Habib Bank Zurich Plc – Pillar 3 Disclosures

31 December 2021

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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 Directive and Regulation (CRD IV). Additional information, consistent with the supervisory expectations regarding future disclosures promulgated by the Basel Committee on Banking Supervision (BCBS), duly provided to help the reader understands the activities of the Bank.

The information in this document is based on data as at 31 December 2021, as appearing in the Audited Financial Statements for the year 31 December 2021.

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

Both CRD IV and the Basel framework set out a framework of regulatory capital requirements. The framework categorises the capital and prudential requirements under three pillars:

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

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

- Pillar 3 – External communication of risk and capital information, which complements the TCR that allows market participants to assess the institution’s capital adequacy.

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

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

1.2.3. PRA also sets a buffer called ‘PRA Buffer’ which is in addition to TCR and CRD buffers.

1.2.4. Leverage ratio disclosure requirements as per BCBS, Basel III leverage ratio framework and disclosure requirements updated in October 2021.

1.3. 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 2021. 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 Financial Statements. The said report, read in conjunction with 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

1.4. 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 target market in the UK is primarily geared towards real estate investments, trading activities, services and small-scale manufacturing. Our customers' banking needs are catered by conventional and Islamic retail and commercial banking products.

The business lines offered by the Bank to its customers include retail banking comprising current and savings accounts and commercial banking which offers real estate finance, trade finance, cash management and treasury services across various currencies. Our latest offerings are a range of Islamic personal and business banking products under the brand name "Sirat".

The Bank offers two main services; real estate finance and commercial banking services. The Bank also offers regular cash management, trade finance and retail banking in line with the customer needs. The Bank's product and service offering is comprised of buy to let finance, commercial loans, working capital finance, trade finance, current accounts, savings accounts, notice accounts, fixed term deposits, Internet deposits, cash management and treasury services. The intermediary channel remains a strong source of lending customer referrals and also provided the much-aspired diversification in our business acquisition channels. We foresee a deeper role of Intermediaries in expansion of lending business base through introduction of new to business customers.

The Bank combines modern and efficient banking services with a personal approach through a network of eight branches across the UK. We offer commercial and retail banking services to Small and Medium Sized (SME) enterprise focusing on their evolving business needs.

Services are mainly delivered through the branch managers, specialist lending relationship managers and personal bankers for deposit mobilisation. The customer takes comfort in continuity with a relationship manager and quick turnaround on their requests as well as continued access to the decision makers at the Bank.

Intermediaries continue to offer their clients our lending products and services, while we maintaining full control of client relationships. This enables showcasing our product line, including commercial lending, residential and commercial buy-to-let and mixed use buy-to-let mortgages, showcased to the customers through intermediaries; while affording an opportunity to infuse flexibility and adaptability to our products so that they could get blended with the exact need and demand of the intermediaries and their clients.

The Bank during the year become member of the Discount Window Facility (DWF) of the Bank of England's which operates under the Sterling Market Framework (SMF). The Bank already has the Reserve Account and Indexed Long Term REPO (ILTR) facilities. This is a significant change which allows bank to borrow from BoE by placing eligible collateral a tool which can be used in the event of any stress on liquidity without having to sell available eligible securities. The Bank become the member of 'Term Funding Scheme with additional incentives for SME (TFSME)' introduced by Bank of England during the year.

We feel proud in creating long-term value for our customers, employees, suppliers, communities we serve and our shareholders.

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

1.5. Key changes since the last disclosure

1.5.1. Covid-19 Impact

Banks remained at the front-line of the economic disruption brought about by the COVID-19 pandemic. Central banks, large universal banks, small to medium-sized regional banks, fintech's and challenger banks, all faced unprecedented challenges and risks. During hard times, they took multiple measures to support their employees and customers and helped bolster the financial system.

The UK economy recovered well from the shocks of the COVID-19 pandemic. After seeing a fall of 9.8% in 2020 the GDP returned to growth in 2021 gaining most of the losses, resulting in annualised growth of 7.5%. Our high touch business model, which allowed us to keep in constant contact with customers during the long pandemic period paid off well. This was evident by strong business pipeline which started to gain momentum in first half of 2021 as investors returned to the property market. We witnessed lending growth across all channels including branch banking, Sirat and deals from Intermediaries.

We succeeded to close the year 2021 with 'Loans and Advances' balance at £514 million, an increase of £58 million (13%) higher than the corresponding figure from the last year. The aforementioned growth in the lending business was on account of growing demand across various channels including branch banking, Islamic Financing, and a surge in Trade Finance business. The Bank continued to remain focused on effective credit risk management process providing particular attention to customers in sectors such as hospitality which were more affected by COVID-19. To this effect the Bank provided moratorium and tailored support to customers where required to help them meet their repayment obligations. The Bank's mitigation of credit risk is based on a combination of focused strategy, defined target market, secured lending and quality of underwriting, 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 our 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 pandemic remained 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. During the COVID-19 period more focus was given to hospitality and travel. Frequency of CCC meetings also increases along with increase in number of BRC meetings where the members meet on monthly basis during the period of uncertainty. Business remains at the forefront of managing customers expectation. This was clearly demonstrated during the Covid 19 period when customers requested for moratorium through the business team. Such requests were evaluated by credit risk function prior to being discussed and approved in the CCC meetings with input from business. The Bank accommodated the forbearance situations by deferring the principal repayments, providing an Interest moratorium, converting the overdraft into an amortising loan, or by using a letter of credit to finance trade finance rather than an Overdraft.

In conformity with our policy last year, we kept evaluating the moratorium and tailored support needs and liquidity requirements of our customers, while offering all possible support they needed to keep their businesses afloat. We, with all humility, claim that we successfully managed most of our Covid impacted customers safely through the adversities of unprecedented financial crisis.

Non-performing loans also reduced from 3% in 2020 to 2.5% in 2021, which was another testament of the Bank's effective credit risk management process.

In parallel with our loans and advances book, the customer deposits registered a growth of £48 million to close the year at £672 million. The main focus during the first half of the year was on cost of funds management to improve net interest margin. The Bank was successful in meeting this objective by increasing the current account balances and managing its deposits interest rates through an effective use of Internet deposit channel. In wake of increase in the Bank of England (BoE) base rate in December 2021 with the expectations of further increase in 2022, the Bank started taking steps to align its interest rates to the market to meet customers' expectations.

During the year, the Parent bank injected £10 million additional equity, thereby raising the level of Paid-up Capital to the mark of £70 million. This action of increasing the funding by the Parent bank during an uncertain period confirms the financial capacity as well as the willingness of the Parent bank to maintain a growing and financially sound franchise in the UK.

1.5.2. LIBOR Change

The Bank's risk appetite is set by the Board of Directors and takes into account the Bank's Strategic Intent. London Interbank Offered Rate (LIBOR) had historically been one of the main interest rate benchmarks used in financial markets. It not only determined interest rates for financial contracts around the world but was also hardwired into all manner of financial activity, such as risk, valuation, performance modelling and commercial contracts. The UK's Financial Conduct Authority (FCA) announced the cessation of LIBOR benchmark interest rate from 2021 onwards. Accordingly, the Bank completed its transition from the LIBOR to other interest-based benchmarks. In order to get through the subject transition phase in a smooth and orderly manner, the Bank carried out an assessment, including an exhaustive fact-finding exercise, with a view to identify the volume and materiality of the LIBOR based contracts, products having maturity beyond 2021. As an outcome of the exercise, it was concluded that the Bank will not face any significant impact on its product profile due to LIBOR transition.

The Bank uses its own Libor independent reference rate, HBZ Base Rate, for pricing the lending products. Similarly, customer deposits are fixed rate products. The Bank does carry few LIBORS linked debt securities as part of its investment portfolio maturing after December 2021, however, the related impact being insignificant and immaterial.

1.5.3. 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, they published a joint Discussion Paper on Operational Resilience 2018 to start a dialogue with the financial services industry. Based on responses received the supervisory authorities issued consultation papers related to important business services, outsourcing and third-party risk management which are considered as key part of operational resilience. Consultation papers also refers to operational capacity, technology infrastructure, data centres and cyber security as elements of overall operational resilience. The FCA and PRA policy statement was published in March 2021 with an effective date of March 2022.

The Bank has considered four main areas in its business services:

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

In line with its size and business model and share of the market, the Bank considers five elements of the business services - (1) Payments (2) Loan Disbursal (3) Balance Check (4) Cash Withdrawals (5) Cash and Liquidity Management - to be of critical importance in the context of potential disruption impact on its own customers and safety and soundness of the Bank

The Bank's new Operational Resilience Framework will be based on our existing capabilities, including learnings from past experience, and following enhanced approach in line with the FCA's and PRA's objective.

- Leverages business impact assessments and recovery objectives covering the entire organisation
- Prioritises important business services for end users specific to the Bank's business model and customer type
- End to end process mapping largely complete for IBS covering people, processes, technology, internal and external dependency, premises
- Impact tolerances being established based on time metrics. Combination metrics being considered where secondary capability exists
- Scenarios being established specific to the Bank leveraging risk event reporting process for past events and near misses
- Submission of self-assessment document to the Board for approval summarising the activities that have been undertaken in year 1 to meet the March 2022 deadline.

The operational resilience framework in the Bank is subject to continuous improvements, process re-engineering and changes to business model & operational design to increase effectiveness and robustness while maintaining secure and efficient service delivery to customers through minimising adverse impact due to operational disruption. Therefore, the Bank will continue to work on the end to end mapping and comprehensive scenario testing at varying levels of sophistication over time to identify any vulnerabilities in sufficient time so that measures can be taken to remediate them. This is to ensure that the Bank tests their resilience to stay within the impact tolerance set against the important business services in case of disruption. The Bank will prioritise a plan which will set out how it will comply with the requirement to be able to remain within the impact tolerance within a reasonable time, and no later than 31 March 2025.

1.5.4. Climate Change

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

The Bank has considered the effects of climate change on its business model and profile 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 > 95% 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 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 is attracting focus at governmental level across the globe. Various initiatives have been introduced in the UK including legislation and regulatory requirements.

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The lending exposures are focussed on real estate financing which is > 95% of the lending book. Consequently, the focus is on the property collateral. The Bank's focus is on residential, mixed use and commercial real estate with contractual loan terms not exceeding 5 years. The Bank does not offer finance for development and/or industrial units with high-risk characteristics.

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

The Bank's investment strategy includes a cap on max tenure of 5 years with an average maturity profile of 2.5 years. Whilst the existing holdings comprise less than 7% of exposure to segments considered as elevated risk, the Bank takes into account climate change risk in its decision-making process.

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

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

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

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

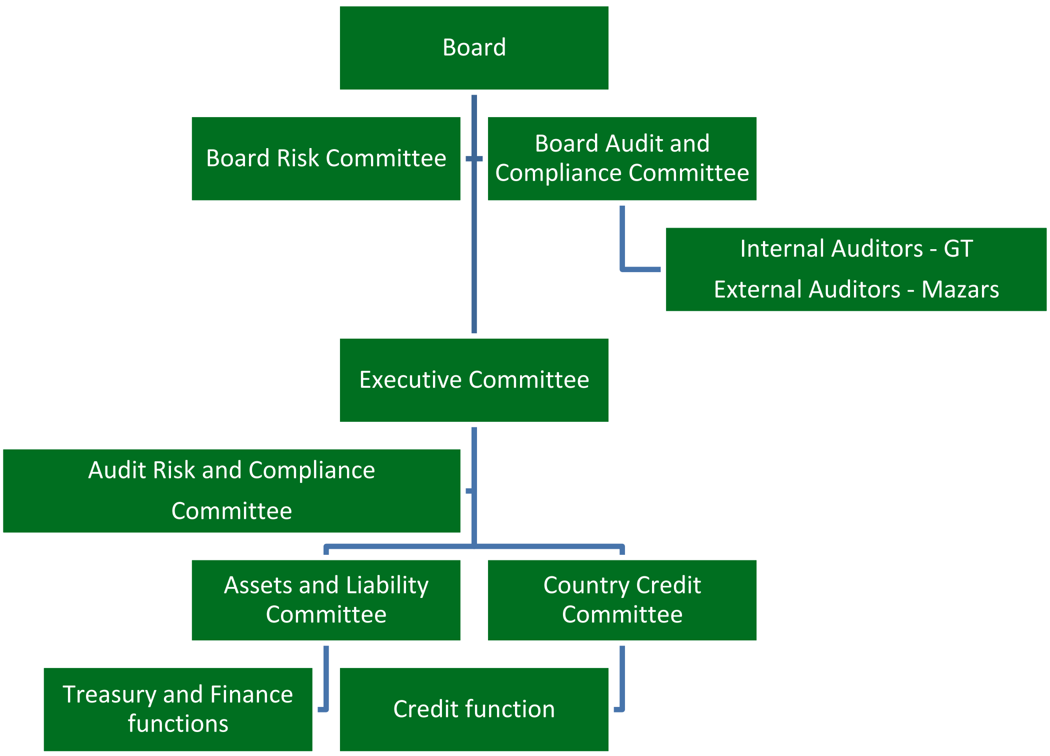
2. Governance Framework

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, which acts as the highest governance authority in the organisation and two Board sub-committees namely, a Board Risk Committee and a Board Audit and Compliance Committee.

The Board of Directors is responsible for the establishment of overall strategic direction and oversight by setting up the overall governance and risk management framework of the Bank. The Bank's risk appetite is set by the Board of Directors and takes into account the Bank's Strategic Intent. To implement an effective governance process, the Board has established a Board Risk Committee (BRC) and Board Audit and Compliance Committee (BACC).

The sub-committees keep an oversight on the key risks such as credit, liquidity, compliance, conduct and operational risk. Members of the sub-committees maintain close interaction with senior management and receive regular information from management committees. The BRC oversees and challenges the risk management function to ensure that governance arrangements, risk framework and systems and controls are evaluated and managed properly. The independent internal audit function reports into BACC and conduct reviews of all key risk areas including the risk management framework. Reports are presented to BACC and the Board.

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



2.1.1. 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 process and internal control systems and satisfy itself that they are functioning effectively and corrective action is being taken where necessary. The Board ensures that an appropriate risk culture is instilled in the Bank. 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 and Resolution Plan
-

2.1.2. Board Risk Committee

The Board Risk Committee assists the Board in the review and oversight of Risk Management Framework, ICAAP, ILAAP and other governance documents. Board Risk Committee (BRC) is designed to raise awareness of the whole risk landscape and has responsibility of its oversight. BRC ensures that a wider management membership is engaged in the capital and liquidity management process cycle. This includes involvement in the formulation of stress tests, the reasonableness of assumptions and likely outcomes given current and prospective market conditions. 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. BRC annually review the Risk Appetite Statement and consider the adequacy of risk limits and returns.

2.1.3. Board Audit and Compliance Committee

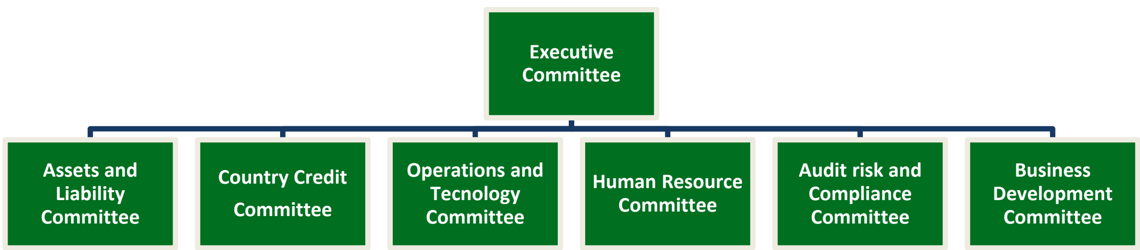
Board Audit and Compliance Committee (BACC) oversees and challenges the internal audit, external audit functions and Compliance function to ensure that governance arrangements, and system and internal controls are evaluated and managed properly. BACC reviews and approves key financial risks, assesses effectiveness of system of financial reporting. The Committee also approves accounting policies and changes therein to comply with the requirements of International Financial Reporting Standards.

2.1.4. 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:



The aforesaid executive committee style of management enables the firm to benefit from an enterprise-wide integrated approach to managing risk by involving a great many experts in the risk assessment process and

thereby drawing on information dispersed among many thoughtful and prudent minds. This structure ensures that management of the Bank's operations, strategic decision-making and risk management is undertaken on a consultative basis at committee level by experienced functional and business personnel.
The management committees as above have specific Risk Management responsibilities.

2.1.5. Executive Committee (EXCO)

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.

2.1.6. 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 is 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.

2.1.7. 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.

2.1.8. 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.

2.1.9. 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.

3. Key Metrics

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

£ 000	2021	2020	2019	2018	2017
Share capital	**70,000**	**60,000**	**60,000**	**60,000**	**60,000**
Retained earnings	**16,301**	**11,826**	**11,226**	**9,683**	**7,109**
Common Equity Tier 1 Capital: instruments and reserves	**86,301**	**71,826**	**71,226**	**69,683**	**67,109**
Additional Tier 1 Capital	-	-	-	-	-
Total Capital (CET 1 + Tier 1)	**86,301**	**71,826**	**71,226**	**69,683**	**67,109**
Tier 2 Capital – Subordinated liabilities	**20,386**	**20,540**	**20,426**	**20,349**	**20,000**
Total Own Funds (CET 1 + Tier 1 + tier 2)	**1066,687**	**92,366**	**91,652**	**90,032**	**87,109**
Total Risk-Weighted Assets	**547,938**	**513,951**	**442,493**	**387,179**	**359,941**
Risk-based capital ratios as percentage of RWA					
CET 1 ratio (%)	**15.75%**	**13.98%**	**16.10%**	**18.00%**	**18.64%**
Tier 1 (%)	**15.75%**	**13.98%**	**16.10%**	**18.00%**	**18.64%**
Total capital ratio (%)	**15.75%**	**13.98%**	**16.10%**	**18.00%**	**18.64%**
Capital Adequacy Ratio	**19.47%**	**17.97%**	**20.71%**	**23.25%**	**24.20%**
Additional CET1 buffer requirements as a percentage of RWA					
Capital conservation buffer requirement	**2.5%**	**2.50%**	**2.50%**	**1.875%**	**1.250%**
Countercyclical capital buffer (CCyB)* requirement	-	-	**1.00%**	**1.00%**	**0.500%**
Total of bank CET 1 specific buffer Requirement	**2.5%**	**2.50%**	**3.50%**	**2.875%**	**1.750%**
Basel III leverage ratio					
Total Basel III leverage ratio exposure measure	**948,055**	**803,637**	**714,163**	**659,570**	**635,317**
Basel III leverage ratio (%)	**8.63%**	**8.97%**	**9.03%**	**10.62%**	**9.92%**
Liquidity coverage ratio (LCR)					
Total high-quality liquid assets (HQLA)	107,915	**117,491**	**91,637**	**122,555**	**141,876**
Total net cash outflow	70,335	**51,796**	**57,333**	**61,884**	**60,163**
LCR ratio (%)	153%	**227%**	**160%**	**198%**	**236%**
Net stable funding ratio (NSFR)					
Total available stable funding	**664,541**	**614,210**	**575,074**	**530,877**	**506,952**
Total required stable funding	**510,571**	**457,718**	**423,583**	**388,363**	**362,939**
NSFR ratio	**130.16%**	**134.19%**	**135.76%**	**136.70%**	**139.68%**

* BOE reduced the rate of CCyB to 0% in its FPC meeting held on 11 March 2020.

4. Risk Management Framework

4.1. Overview

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

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

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

4.2. The Bank's Risk Management Strategy

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

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

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

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

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

4.3. Risk Management Process

4.3.1. Risk Management Cycle

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

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

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

Residual risk sets the basis for the organization's willingness to accept a level of risk in a given scenario or to allocate resources to bring it down to the acceptable level.

4.4. 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 cascading the organisation's operational risk appetite throughout the Bank's operations and business. The Board Risk Committee maintains oversight of

the business performance against the risk appetite. The relevant management committees conduct the review, while monitoring is performed by Audit, Risk & Compliance Committee (ARCC).
The bank's risk appetite articulates the type and quantum of risk that the bank is able and willing to accept in pursuit of its strategy. Risk appetite is based on qualitative statements, which articulate the risk-taking intent of the Bank, and is supported by quantitative limits and controls. The primary objective of the risk appetite is to protect the Bank from an unacceptable level of financial performance volatility, conduct and compliance failures and adverse reputational impact.

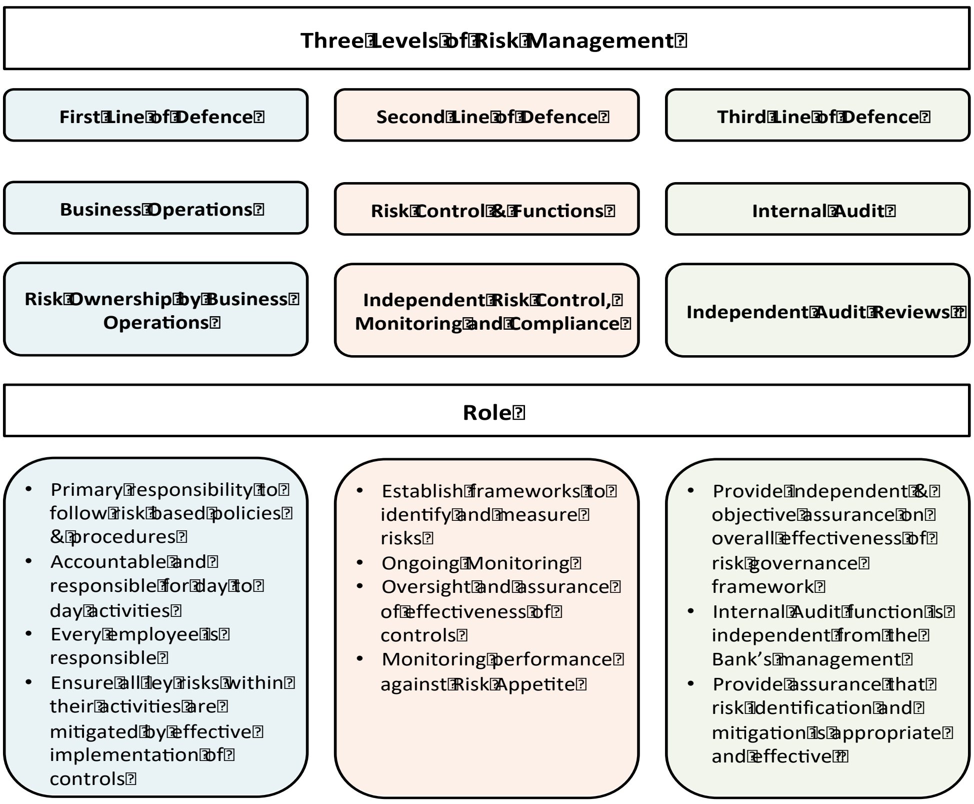
The Board of Directors (BOD) approves the Bank's risk appetite statement, and the BRC maintains oversight of the Business Performance against the Risk Appetite (RA). Management review is conducted by the Country Credit Committee (CCC) and monitoring by the Audit Risk & Compliance Committee (RCC).

The Overall Risk Appetite of the Bank is set out below:

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

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

4.5. 3 Lines of Defence
For smooth running and effective risk / threat identification and mitigation, the Bank operates on the 3 lines of defence model.



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

4.5.1. 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. The relationship managers also review and escalate any credit issues related to lending customers to the Country Credit Committee (CCC) to ensure timely action. This process has been re-emphasized during the implementation process of IFRS9 to avoid erratic movement between Stage 1 and Stage 2.

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.

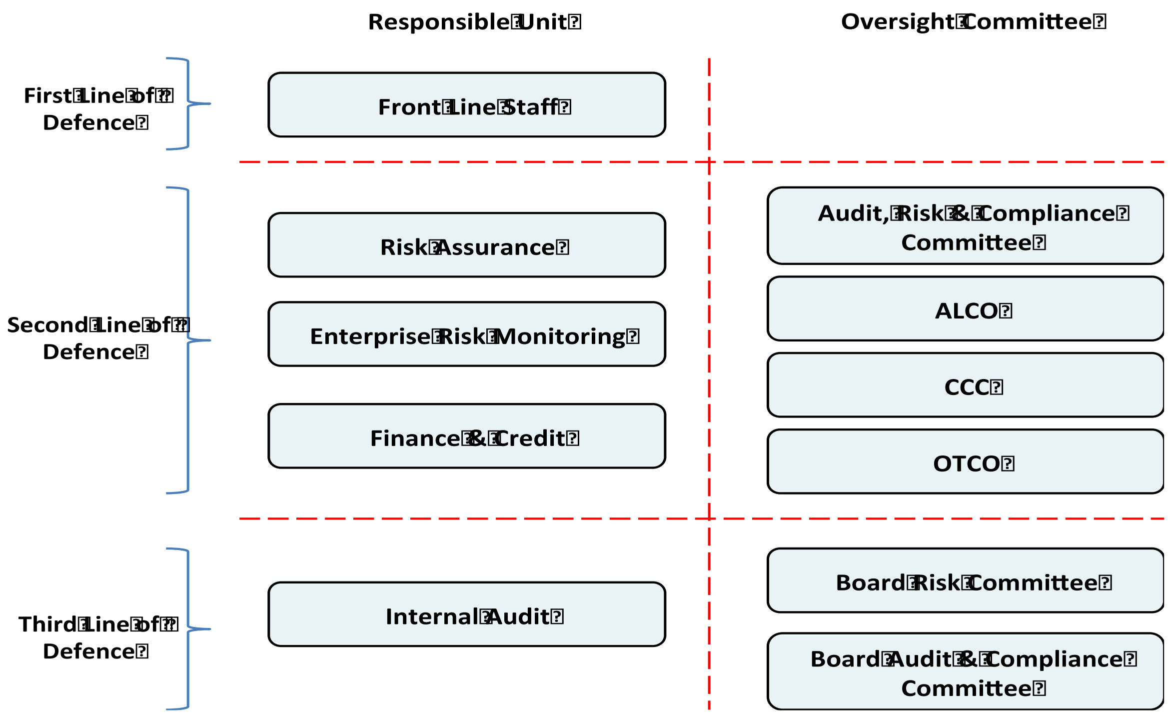
These functions facilitate and oversee the implementation of effective risk management and assist risk owners in defining the target risk exposure and generating adequate risk-related information for the Bank, the Parent Bank and the Regulators.

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.

With the implementation of IFRS9 the second Analytics function working under Head of Credit closely monitors overdue accounts and issues reminders to relationship managers for recovery and identification of problems loan at an initial stage. This process is reviewed at CCC and other sub committees such as Credit Policy and MI and Remedial Management committee.

Third Line of Defence
Audit, as the third line of defence provides independent assurance on the operations and the performance of the first two lines of defence. The Board Audit and Compliance Committee (BACC) has defined the internal audit program and outsourced the performance of the internal audit function to an independent audit firm in order 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.

The BRC provides oversight to the overall effectiveness of enterprise risk management framework.



4.6. IFRS 9 – ECL methodologies

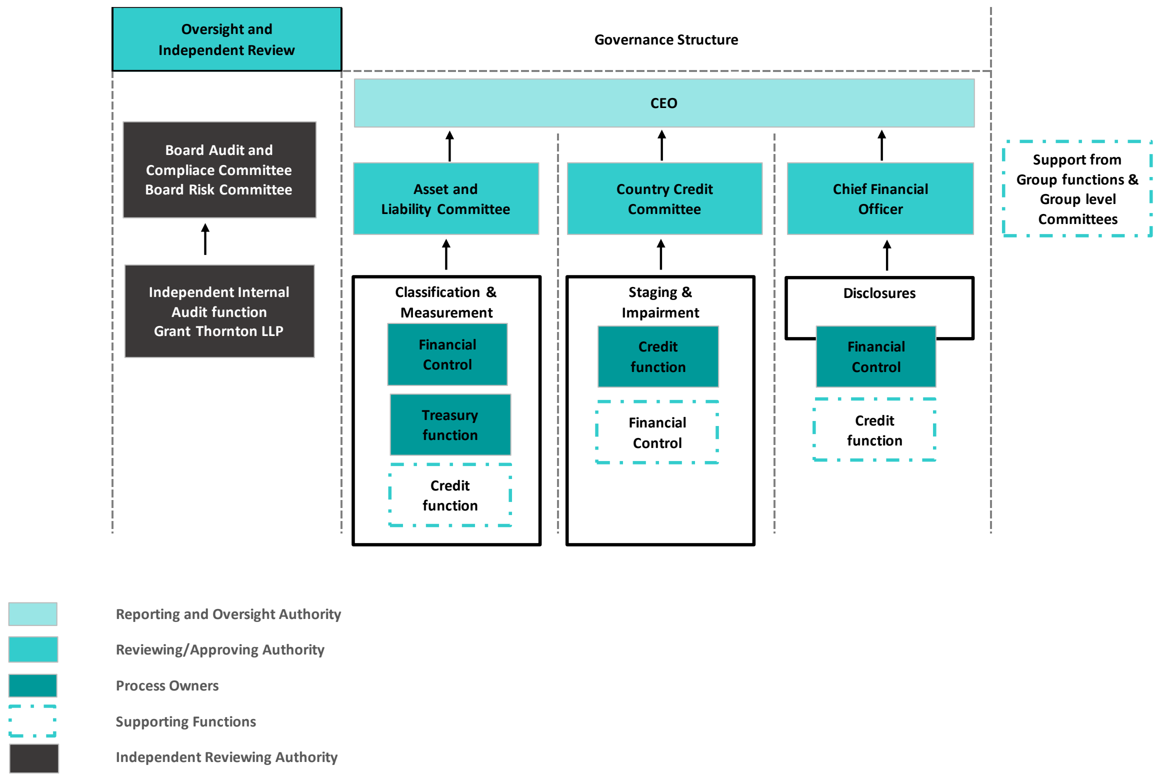
The Bank follows a general approach in designing ECL methodologies, duly aligned with its size, complexity, structure, economic significance and profile of exposure. The approach taken is considered consistent with the size of the Bank in relation to the UK financial market, its relative lack of complexity as well as minimal volatility in its credit losses over the past five years.

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

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

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, Head of Financial Control, Country Credit Management Committee and Country Asset and Liability Committee form the second line of defence
- The independent review functions i.e. Internal Audit and the Audit Committee of the BOD form the third line of defence



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

As per requirements set by the IFRS 9, the Bank is required to disclose information that explains the basis for its ECL calculations and the criteria it assesses and recommends changes in credit risk. Moreover, the Bank must also provide a reconciliation of the opening and closing ECL amounts and carrying values of the associated assets separately for different categories of ECL as well as by asset class. In order to comply with the requirements of IFRS 9, the ECL estimates need be adjusted against relevant updated macroeconomic variables to bring the Point in Time PD estimates for each segment to forward looking.

The Bank analysed the impact of change in PD by updating the macroeconomic variable against the behaviour of the portfolio during 2021. The underlying assumptions and estimates involved in subject calculations were critically examined and analysed by the Country Credit Committee (CCC) as well as by the Board of Directors for their relevance and appropriateness.

In addition, our independent Statutory Auditors, as part of their scope of assignment, duly assessed the design and implementation of the ECL model; while testing the operating effectiveness of key controls over the monitoring and reporting of credit exposures. In carrying out their aforesaid testing and assessment, they evaluated the appropriateness of the Bank's IFRS 9 impairment methodology, including

i) testing and challenging the reasonableness of the assumptions, assessing the appropriateness of the model's design and independently recalculating the PD and LGD for a selection of loans;
ii)- ensuring the appropriateness of the Bank's macroeconomic variables, economic scenarios used and the probability weightings applied; and
iii) determining the appropriateness and reasonableness of the post model adjustments and whether the post model adjustments are indicative of management bias.

The estimation made by the Bank was discussed by the Board and considered appropriate keeping in view the performance of the portfolio observed during pandemic and prospect of improvement in overall economic conditions in 2021.

4.7. 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.

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. Significant Risks

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

5.1. 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 manages its credit risk through documented Credit Risk Management Framework ("CRMF"), which is part of the overall Risk management framework. CRMF serves as a collection of tools, processes and methodologies that support the Bank in identifying, assessing, monitoring and controlling the credit risk.

The CRMF also provides a sound basis for more informed risk-based decision-making across the business areas. The CRMF sets the credit risk appetite, taking into consideration the bank's target customer segment, industries and products, risk acceptance. CRMF reflects regulatory requirements and guidelines in the UK while also referring the overall credit risk framework and guidelines of the Group.

Through CRMF the Board ensures that the Bank has a clear and measurable statement of its credit risk appetite against which the strategy to achieve the credit related aspects of its business plan can be actively assessed. In order to measure performance against set target, the Board and management of the Bank are provided with robust, well calibrated and sufficiently granular management information, enabling them evaluate and challenge the management's actions.

5.1.1. Credit Risk – Impact of COVID-19

The Bank was proactive in taking the required measures to manage the extraordinary situation as a result of outbreak of the Covid 19. Some of the key steps taken by the Bank are set out below:

- Increase in frequency of credit committee meetings to review the portfolio
- Enhanced evaluation of new proposals and renewal cases
- Rapid Portfolio Reviews (RPR) to identify impact of COVID-19 on industry segments and analyse the Bank's position to identify customers for enhanced monitoring
- Review and approval of loan moratorium application on a case by case through customer engagement
- Assessment of expected increase in NPL and ECL through RPR
- Enhanced reporting to BRC in monthly meetings

A comprehensive risk assessment process was followed by the Bank in evaluating the moratorium need of the customers, which included discussion with the customers, understanding their cashflow and liquidity needs and making available the support they needed to continue their businesses.

5.1.2. 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.

5.1.3. Credit value adjustment (CVA)

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

5.1.4. Credit Quality Analysis

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

Amount in £000

	2021				2020
	Stage 1	Stage 2	Stage 3	Total	Total
Cash in hand and with central bank	88,689	-	-	88,689	79,410
Due from banks	101,336	-	-	101,336	112,389
Loans and advances to customers	493,355	12,310	12,849	518,514	461,369
Financial investments - amortised cost	89,931	-	-	89,931	16,800
Financial investments - FVOCI debt instruments	85,735	-	-	85,735	87,558
	175,666	-	-	175,666	104,358
	859,046	12,310	12,849	884,205	757,526
Loss allowance	(281)	(445)	(3,758)	(4,484)	(5,948)
	858,765	**11,865**	**9,091**	**879,721**	**751,578**

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

2021	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Total
Current and past due up to 1 month	88,689	101,336	512,965	175,666	304	878,960
Past due 1 to 3 months	-	-	2,622	-	-	2,622
Past due over 3 months	-	-	2,927	-	-	2,927
Gross exposure	88,689	101,336	518,514	175,666	304	884,509
Less: impairment	-	(19)	(4,453)	(12)	-	(4,484)
Net exposure	**88,689**	**101,317**	**514,061**	**175,654**	**304**	**880,025**

5.1.5. 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. Financial assets split by external rating, where applicable:

Amount in £ 000

2021	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
AAA to AA-	88,166	6,044	-	90,587	-	-	184,797
A+ to A-	-	41,346	-	47,703	185	24,374	113,608
BBB+ to B-	-	15,804	-	37,347	112	24,249	77,512
Unrated	523	38,123	514,061	18	7	54,958	607,690
	88,689	101,317	514,061	175,655	304	103,581	983,607

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

5.1.6. 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

2021	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
Supernational	88,166	-	-	90,964	-	-	179,130
Financial Institutions	-	101,317	-	54,595	297	72,720	228,929
Industrial & commercial	-	-	444,211	30,096	7	28,351	502,665
Individual	-	-	69,850	-	-	2,510	72,360
Other	523	-	-	-	-	-	523
	88,689	101,317	514,061	175,655	304	103,581	983,607

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

2021	Cash and balances with central bank	Due from banks	Loans and advances to customers	Financial investments	Derivatives	Contingent liabilities and commitments	Total
United Kingdom	88,689	31,565	457,617	27,589	119	47,073	**652,652**
Europe excluding UK	-	5,747	16,492	71,574	185	25,189	**119,187**
Asia	-	36,812	3,705	35,440	-	25,303	**101,260**
North America	-	12	22,296	12,104	-	2	**34,414**
Africa	-	16,946	13,951	-	-	6,014	**36,911**
United States of America	-	8,755	-	27,323	-	-	**36,078**
Australia	-	1,480	-	1,625	-	-	**3,105**
	88,689	**101,317**	**514,061**	**175,655**	**304**	**103,581**	**983,607**

5.1.7. 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 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	▪ Generally acceptable collateral - Cash, Residential & Commercial Property, Bank Guarantees, Shares & Bonds & life insurance with surrender value. ▪ Lien is marked against cash taken as collateral ▪ Charge is recorded in Bank's name in land registry relating to residential and commercial properties taken as collateral. ▪ Other collateral like Bank Debenture, Stocks, Receivables, Personal Guarantees also available but discounted for lending and provision decisions. ▪ Well defined haircuts for all collateral with Property haircuts arrived at on the basis of type of property, location and market conditions ▪ Property Stress tests conducted every six months
Risk arising from inadequate perfection of Security for Customer Borrowing	▪ Credit Administration unit centralised ▪ Standardisation of documents and processes for Risk mitigation ▪ Duly reviewed & 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	2021		2020	
	Collateral Value	Advances	Collateral Value	Advances
Commercial real estate	798,044	382,240	703,311	338,898
Residential real estate	224,833	110,221	210,906	99,481
Cash collateral	36,574	18,119	34,718	18,545
Other collateral	-	-	-	-
Guarantees	-	-	-	-
Unsecured	-	7,934	-	4,445
Total	**1,059,451**	**518,514**	**948,935**	**461,369**

5.1.8. 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 2021 segregated as per the sectors:

Amount in £000

Exposures as per Sectors	On Balance Sheet	Off Balance Sheet	TOTAL	Total
	2021	2021	2021	2020
Retail	19	-	19	18
Secured by mortgages on immovable properties	327,243	-	327,243	330,779
Exposures in default	13,589	-	13,589	16,040
Contingencies and commitments	-	35,250	35,250	31,575
Institutions	88,749	-	88,749	68,483
Central governments or central banks	1,177	-	1,177	1,189
Corporates	25,537	-	25,537	11,879
Counterparty credit risk	-	180	180	584
Other	20,407	-	20,407	16,725
	476,721	**35,430**	**512,151**	**477,272**

Following table provides the breakdown of credit risk exposures post credit risk mitigation (CRM) and credit conversion factors (CCF) as at December 2021 as per geographical breakdown:

Amount in £000

Country wise Exposures	2021	2020
United Kingdom	377,525	354,277
Europe excluding UK	17,631	20,939
Asia	69,245	48,300
North America	10,253	28,985
Africa	28,176	16,903
United States of America	9,025	6,233
Australia	296	1,635
	512,151	**477,272**

5.1.9. 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.

5.2. Interest Rate Risk in the Banking Book

Interest rate risk arises from changes in interest rates that could affect future profitability or the fair value of financial instruments. Interest rate risk at the Bank is managed and contained and the Bank has no significant long term or complex interest rate positions or products. The Bank seeks to minimise the negative impact on net interest income of adverse movement in interest rates. The Bank has assessed Interest Rate Risk in the Banking Book (IRRBB) in accordance with SOP July 2021.

Duration Risk

The Banks main lending product is a 5 years variable rate loan. For client asset pricing, the Bank uses its own base rate, which can be changed with notice to the customers. Deposits are typically of 6 months to 1-year duration. Therefore, any significant fluctuation in interest rate is contained to a 6-month window and unlikely to have a material impact on the Bank as it can re-price its lending and customer deposit books.

Basis Risk

The Bank uses its own base rate (HBZ Base Rate) to price up Client loans. For deposits it aligns closely to the overall cost of funds and does a peer analysis. Therefore, basis risk is very limited.

Optionality Risk

The Bank currently does not use Interest Rate derivatives, whether embedded in loan agreements or for hedging purposes. As asset and liability products offered by the Bank are simple in nature, which mitigates optionality risk.

Risk Identification and Quantification

The Bank is exposed to interest rate risk on part of its HQLA Bond portfolio (Fixed Coupon) maintained to meet the LCR requirement. The Bank also has an investment Bond portfolio of investment grade (or higher). These are Floating Rate Notes (FRN) no longer than 3-year maturity and benefit in an interest rate rising environment (USD and GBP) as the rates are linked to 3 months LIBOR. The Bank monitors the economic landscape closely for any change in the interest rate environment.

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

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.

5.4. Cyber Risk

In today's modern banking landscape banks are expected to provide multiple transactional gateways to their customer in order for the customers to access their bank account and conduct transactions round the clock. Banks are expected to provide these transactional capabilities to their customers ensuring they are authenticating the customers at various levels throughout the transactional journey. In opening up multiple transactional channels the banks are exposed to risk and threats, which exist today in the cyber space.

Habib Bank Zurich plc 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. For the Bank it is equally important to ensure that its internal infrastructure on which employees are operating is secure and fit for purpose. The Bank has successfully completed various infrastructure-hardening projects some of which are mentioned below

- Deployment of Managed Switches: To ensure only authorised devices are allowed on Internal Network and to isolate any device within the network
- End Point Security: Deployment of centrally administered AV to ensure all user end points are protected
- Proxy Servers: Roll out of new proxy server operating on HBZ Group approved policies ensuring only permitted websites are accessible
- Verified by Visa: HBZ UK successfully completed certification of VBV service to provide its customer secure online shopping experience
- Deployment of Security Incident Event Monitoring Solution
- Data Leakage Prevention Tools
- Secure VPN (Citrix) based work from home environment
- Scheduled based vulnerability scanning and penetration testing regime in place for critical applications
- Conducting change risk assessment when introducing new customer channels.

The Bank recognises risk associated with Cyber threats and is constantly taking proactive measures to strengthen its operating environment in order to provide secure banking experience to internal as well as external stakeholders.

5.5. 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.

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 first line of defence.

6. Liquidity Risk

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 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 continues to review and update its liquidity risk management framework based on developments in market and industry best practices.

The Bank has the following liquidity profile that analysis assets and liabilities into relevant maturity buckets based on the remaining period to contractual maturity. The maturity profile is the representative of its contractual undiscounted cash flows.

Amount in £000

2021	**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	88,689	88,693	88,693	-	-	-	-
Due from banks	101,317	101,533	52,869	16,468	32,196	-	-
Loans & advances to customers	514,061	576,569	119,414	20,156	104,724	332,233	42
Financial investments							
- fair value through other comprehensive income	85,735	86,898	7,246	4,612	14,441	56,386	4,214
- Amortised cost	89,920	91,517	-	-	12,428	79,089	-
	879,722	**945,210**	**268,222**	**41,236**	**163,789**	**467,708**	**4,256**
Derivative assets							
Risk management	304						
Outflow		17,837	7,408	429	10,000	-	-
Inflow	-	(17,535)	(7,317)	(420)	(9,798)	-	-
	304	**302**	**91**	**9**	**202**	**-**	**-**
Financial liability by type							
Non-derivative liabilities							
Due to banks	107,147	(107,473)	(7,424)	(8,299)	(21,469)	(70,280)	-
Due to customers	672,008	(673,192)	(351,586)	(106,189)	(214,664)	(754)	-
Subordinated liabilities	20,092	(20,288)	-	-	-	(20,288)	
Lease liability	2,774	(2,936)	-	(111)	(332)	(1,966)	(505)
	802,021	**(803,889)**	**(359,010)**	**(114,599)**	**(236,465)**	**(93,288)**	**(505)**
Derivative liabilities							
Risk management	514	-	-	-	-	-	-
Outflow	-	30,814	10,998	10,815	9,000	-	-
Inflow	-	(31,226)	(10,909)	(11,101)	(9,215)	-	-
	514	**(412)**	**89**	**(286)**	**(215)**	**-**	**-**

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.

6.1. Liquidity risk management

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 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.

6.2. 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. Qualitative Information

6.3.1. 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.

6.3.2. 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.

Derivative transactions of the Bank are fully collateralised by the cash.

6.3.3. Liquid Assets

Bank held 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)	**2021**	**2020**
Total high-quality liquid assets (HQLA)	107,915	117,491
Total net cash outflow	70,335	51,796
LCR ratio (%)	153%	227%
Regulatory requirement (%)	100%	100%

7. 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 guards against crises that may emerge from internal / external factors, calling for immediate additional capital. 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 injected / sponsored by the Parent bank to support long-term business growth of the Bank, which includes capital resources to meet Pillar 1, Pillar 2, CRD Buffers and PRA Buffer. The Bank also maintains 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.

	2021	2020
	£000	**£000**
Share capital	70,000	60,000
Retained earnings	16,301	11,826
Tier 1 capital	**86,301**	**71,826**
Subordinated liability	20,000	20,000
IFRS 9 (ECL) impact of regulatory capital	386	540
	20,386	20,540
Own funds	**106,687**	**92,366**

7.1. 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.

Bank's own funds comprises of Tier 1 and Tier 2 capital. Bank successfully complied with the capital requirements throughout the year 2021 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 2021.

Tier 1 Capital - Called up share capital includes 70 million of ordinary shares fully paid up.

Tier 2 Capital - Subordinated liabilities include the loan of £20m issued by Habib Bank AG Zurich, the parent Bank. The loan carries interest at a rate of 6-month Libor plus 125 bps per annum to be paid semi-annually. The initial term of the loan is five years. The term of loan can be extended for one additional year on each anniversary with the mutual consent of both lender and borrower after the expiry of the initial term.

7.2. Own Funds Requirements

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

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

Amount in £	2021	
	Risk Weighted Assets	**Capital Requirement**
Credit Risk	512,151	40,381
Operational Risk	35,091	2,881
Market Risk including CVA	696	116
Pillar 1 Total (8% of RWAs)	547,938	**43,835**
Pillar 2A (4.2% of RWAs)	547,938	23,013
Total Pillar 1 and Pillar 2A (12.20%) – TCR	547,938	**66,848**
Capital Conservation Buffer (2.5% of RWAs)	547,938	13,698
Countercyclical Buffer (0% of RWAs)	547,938	0
Total Capital Requirement - £ 000'	547,938	**80,546**
Total Capital Requirement - %		14.70%

Capital Adequacy Ratio of the Bank as at 31 December 2021 is as under:

- Risk Weighted Assets – Amount in £	547,938
- Regulatory Capital – Amount in £	106,687
- Capital Adequacy Ratio - %	19.47%

Capital Adequacy Ratio of the Bank as at 31 December 2020 is as under:

Amount in £	2020	
	Risk Weighted Assets	**Capital Requirement**
Credit Risk	477,272	38,182
Operational Risk	35,898	2,872
Market Risk including CVA	78	62
Pillar 1 Total (8% of RWAs)	**513,951**	**41,116**
Pillar 2A (5.82% of RWAs)	513,951	29,912
Total Pillar 1 and Pillar 2A (13.82%) – TCR	**513,951**	**71,028**
Capital Conservation Buffer (2.5% of RWAs)	513,951	12,849
Countercyclical Buffer (0% of RWAs)	513,951	-
Total Capital Requirement - £ 000'	**513,951**	**83,877**
Total Capital Requirement - %		16.32%

8. 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 upfront and more than adequate capital demonstrate 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.

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%. As at 31 December 2021 Bank has a leverage ratio of 8.05% (2019: 8.93%).

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

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

£ 000	**2021**	**2020**
Total assets as per published financial statements	892,077	762,133
Adjustments for derivative financial instruments	34,681	36,320
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	14,263	13,453
Other adjustments	(7,520)	(8,269)
Leverage ratio exposure measure	**933,987**	**803,637**

Leverage ratio common disclosure (LR2)

£ 000	**2021**	**2020**
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	884,557	753,506
Deductions of cash variation margin provided in derivative transactions	-	-
Total On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs))	**884,557**	**753,506**
Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	34,681	36,320
Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	486	357
Total derivatives exposures	**35,167**	**36,677**
Off-balance sheet exposures at gross notional amount	48,944	43,383
Adjustments for conversion to credit equivalent amounts	(34,681)	(29,930)
Total other off-balance sheet exposures	**14,263**	**13,453**
Capital and total exposure		
Tier 1 capital	76,301	71,826
Total exposure	933,987	803,637
Leverage ratio (%)	**8.17%**	**8.93%**

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;

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 30 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	2021				2020
	Stage 1	Stage 2	Stage 3	TOTAL	TOTAL
Balances at the beginning of the year	532	-	-	**532**	**336**
New provisions	14	-	-	**14**	**257**
Increased provisions	-	-	-	**-**	**7**
Uncollectable recovered / settled	(527)	-	-	**(527)**	**(67)**
Net measurement of loss allowance	(513)	-	-	**(513)**	**197**
Other movement	-	-	-	**-**	**(1)**
Balances at the closing of the year	**19**	**-**	**-**	**19**	**533**

Amount in £ 000

Loans and advances to customers at amortised cost	2021				2020
	Stage 1	Stage 2	Stage 3	TOTAL	TOTAL
Balances at the beginning of the year	**1,329**	**78**	**4,008**	**5,415**	5,038
New provisions	55	-	-	55	145
Increased provisions	-	409	1,355	1,764	971
Recovered / settled / reduced	(1,101)	(79)	(162)	(1,342)	(740)
Net measurement of loss allowance	(1,046)	330	1,193	477	376
Transferred to 12 month's ECL Stage 1	1	(1)	-	-	-
Transferred to lifetime ECL stage 2 Credit not impaired	(34)	34	-	-	-
Transferred to lifetime ECL stage 3 Credit impaired	-	4	(4)	-	-
Uncollectable written off / other	-	-	(1,439)	(1,439)	1
Balances at the closing of the year	**250**	**445**	**3,758**	**4,453**	**5,415**

The contractual amounts outstanding on financial assets that were written off during the year ended 31 December 2021 are subject to enforcement activity.

Amount in £ 000

Financial investments	2021				2020
	Stage 1	Stage 2	Stage 3	TOTAL	TOTAL
Balances at the beginning of the year	1	-	-	**1**	**1**
New provisions	6	-	-	6	**-**
Increased provisions	(38)	-	-	(38)	**15**
Net measurement of loss allowance	(32)	-	-	(32)	**15**
Other movement	(1)	-	-	(1)	**(2)**
Impairment of FVOCI investment shown under OCI	44	-	-	44	**(13)**
Balances at the closing of the year	**12**	**-**	**-**	**12**	**1**

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	14	55	6	75
Increased provisions	-	1,764	-	1,764
Uncollectable recovered / settled	(527)	(1,342)	(38)	(1,907)
Total – 2021	**(513)**	**477**	**(32)**	**(68)**
Total – 2020	**197**	**376**	**15**	**588**

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

11. Asset Encumbrance

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.

12. Employee Remuneration Policy

12.1. Remuneration governance and decision-making

The UK Human Resource Committee (the HRC) assists the Executive Committee in employees' development strategies and plans, including their Continuous Professional Development. The HRC review and approve performance appraisal process. It ensures that the Bank has put in place required procedures to ensure effective implementation and continuous compliance with the requirements of all relevant UK employment rules and regulations including Senior Management and Certification Regime.

The Board is responsible for review and approval of Bank's HR Policy including remuneration practices. The Board on the recommendation of Chief Executive Officer approves annual staff remuneration plan for the year along with total remuneration for senior executive staff including Material Risk Takers (MRTs).

12.2. Performance and reward

The Bank's remuneration policy is in line with market practice and is weighted towards a performance-based compensation plan. The Bank is fully cognisant of having a remuneration policy, which is aligned with its long-term objectives and 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, team work, respect, responsibility and commitment. Values are upheld continuously and embedded at all levels of the organization.

The Bank recognises that robust performance assessment is essential for the sustained success and development of the Bank and its employees. The Bank's performance assessment creates a shared vision of the purpose and aims of the Bank and ensures that each employee understands how he or she makes their contribution.

Performance is reviewed annually against pre-defined measures and efforts are recognized through a combination of monetary and non-monetary benefits. The performance management framework is managed through the Bank's HR Committee and senior executive management.

The Bank's objectives, organisation structure, and HR policies are integrated for best results. This works within an effective control framework and focuses on the customer in order to implement the Bank's business strategy.

The Bank remuneration structure is not linked to any pre-defined business targets for front-end 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 rules and competencies demonstrated during the year.

Annual performance is a self- assessment process where employees assess their own performance against their job profile, which is evaluated, agreed objectives with the line manager. Compliance function also provides their input in on adherence of certification regime staff with their required competencies

HBZ has been designated as a Level 3 firm by the FCA and as such is not required to have a deferral policy. There is no deferred portion of bonus applicable, and the bonus is paid in cash only). There are currently no Long-Term Incentive Plans or other executive incentive schemes in place and Bank has no plans to implement any in the future.

The Bank's Capital Adequacy Ratio will not be affected by the remuneration policy.

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

2021	**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	122,970	-	122,970	-	1,581	0
Multilateral development banks	55,849	0	55,849	0	0	0%
Financial institutions	204,443	26,096	157,523	26,096	113,593	49%
Corporates	28,002	0	28,002	-	25,133	90%
Retail	26	0	26	-	19	75%
Exposures secured against real estate	478,249	0	467,744	0	327,243	68%
Exposures at default	9,091	0	9,060	0	13,589	149%
Other assets	89,816	54,290	30,993	10,540	30,993	35%
	988,446	**80,386**	**872,167**	**36,636**	**512,151**	**52%**

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

Asst classes	0%	20%	50%	100%	150%	Other	Total
Sovereigns and their central banks	116,752	5,096	1,123	-	-	-	122,971
Multilateral development banks	55,849	-	-	-	-	-	55,849
Financial institutions	-	93,291	65,913	71,385	-	-	230,589
Corporates	-	910	4,281	22,810	-	-	28,001
Retail	-	-	-	-	-	26	26
Exposures secured against real estate	-	-	-	353,824	-	124,425	478,249
Exposures at default	-	-	-	-	9,091	-	9,091
Other assets	-	-	-	89,816	-	-	89,816
Total	**172,600**	**99,297**	**71,317**	**537,835**	**9,091**	**124,451**	**1,014,592**