claims	(236,436)	(175,471)
Leverage ratio exposure measure	**1,272,427**	**1,133,563**

Leverage ratio common disclosure (LR2)

£ 000	**2025**	**2024**
Capital and total exposure		
Tier 1 capital	117,764	109,883
Total exposure	1,509,189	1,307,352
Total exposure measure excluding claims on central banks	1,272,426	1,133,563
Leverage ratio (%)	7.80%	8.41%
Leverage ratio excluding claims on central banks (%)	**9.26%**	**9.69%**

10 Impairment Provisions

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.

10.1 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.

10.2 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:

10.3 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	2025				2024
	Stage 1	Stage 2	Stage 3	TOTAL	TOTAL
Balances at the beginning of the year	60	-	-	60	26
New provisions	60	-	-	60	6
Increased provisions	-	-	-	0	31
Recovered / settled / reduced	-19	-	-	-19	-3
Net measurement of loss allowance	**41**	-	-	**41**	**34**
Balances at the closing of the year	**101**	**-**	-	**101**	**60**

Amount in £ 000

Loans and advances to customers at amortised cost	2025				2024
	Stage 1	Stage 2	Stage 3	TOTAL	TOTAL
Balances at the beginning of the year	254	231	2,407	2,892	**4,165**
New provisions	76	-	-	76	40
Increased provisions	106	44	179	329	189
Recovered / settled / reduced	-22	-45	-1,308	-1,375	(1,491)
Net measurement of loss allowance	**160**	**-1**	**-1,129**	**-970**	(1,262)
Transferred to 12 month's ECL Stage 1	6	-6	-	-	-
Transferred to lifetime ECL stage 2 Credit not impaired	-2	24	-22	-	-
Transferred to lifetime ECL stage 3 Credit impaired	0	-22	22	-	-
Uncollectable written off / other	-	-	-	0	(11)
Balances at the closing of the year	**418**	**226**	**1,278**	**1,922**	**2,892**

The contractual amounts outstanding on financial assets that were written off during the year ended 31 December 2025 is subject to enforcement activity.

Amount in £ 000

Financial investments	2025				2024
	Stage 1	Stage 2	Stage 3	TOTAL	TOTAL
Balances at the beginning of the year	83	-	-	83	38
New provisions	40	-	-	40	65
Increased provisions	-	-	-	-	3
Recovered / settled / reduced	-48	-	-	-48	(23)
Net measurement of loss allowance	**-8**	**-**	**-**	**-8**	**45**
Other movement	-	-	-	-	-
Impairment of FVOCI investment shown under OCI	-	-	-	-	-
Balances at the closing of the year	**75**	**-**	**-**	**75**	**83**

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	60	76	40	176
Increased provisions	-	329	-	329
Recovered / settled / reduced	(19)	(1,375)	(48)	(1,442)
Total – 2025	**41**	**(970)**	**(8)**	**(937)**
Total – 2024	**34**	**(1,262)**	**45**	**(1,183)**

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

11 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	2025		2024	
	Collateral Value	**Advances**	**Collateral Value**	**Advances**
Commercial real estate	1,078,572	501,460	1,042,059	483,842
Residential real estate	469,825	239,793	301,544	142,326
Cash collateral	70,038	49,964	66,995	47,800
Unsecured	-	11,303	-	11,394
Total	**1,618,435**	**802,520**	**1,410,596**	**685,362**

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**

	2025				2024			
LTV Bracket	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Less than 50%	210,836	9,921	962	221,719	226,486	4,890	1,044	232,420
51-70%	491,496	21,609	1,707	514,812	356,361	24,854	1,340	382,555
71-90%	8,815	1,227	938	10,980	7,545	6,796	1,408	15,749
91-100%	41,130	-	-	41,130	41,385	0	0	41,385
More than 100%	10,940	470	2,469	13,879	10,659	736	1,858	13,253
Grand Total	**763,217**	**33,227**	**6,076**	**802,520**	**642,436**	**37,276**	**5,650**	**685,362**
Collateral	**1,542,022**	**66,838**	**9,575**	**1,618,435**	**1,335,033**	**66,962**	**8,601**	**1,410,596**

12 Employee Remuneration Policy

The Bank's remuneration policy is in line with market practice and is weighted towards performance-based development. The Bank has a remuneration policy which is aligned with its long-term objectives and which can provide support in the successful implementation of its business strategy. The remuneration policy has been developed while keeping in view the core values of the Bank, which has trust as its core supported by integrity, teamwork, respect, responsibility and commitment. Values are upheld continuously and embedded at all levels of the organisation.

The Bank recognises that robust performance assessment is essential for the sustained success and development of the Bank and its employees. Performance is reviewed annually against predefined measures and efforts are recognised through a combination of monetary and non-monetary benefits. The performance management framework is managed through the Bank's senior executive management. While there is no specific incentivized compensation scheme for staff, all employees are eligible for an annual discretionary performance-based bonus.

Performance evaluations occur each year based on predetermined criteria, with recognition given through both monetary and non-monetary rewards. The performance management process is overseen by the Bank's HR and senior leadership teams.

The annual performance review includes a self-assessment component, allowing employees to evaluate their performance against their job responsibilities. This review period is crucial for employees and their managers to exchange feedback, offer guidance, assess contributions and behaviours, and identify opportunities for learning and development. Additionally, it serves as a time to establish future goals and clear expectations. The Compliance function also contributes insights regarding individual performance concerning non-financial metrics.

The Bank's approach to remuneration is grounded in simplicity, fairness, and strategic alignment. We are committed to offering a reward structure that not only supports our long-term business objectives and distinctive organisational culture but also aligns with the expectations and interests of our shareholders and stakeholders.

Our remuneration framework is designed to:
- Attract, retain, and motivate high-calibre talent across the Bank.
- Reinforce our culture and core values through performance-linked recognition.
- Promote sustainable business performance and prudent risk-taking.
- Align individual contributions with the Bank's strategic priorities and long-term value creation.

This approach ensures that high performance is recognised not only for outcomes, but also for ethical conduct, collaboration, and customer-centric behaviours. It reinforces our belief that how we deliver results is just as important as the results themselves.

12.1 Remuneration governance and decision-making

The UK Human Resource Committee (HRC) plays a critical advisory role in supporting the Executive Committee on all matters related to employee development and organisational people strategies. This includes the formulation and oversight of initiatives for Continuous Professional Development (CPD), talent retention, workforce capability, and succession planning.

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.

	2025	2024
UK Human Resource Committee (HRC) meetings held during the year	**4**	**4**

12.2 Board Oversight and HR Policy Approval

Ultimate responsibility for the Bank's HR policies, including remuneration strategy, rests with the Board of Directors. The Board is tasked with the review and approval of the overall HR Policy Framework and ensures that all remuneration practices support the Bank's business strategy, risk appetite, and regulatory obligations.

Based on the recommendation of the Chief Executive Officer, the Board reviews and approves the annual staff remuneration plan, including the total compensation packages for senior executives and Material Risk Takers (MRTs). This governance structure ensures that reward outcomes are fair, well-governed, and aligned with the Bank's long-term sustainability.

12.3 Remuneration Philosophy and Structure

The Bank's remuneration policy is benchmarked against market practice and designed to foster a high-performance culture without encouraging excessive risk-taking. While the Bank does not operate a sales-driven or incentivised pay scheme, all staff are eligible to participate in an annual performance-based bonus programme. This bonus is discretionary and determined through a structured, transparent performance evaluation process.

Performance is assessed annually using a balanced scorecard approach, which includes both quantitative and qualitative measures. Staff performance is evaluated against individual Key Performance Indicators (KPIs), as well as behavioural competencies that reflect the Bank's core values. The performance management framework is overseen by the HR team in close collaboration with the Bank's senior management.

12.4 Performance Review Process

The annual appraisal process is a key component of the Bank's people strategy and is designed to support personal and professional growth. The review process includes a self-assessment phase, during which employees evaluate their own contributions relative to their role descriptions and performance expectations. This is followed by a one-to-one discussion between employees and their line managers to:

- Share constructive feedback and coaching.
- Review performance against objectives.
- Discuss strengths, challenges, and development opportunities.
- Set forward-looking goals and clarify future expectations.

The performance assessment is weighted as follows:

- 70% based on the achievement of individual and departmental KPIs.
- 30% based on demonstration of conduct, values, and behaviours consistent with the Bank's ethical standards and cultural pillars.

The process not only ensures merit-based recognition but also provides a structured opportunity to identify learning needs, career progression pathways, and employee engagement initiatives.

12.5 Performance and reward

The Bank's Remuneration Policy is structured to reflect prevailing market standards, while placing significant emphasis on a performance-based compensation philosophy. It is designed to support the long-term strategic objectives of the Bank, ensuring that reward practices remain fully aligned with sustainable growth, risk management, and regulatory compliance.

The Bank's remuneration structure is not linked to any pre-defined business targets for front-office staff. Annual performance rewards are based on overall performance of the Bank and then of the employee based on overall achievement during the year. A key consideration given in evaluating the performance of employees is their overall conduct and compliance with relevant regulation and competencies demonstrated during the year.

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 - £ 000		**Supervisory Function (Non-Executive Directors)**	**Senior Management Function (SMFs)**	**All other staff**
31 December 2025				
Number of identified staff		5	8	153
Fixed remuneration	Total fixed remuneration	274	2,158	13,154
	Of which: cash-based	274	2,158	13,154
Variable remuneration	Total variable remuneration	-	252	619
	Of which: cash-based	-	252	619
Total remuneration		**274**	**2,410**	**13,772**
31 December 2024				
Number of identified staff		5	8	154
Fixed remuneration	Total fixed remuneration	125	1,944	12,808
	Of which: cash-based	125	1,944	12,808
Variable remuneration	Total variable remuneration	-	224	637
	Of which: cash-based	-	224	637
Total remuneration		**125**	**2,168**	**13,445**

£ 000	**2025**	**2024**
Total Fixed Remuneration	15,586	14,877
Total Variable Remuneration	871	861
Ratios of fixed and variable remuneration	**95:5**	**95:5**

12.6 Strategic and Cultural Alignment

The Bank recognises that a robust and fair performance management system is essential to driving long-term success, both for the organisation and for its employees. Through structured performance evaluations, the Bank fosters a shared vision of purpose and direction, enabling employees to clearly understand how their individual roles contribute to the broader organisational goals.

Performance assessments are conducted annually against pre-defined, measurable objectives, and are designed to support employee development while reinforcing corporate performance. The outcome of the evaluation process is reflected in a combination of monetary and non-monetary recognition, ensuring a holistic and motivating reward structure.

The Bank's HR Committee, in collaboration with senior executive management, oversees the performance management framework and ensures it is applied consistently, transparently, and in line with regulatory expectations and the Bank's business strategy.

Performance Evaluation and Remuneration Structure

The Bank operates a merit-based annual bonus scheme, applicable to all eligible staff. However, the Bank does not link variable remuneration to predefined sales or business volume targets, particularly for front-line staff. Instead, the performance-related reward framework considers the overall performance of the Bank, followed by the individual performance of each employee as assessed over the financial year.

A key component of the evaluation includes assessment of:

- Conduct and behavioural alignment with the Bank's core values.
- Compliance with regulatory and internal rules, especially for employees within the scope of the Senior Managers and Certification Regime (SM&CR).
- Demonstration of relevant technical and professional competencies.

Employees are required to participate in a self-assessment process, comparing their own performance against their job profile, agreed objectives, and expected behaviours. Line managers conduct a comprehensive review, offering feedback and guidance. For individuals subject to the Certification Regime, the Compliance function provides independent input regarding their ongoing fitness, propriety, and competency in accordance with regulatory standards.

12.7 Governance and Regulatory Compliance

The Bank's remuneration governance is 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.

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

2025	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	267,227	-	267,219	-	3,871	1%
Multilateral development banks	46,122	-	46,114	-	-	
Financial institutions	225,146	7,636	225,101	7,635	114,587	51%
Corporates	164,781	58,223	124,187	11,245	101,538	62%
Retail	56	-	56	-	42	75%
Exposures secured against real estate	748,227	6,745	726,166	2,388	467,404	62%
Exposures at default	5,945	281	4,669	96	4,803	81%
Other assets	28,105	-	28,105	-	16,846	60%
	1,485,609	**72,885**	**1,421,617**	**21,364**	**709,091**	48%

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%**

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

December 2025

Asset classes	0%	20%	50%	100%	150%	Other	Total
Sovereigns and their central banks	250,122	15,591	1,506	-	-	-	267,219
Multilateral development banks	46,114	-	-	-	-	-	46,114
Financial institutions	-	90,467	91,552	50,717	-	-	232,736
Corporates	-	7,199	57,218	65,935	5,080	-	135,432
Retail	-	-	-	-	-	56	56
Exposures secured against real estate	-	-	-	441,733	-	286,821	728,554
Exposures at default	-	-	-	4,689	76	-	4,765
Other assets	11,259	-	-	16,846	-	-	28,105
Total	307,495	113,257	150,276	579,920	5,156	286,877	1,442,981

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