Pillar 3 Disclosures

31 December 2022

Approved by the Board on 19th October 2023

Contents

1. SCOPE OF PILLAR 3 APPLICATION

Purpose

This document comprises Gatehouse Bank plc's ("Gatehouse", "Gatehouse Bank" or the "Bank") Pillar 3 disclosures on capital and risk management at 31 December 2022. It has two principal purposes:

- To meet the regulatory disclosure requirements under CRD IV, Part 8 – Disclosure by Institutions, and the rules the United Kingdom ("UK") Prudential Regulation Authority ("PRA") set out in the PRA Rulebook, and as the PRA has otherwise directed, including Remuneration Code disclosures; and
- To provide further useful information on the capital and risk management of Gatehouse.

Additional relevant information may be found in the Bank's 2022 Annual Report and Financial Statements.

Business Profile

Gatehouse Bank is a fully Shariah compliant bank based in London, Milton Keynes and Wilmslow, authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). In 2022, Gatehouse Bank completed the sale of its stake in Gatehouse Capital KSCC, an advisory firm based in Kuwait. As of 31 December 2022, Gatehouse Bank acquired a further 24.95% of shares from the founders of Ascend Estates Limited, taking the Bank's stake to 75.05%. There is an agreement to purchase the remaining shares at a pre-agreed price in April 2023, taking the Bank's holding to 100%.

The Bank aims to be a leader in the Islamic Finance sector by striving to become the most admired UK Shariah compliant bank. The Bank will achieve this through a simplified business model with a more diverse, lower risk profile supported by an expert senior management team with skills and experience appropriate for the new strategy. This involves skilled-manual underwriting dovetailed with modern technology, thereby ensuring scalability.

The main business line of the Bank is the Shariah compliant Residential Property Finance which comprises of regulated Home Purchase Plan financing and unregulated Buy to Let financing. Key sources of funding for the Bank are shareholder funding and retail internet based deposit product funding. Effective risk management is central to Gatehouse and in accordance with the disclosure requirements under CRD IV Basel III (as defined below), this document provides an overview of how the Bank's risk management framework operates and describes the key risks which the Bank faces.

Overview

The European Union ("EU") Capital Requirements Directive ("Basel II") came into force from 1st January 2007 and applies to all United Kingdom ("U.K.") based banks. Basel II implemented improvements on the original Basel Accord, agreed in 1988 by the Basel Committee on Banking Supervision, and aims to make the capital requirements framework more risk sensitive and representative of modern banks' risk management practices. The Directive was updated by the CRD IV Basel III requirements which became effective from 1 January 2014.

The Basel framework consists of three pillars:

- **Pillar 1:** defines the minimum capital requirements that banks are required to hold for credit, market and operational risk.
- **Pillar 2:** builds on Pillar 1 and incorporates the Bank's own assessment of additional capital resources needed in order to cover specific risks faced by the Bank that are not covered by the minimum regulatory capital resources requirement set out under Pillar 1. The amount of any additional capital requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process ("SREP") and is used to determine the overall capital resources required by the Bank. Pillar 2A considers capital requirements for those risks that are not adequately covered within Pillar 1. Pillar 2B consists of guidance from the PRA on the Capital buffer and relates to risks which firm may be exposed over a forward-looking planning horizon.
- **Pillar 3:** requires banks to publish information on their principal risks, capital structure and risk management.

The Directives are enforced in the U.K. by the PRA. The Pillar 3 disclosure requirements are contained in Articles 431 – 455 of the Capital Requirements Regulation ("CRR"). Gatehouse adopts the Standardised Approach to credit risk and market risk and the Basic Indicator Approach ("BIA") to operational risk. This document outlines the capital required for Pillar 1 and, in accordance with Pillar 3, details specific risks which the Bank faces and how these risks are managed. The below table provides key metrics as at 31/12/2022:

Key Metrics

	31-Dec-22
Common Equity Tier 1 (CET1) ratio	17.4%
Tier 1 ratio	17.4%
Total Capital Ratio	18.9%
Leverage Ratio	7.5%
Liquidity Coverage Rate (LCR)	351%

Frequency

The Board of Directors (the "Board"), after due consideration of the size and complexity of the Bank, do not feel it is necessary to produce Pillar 3 disclosures any more frequently than annually unless there is a material change in the business plan or permissions from the Regulator. The Board believes that the separate publication of these disclosures on the Bank's website is more appropriate than including them in the Bank's annual report and accounts and considers the dynamics between the two reports to be different due to the differing requirements. The disclosures will therefore be made annually on Gatehouse's website (www.gatehousebank.com) as soon as practicable after the approval of the annual report and accounts of the Bank.

Unless otherwise stated, the disclosures in this document are based on the financial position as at 31 December 2022. The quantitative disclosures in this document in respect of the current risk management policies and procedures of the Bank are a function of the balance sheet and the asset portfolio of the Bank as at 31 December 2022.

Scope

Gatehouse Bank is not part of a UK consolidation sub-group and as such the Pillar 3 disclosures as at 31 December 2022 have been prepared on an individual basis.

Verification

The disclosures included in this document are not subject to audit. These disclosures explain how the Board has calculated certain capital requirements and information about risk management generally. They do not constitute financial statements.

This document, being the Pillar 3 disclosures at 31 December 2022, was approved by the Board Risk and Compliance Committee on 18th October 2023 and by the Board on the 19th October 2023.

Enquiries

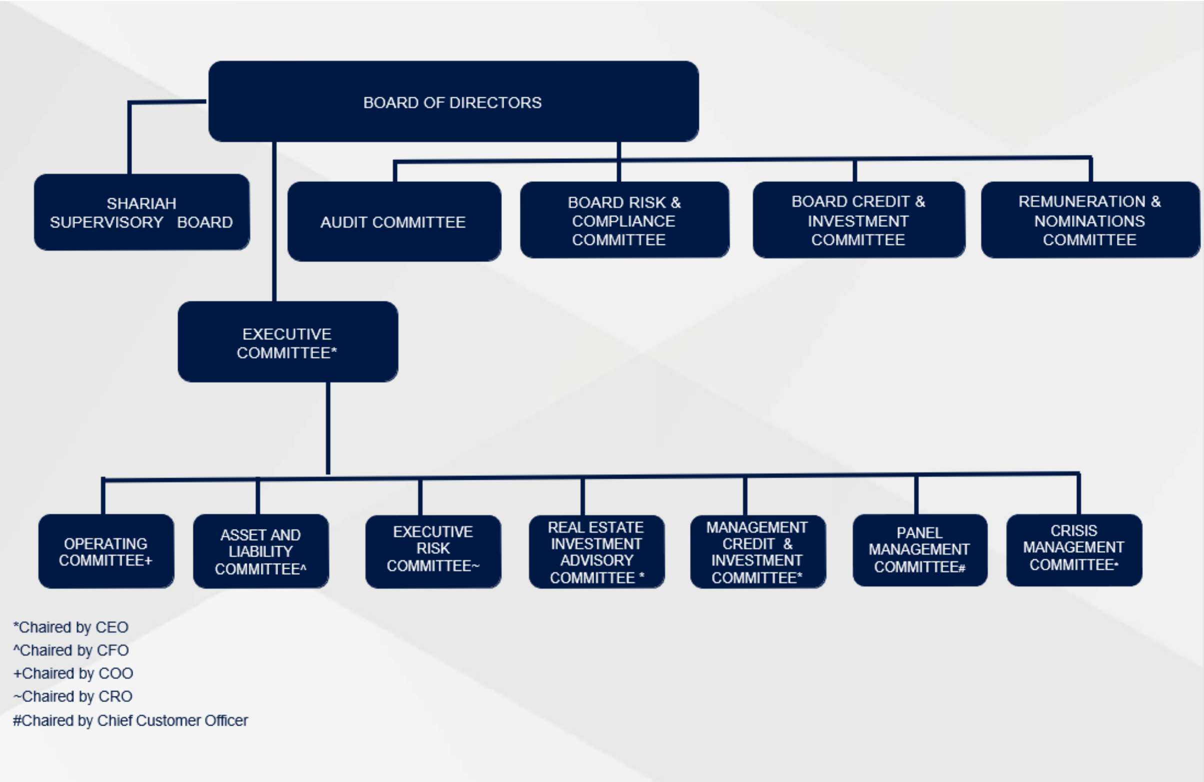
Enquiries on any disclosures related to Pillar 3 should be directed to the CFO.

2. CORPORATE GOVERNANCE FRAMEWORK

The Bank is committed to the ongoing sustainability of its business lines and has established a comprehensive corporate governance and risk management framework to ensure that the risks faced by the Bank are managed prudently.

The risk control and governance framework is approved and governed by the Board, and managed on a day-to-day basis by the Board's delegated Committees and the Executive Committees.

The Gatehouse Corporate Governance Framework



The Board of Directors

The Board is the primary governing body and has ultimate responsibility for setting the Bank's strategy, corporate objectives and risk appetite. The strategy and risk appetite take into consideration the interests of depositors, customers and shareholders as well as ensuring that the business activities remain within the regulatory boundaries at all times.

The Board approves the level of risk which the Bank is willing to accept through the Risk Appetite Statement ("RAS"); the Board is responsible for maintaining a sufficiently controlled environment to manage these risks. The Board is also responsible for ensuring that capital and liquidity resources are adequate to support the Bank's business plans whilst remaining within both the regulatory requirements and the Bank's own internal risk appetite. The Board maintains close oversight of current and future activities, through a combination of Board reports including financial results, management reports, budgets and forecasts and assessments of the main risks set out in the Internal Capital Adequacy Assessment Process ("ICAAP"), Internal Liquidity Adequacy Assessment Processes ("ILAAP") and Recovery Plan and Resolution Pack ("RRP").
The Board comprises non-executive directors and executive directors. The Board meets formally at least four times a year, and on an ad hoc basis when required.

The Shariah Supervisory Board ("SSB")

The SSB comprises three individual Shariah scholars that specialise in Islamic commercial jurisprudence and is responsible for ensuring that the Bank's activities are in compliance with the requirements of Shariah.

In this regard the SSB reviews contracts, new deal structures and legal documentation and confirms whether or not a transaction is in compliance with Shariah principles. The SSB works closely with the internal Shariah Department. The SSB meets periodically with the Bank's representatives and on an annual basis it reports to the Shareholders via the inclusion of a Shariah Supervisory Report in the annual accounts. The SSB is appointed by the Bank's Board.

Audit Committee ("AC")

The Board has delegated to the AC responsibility to oversee financial reporting; ensure appropriate actions are taken with regard to internal and external audit; and aid in managing relationships with relevant external parties including the external auditors. The AC is required to meet at least quarterly.

The AC is chaired by an Independent Non-Executive Director with invitees as required from the Bank's Executive Management Team. This usually includes the Chief Executive Officer, the Chief Financial Officer and the Chief Risk Officer.

The Internal Audit function reports directly to the AC under the terms of reference for the committee. The AC approves the term of appointment of internal and external auditors and receives reports from the internal and external auditors. Both the internal and external auditors attend AC meetings when required.

Board Risk and Compliance Committee ("BRCC")

The Board has delegated responsibility to the BRCC to ensure that an appropriate risk management framework is in place; the Bank's control environment is commensurate to its needs, based on the strategy adopted by the Bank's Board and the nature and scale of the Bank's activities; and aid in managing relationships with relevant external parties including the Financial Conduct Authority and the Prudential Regulation Authority.

The BRCC meets at least four times a year and is chaired by an Independent Non-Executive Director with invitees as required from the Bank's Executive Management Team. This usually includes the Chief Risk Officer, the Chief Executive Officer, the Chief Financial Officer and the MLRO.

The BRCC receives reports from the Compliance and Risk functions of the Bank.

Remuneration and Nominations Committee ("RNC")

The RNC reviews remuneration matters, employee benefits and performance related pay structures for the Bank. It is also responsible for considering and determining the Bank's remuneration policy, reviewing its adequacy and effectiveness and ensuring that the remuneration policy and process complies with the FCA Remuneration Code.

In addition, the RNC is also responsible for reviewing the structure, size and composition of the Board and arranging the Board's annual performance review alongside formulating plans for succession for both non-executive and executive directors and reviewing Board committee memberships.
The RNC is chaired by an Independent Non-Executive Director and meets at least quarterly, with the Chief Executive Officer, Chief Financial Officer and Chief People Officer usually in attendance.

Executive Committee ("EXCO")

The EXCO takes day-to-day responsibility for the running of the business. The EXCO implements the strategy which is approved by the Board and ensures the performance of the business is conducted in accordance with the Board's instructions.

The EXCO meets monthly and reviews all aspects of business performance, including reviewing the financial performance, allocation of resources and management of principal risks. The EXCO implements the framework for risk management assisted by its various sub-committees.

Asset & Liability Committee ("ALCO")

The EXCO has delegated responsibility for managing and overseeing the Bank's exposure to liquidity, profit rate and market risk to ALCO.

The ALCO meets monthly and ensures that the Bank adheres to the market risk, balance sheet management and liquidity policies and objectives set out by the Board. It also has responsibility for ensuring that the policies are adequate to meet prudential and regulatory targets. The ALCO oversees the effective management of the Bank's balance sheet and the impact on capital and liquidity of future business activity and management actions.

Operating Committee ("OPCO")

The OPCO meets monthly and is the operational management forum responsible for delivery of the Gatehouse operating plan. The OPCO duties include ensuring there is effective implementation of appropriate policies and governance arrangements across the lines of business and functions, efficiencies are identified and implemented and projects are managed according to relevant standards and within timescales and budgets.

Real Estate Investment Advisory Committee ("REIAC")

The REIAC is the forum for approval of real estate investment advisory proposals. The Committee meets as required and its duties include approval of proposals to originate, sponsor or secure advisory mandates in respect of investment transactions; client fundraising related decisions to ensure alignment between a given investment opportunity and the client base; the approval of proposed monetary drawdowns on invested funds; and any advice or recommendations to be given by the Bank to investment advisory clients.

Executive Risk Committee ("ERC")

The ERC is responsible for oversight of the key risks to the Bank inherent in the business strategy on an aggregate basis. It is also responsible for the review and approval of Treasury credit applications and ensuring the Bank's aggregate risk profile remains within agreed Risk Appetite limits. The ERC also has responsibility for reviewing and, where appropriate, making recommendations for changes to the Bank's provisioning, financing and watchlist policies and monitoring the health of the overall credit and investment portfolio.

Management Credit and Investment Committee ("MCIC")

The MCIC considers all requests for credit or investments from the business lines of the Bank. In addition, MCIC is also responsible for the oversight of annual and any ad hoc reviews of Real Estate credit and investment exposures. The MCIC is responsible for approving transactions within its delegated approval authority from the Board.

Exposures in excess of the agreed limits are considered by the MCIC who then make a recommendation to the BCIC. All proposals or topics for discussion must be vetted by the Risk Department. Where possible, the Chief Risk Officer and the Heads of Business Units co-operate and resolve all outstanding issues prior to bringing the proposal to the MCIC. Any additional queries are discussed at the MCIC meeting.

Panel Management Committee ("PMC")

The PMC provides oversight of third party relationships as they related to financing operations, assists in managing any risks the Bank may be exposed to arising from third party activity and ensures third parties are working in compliance with service standards set by the Bank.

Crisis Management Committee ("CMC")

The CMC is the principal forum to agree the appropriate actions to be implemented following the Bank falling into a critical Recovery situation category 4 as detailed in the Bank's Recovery Plan.

It will meet if the CEO, as chair of the EXCO, informs the BRCC and Board that EWIs collectively indicate actual or potential migration to Category 4 of the Recovery Plan and the Crisis Management Committee needs to meet to discuss the appropriate actions to be implemented.

3. RISK MANAGEMENT FRAMEWORK

Risk Management Philosophy at Gatehouse

Risk management is at the core of Gatehouse's philosophy and plays a vital role in the prudent management of the growth of the Bank's business. Gatehouse's risk appetite identifies two sets of constraints which determine the risks that we are willing to take in pursuit of our strategy and the development of a sustainable business. Principle risks which can be assessed in a quantifiable manner are supported by a suite of quantitative metrics with operational thresholds. Risk Thresholds are characterised in relation to severity and the consequence of breach. There are 3 levels of thresholds for risk appetite limits as follows;

- **Trigger** – Also known as an early warning indicator. The activation of the trigger suggests that a metric is reporting close to its risk appetite limit level. It is designed to highlight a potential issue allowing time for action to be taken to prevent risk appetite limit being breached. Where a trigger is activated, the regular risk appetite reporting should capture reasons for activation of the trigger and highlight any remediation actions required. The activation of a risk appetite trigger alone does not constitute a breach of risk appetite;

- **Limit** – This is the level of risk that is considered sub-optimal in relation to the Bank's desired risk/return profile. The breach of a level 1 risk appetite limit should be reported to the Board, and resolved within an appropriate timeframe. The breach of the level 2 limit will be reported to management as part of monthly reporting; and

- **Capacity** – This is the maximum level of risk the Bank can assume before reaching its regulatory levels. The breach of a risk appetite capacity threshold may indicate the potential failure of the Bank and at this stage the Board will consider implementing the recovery plan.

Not all risk appetite metrics will have all three thresholds. For example, some operational risk metrics capacity is not considered relevant. The calibration of risk appetite differs across the principle risk types.

The risk appetite trigger, limit and capacity levels are calibrated through assessing the current and projected risk profile under normal and stressed conditions. Each principle risk type is calibrated individually with details provided in the risk appetite supporting analysis document.

The Bank's Risk Appetite is in accordance with ethical principles reflected in Shariah finance that inform our overall approach to risk management and our risk culture. We seek to ensure a fair outcome for our customers, while at the same time meeting expectations of stakeholders including regulators. We set our risk appetite to enable us to grow sustainably.

Gatehouse only engages in activities where it possesses the expertise to identify, quantify and manage the risks inherent to the underlying transaction.

Gatehouse regularly reviews the processes and procedures within the risk management function to ensure that they remain effective and appropriate for the current and future activities of the Bank.

Overview of Risk Management Framework

The Risk Management Framework ("RMF") for Gatehouse Bank represents the overarching framework established by the Bank to manage its risk profile, in line with its business strategy and objectives. It describes how risk management is established and implemented through all levels of the Bank.

The Key objectives of the RMF are to:

- Articulate the Bank's risk management principles, culture, policies and procedures and ensure that the Board, senior management and all key stakeholders have a consistent view of the Group's risk management practices and approaches;
- Establish a comprehensive Framework to support, organise and coordinate risk management activities at the Bank;
- Align long term strategic objectives with short term, day-to-day risk management activities;
- Articulate the Risk Appetite, parameters and strategies established at the top of the Bank that feed down through the business;
- Establish the flow of risk information through the organisation, enabling effective monitoring and management of risk at the various levels within the Bank; and
- Detail the integrity of the Bank's Risk Management Framework.

The RMF is informed by ISO3100 and COSO 2004 Enterprise Risk Management standards.

Ongoing risk identification, assessment and monitoring remain at the forefront of the Bank's growth strategy along with adherence to PRA and FCA regulatory requirements. The Bank's risk management principles and approach are outlined within the Risk Management Framework (RMF). The RMF is the overarching framework that enables the Board and senior management to manage the Bank's risk-reward profile within the boundaries of the Bank's risk appetite. The RMF allows informed decision making and articulated the Bank's risk principles, culture policies and procedures, whilst ensuring the Board, senior management and all stakeholders have unanimous view of the Bank's risk management approach and practices. The RMF is structured to align with the Board's objectives and to allow for the Board to articulate its tolerance and level of risk with regards to the strategic and business objectives. The RMF is subject to periodic review and approval by Board and management committees, to effectively capture the evolving nature of the business.

The independence of the Risk function is to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues.

The ERC, ALCO, OPCO and EXCO collectively are responsible for providing oversight to ensure that the Bank's risk profile is managed in compliance with the risk appetite set by the Board. The Risk Management function is managed by the CRO. The CRO has a joint reporting line to the CEO and the Chairman of the BRCC.

Gatehouse Bank operates under a 3 lines of defence risk governance model with primary ownership of risks lying with front office (1st line of defence) and some support staff within the Bank who have the responsibility of identifying and managing inherent risks associated with the activities they carry out, in order to fulfil the Bank's strategic plan.

The Risk Management and Compliance functions represent the Bank's 2nd line of defence. The Risk functions role is to assess, measure and monitor risks against established limits and in accordance with good practice for risk management throughout the Bank. The Compliance function acts to assure the quality and level of compliance to prevailing laws and regulation applicable to the Bank, chiefly through advice and testing of business activities. Collectively, these functions provide assurance to the Board that the control environment of the Bank is adequate, robust and commensurate with its activities so as to mitigate all risks such that they are maintained within the risk appetite expressed by the Board.

The 3rd line of defence is an internal audit function who provide independent assurance to the Board as to the effectiveness of the 1st and 2nd line functions as well as the overall control environment of the Bank.

Gatehouse adopts the Standardised approach to calculate its credit and market risk capital components. For calculating the operational risk capital component, the Bank operates under the Basic Indicator Approach.

Another inherent risk in managing the Bank's balance sheet is liquidity risk. Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due. The ALCO is responsible to provide oversight of liquidity risk management. To limit this risk the Bank maintains an adequate portfolio of liquid assets which consists of cash (Nostro balances), short-term bank deposits and investment grade Sukuk and listed equities. Liquidity adequacy is monitored on a daily basis by the Finance Department who circulates reports to relevant members of senior management and the Board. Liquidity adequacy is discussed at monthly ALCO meetings with key issues being escalated to EXCO. The ILAAP and supporting liquidity stress test scenarios are reported on a regular basis to BRCC.

The section below describes the Bank's policies and processes which identify, manage and control the above risks. These essentially cover all transactions, including those which do not utilise the Bank's balance sheet. A full risk analysis is completed for each transaction and presented to the relevant committees for approval. In addition, a risk analysis of the Bank's overall portfolio is presented to the monthly ALCO and at least three times per year to the BRCC.

Internal Audit

Internal audit is responsible for reviewing all business lines and support functions. The function is outsourced, however, Gatehouse retains overall oversight and accountability. Internal audit provides Executive Management and the AC with independent assurance that the Bank's policies and procedures have been implemented effectively. Internal audit also ensures that there are adequate controls in place to mitigate significant risks so that the exposure is within acceptable tolerance levels. The internal auditors report directly to the Chairman of the AC with an additional reporting line to the CRO.

The Bank's Internal Audit function provides the following:

- risk-based internal audit reviews and concentrates on key risk areas;
- special investigations on behalf of the AC;
- monitoring of management implementation of audit recommendations; and
- advice to management regarding systems, controls and procedures.

The audit plan is risk-based and formulated and agreed by the AC. The AC also monitors the adequacy of the work and sets out the process for the timely follow-up of reported issues. The Internal Audit function ensures that business activities are conducted in a controlled and efficient manner and achieve results consistent with planned objectives and goals. It also makes sure that information used for measuring performance and managing risks as well as preparing financial statements is reliable and has integrity, that compliance requirements are adhered to, and that the decisions made by those authorised are based on adequate and sound information. Other key roles performed by Internal Audit include ensuring that transactions, income, expenditure, liabilities and assets are completely and accurately recorded, that assets are safeguarded, and that operational activities and the use of resources are efficient and effective. Internal Audit has the responsibility to provide management with an independent view / assurance on matters addressed, and report to management any breakdowns, failures or weaknesses with appropriate recommendations for remedial action.

4. REMUNERATION

The members of the Remuneration and Nominations Committee are selected non-executive Directors. Regular attendees include the CEO, CFO and the Chief People Officer. Meetings are held on a quarterly basis and written terms of reference as approved by the Board include:

- consideration and periodic recommendation to the Board of the remuneration policy (including incentives linked to the Company's performance measured, amongst other things, by financial results adjusted for risks) relating to the executive directors and other senior executive managers that it is designated to consider and ensuring that such policy attracts and retains high calibre directors and senior executive management whilst ensuring this is consistent with sound risk management; and
- the review of performance related pay schemes and incentive plans and to consider and make recommendations in respect of their rationale, structure and aggregate cost.

Remuneration Policy (the "Policy")

Gatehouse's Remuneration Policy incorporates a total reward package comprising:

i. Fixed Pay (Salary);
ii. Variable Pay (Bonus and LTIP Awards);
iii. Benefits; and
iv. Non-financial rewards.

Material Risk Takers

The schedule of Material Risk Takers ("All staff who have a material impact on the firm's risk profile, including a person who performs a significant influence function for a firm, a senior manager and risk takers") is approved by the RNC on an annual basis.

2022 Aggregate Remuneration in respect of Senior Management and Other Material Risk Takers

	Senior management	**Other material risk-takers**	**Total**
Number of employees	10	31	41
	£'m	**£'m**	**£'m**
Fixed Remuneration[1]	1.99	2.37	4.36
Variable remuneration	0.72	0.28	1.0
Total	**2.71**	**2.65**	**5.36**

[1]Fixed remuneration consists of base salary.

5. CAPITAL RESOURCES

As at 31 December 2022

Core Tier 1 Capital	**£'m**
Share capital	150.0
Retained losses	(30.5)
Other Reserves - Other Comprehensive Income	(5.2)
Total CET 1 Capital	114.3
Deductions from CET1 due to Prudential Filters	
Intangible assets [1]	(1.3)
Qualifying Holdings [2]	(5.1)
Deferred Tax Assets [3]	(4.5)
Subtotal	103.4
(Deductions)/Add back to CET1 Capital	
Prudent Valuation Adjustment	(0.2)
Tier 2 Capital	
Subordinated Debt	9.0
Total regulatory capital	**112.2**

[1] Intangible assets represent software costs and IT licences to the extent these are not amortised. There is no additional CET1 capital held.

[2] Deductions relating to non-financial sector entity investment.

[3] Deferred tax assets are recognised in respect of tax losses to the extent that is probable that future taxable profit will be available against which the tax losses can be utilised.

6. CAPITAL AND LIQUIDITY ADEQUACY

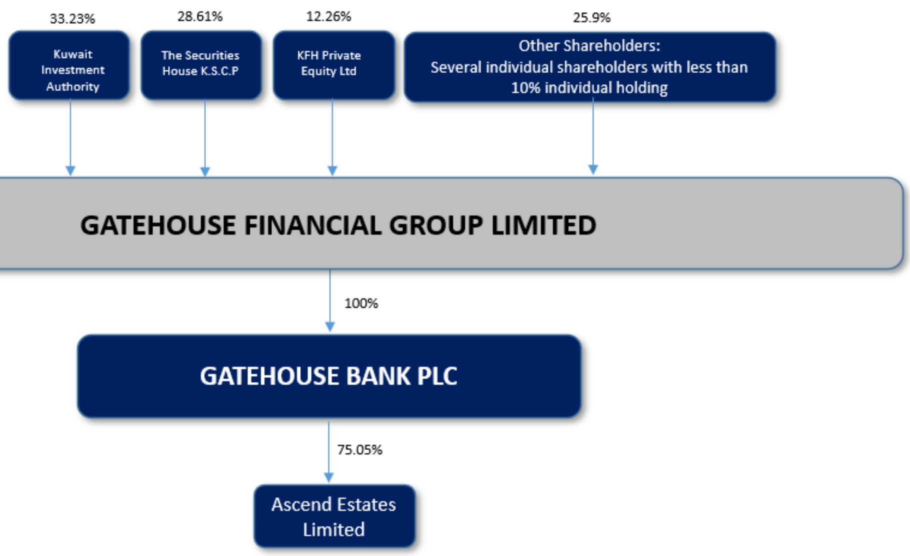
Capital Position

Gatehouse was incorporated in May 2007 with an authorised capital of £200 million. This was increased to £225 million in March 2008. Start-up capital of £10 million was injected by The Securities House K.S.C.C. in 2007. Paid-up capital was increased to £50 million in April 2008 as part of the FSA authorisation.

On 28 July 2011, Gatehouse Bank successfully raised an additional £100 million capital through a rights issue resulting in paid-up capital being increased to £150 million.

In Q1-2020 the Bank was able to raise Tier 2 capital in three tranches from institutional and private investors based in the Middle East. The Bank was able to rise £9 million on a 10 year subordinated debt issuance.

Gatehouse Bank plc ownership structure as at 31 December 2022



Capital Resources

Capital resources as at 31December 2022 amounted to £112.2m. Total Risk Weighted assets as at 31 December 2022 amount to £591m resulting in a Pillar I capital requirements of £47.3m. Pillar I and Pillar 2 capital requirements are explained in further details below.

CRD IV requires institution to hold capital buffers which can be drawn down in times of economic stress for absorbing losses. In addition to minimum capital requirements under CRD IV, the Bank held capital conservation buffer of 2.5% as at 31 December 2022. This buffer is designed to ensure that the Bank can build up capital buffers outside of times of stress that can be drawn upon when required.

As at 31 December 2022, the Bank has an institution specific countercyclical buffer ("CCyB") requirement of 0.71%. The CCyB requires the Bank to hold additional capital to counter pro-cyclicality. Institution's specific rates are calculated as the weighted average of the countercyclical capital buffers that apply in those jurisdictions where the relevant credit exposures exist.
The capital adequacy of the Bank is calculated on a daily basis and circulated to the executive management of the Bank. The capital adequacy is also formally reviewed and approved once a month through the Bank's monthly management accounts.

On an annual basis, the Bank produces a 12 month Budget incorporating the income statement, balance sheet, capital and liquidity requirements. This is presented to and approved by the Board. The 12 month forecast is monitored on a monthly basis and reported in the management accounts of the Bank.

The 12 month forecast prepared for the year-ended 31 December 2023 shows that the Bank will operate comfortably within its current and planned capital resources.

The Bank continues to monitor regulatory developments which may impact its Capital, Liquidity or increased reporting requirements.

Pillar 1 - Compliance with CRD IV capital requirements

The current Basel III requirements have not changed the minimum capital requirements ratio of 8% for Pillar 1 purposes. The significant changes are related to calculation of Risk Weighted Assets ("RWA") where the calculation is now based on a more sophisticated approach to measuring the risk exposures of the Bank.

Credit and Operational risks comprise over 95% of the Bank's capital requirement; and they are also the two key risk types to which the Bank is exposed, in addition to liquidity risk. The Bank has no material exposure to market risk as it is not the nature of a Shariah compliant bank to engage in speculative and derivative-based market trading.

As a UK regulated bank, the minimum capital requirement of Gatehouse for Pillar 1 purposes is the base capital resources requirement of €5,000,000.

The table below shows the approach currently used by Gatehouse to comply with Basel III regulations for the calculation of Pillar 1 capital requirements:

Type of Risk	Approach
Credit Risk	Standardised approach
Operational Risk	Basic indicator approach
Market Risk	Standardised approach

The table below breaks out the Bank's Pillar I capital requirements for credit risk:

	RWA £'m	Pillar I Capital Requirements £'m
On Balance Sheet and Off Balance Sheet Assets		
Cash and balances with banks	3.5	0.3
Financing and advances at amortised cost	446.7	35.7
Financial assets held at fair value through the income statement	25.6	2.0
Financial assets at fair value through other comprehensive income	0	0
Derivative financial instruments	6.8	0.5
Investment in Subsidiaries	26.4	2.1
Investment in Associates	0	0
Other Assets	4.4	0.4
Off Balance Sheet Assets	12.9	1.0
Total	**526.3**	**42.0**

Pillar 2 - Internal Capital Adequacy Assessment Process

The UK regulator has prescribed obligations under Pillar 2 of the Capital Requirements Directive ("CRD") which require all firms within the scope of CRD to have an Internal Capital Adequacy Assessment Process.

Not all material risks can be mitigated by Pillar I capital requirements, hence, the Bank has adopted a "Pillar I plus" approach to determine the level of capital that needs to be held in accordance with the Individual Capital Guidance. This method takes the Pillar I capital formula calculations (for credit, market and operational risk) as a starting point and then provides for additional capital for Pillar 2 requirements. Pillar 2 capital requirements are broadly split between risks that are not adequately covered or fully captured under Pillar I requirements, referred to as Pillar 2A. Pillar 2B requirements seeks to add to capital requirements for risks that the Bank may be exposed to during a period of severe but plausible downturn stress. As at 31 December 2022, the Bank's Pillar 2A requirements was 5.00%.

A modified form of insolvency remains the preferred resolution strategy with no capital requirements in excess of Pillar I and Pillar 2A.

Liquidity Risk – Internal Liquidity Adequacy Assessment Processes

The Bank also approves a formal ILAAP annually in line with requirements of the PRA Rulebook 'Internal Liquidity Adequacy Assessment'. The key function of the Internal Liquidity Adequacy Assessment Process ("ILAAP") is to inform senior management and the Board on an ongoing basis of the risks affecting the Bank's available liquid resources and of the need to implement any pre-agreed contingency plans to deal with risks should they materialise.

The key liquidity risks the Bank models are:

- Franchise viability risk;
- Cyber-attack risk; and
- Funding concentration risk.

Liquidity Ratios

The CRR has designed two liquidity ratios to ensure that Banks have sufficient liquidity to fulfil their short-term and long-term obligations: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

Liquidity Coverage Ratio

The LCR ensures that the Bank holds enough High-quality Liquid assets to meet their short term obligations. It is a generic stress test that makes sure the Bank have the necessary assets on hand to survive any Liquidity disruptions and market wide shocks on a short-term basis.

The LCR is calculated by dividing the High quality liquid assets by the total net cash outflows over a 30 day period as shown in the formula below:

$$\text{LCR} = \frac{\textbf{Stock of HQLA}}{\textbf{Total net cash outflows over the next 30 calendar days}} \geq \textbf{100\%}$$

The Bank was in compliance with all liquidity regulatory requirements during 2022. The below table provides Liquidity Coverage Ratio (LCR) as at 31 December 2022:

	(£'m)
Liquidity Buffer	39.4
Total net cash outflows	11.2
Liquidity Coverage Ratio (LCR)	**351%**

The Bank had an average of £41.5m Total Liquid assets after applying the relevant haircuts for the year 2022. The table below breaks down our HQLA on a quarterly basis based on the LCR return.

	Dec-22 (£'m)	**Sep-22 (£'m)**	**Jun-22 (£'m)**	**Mar-22 (£'m)**
HQLA	39.4	35.7	53.3	37.7
Average (£'m)	**41.5**			

Net Stable funding Ratio ("NSFR")

The NSFR ensures that the Bank has enough Stable funding to cover the duration of the Bank's long-term assets. It is a standard that seeks that Banks diversify their funding sources and reduce their dependency on short-term wholesale markets.

The NSFR is calculation is shown below:

$$\text{NSFR} = \frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} \geq 100\%$$

The Bank was above the 100% ratio requirement as at 31st December 2022 as shown in the table below:

	(£'m)
Total ASF	1,201.5
Total RSF	797.9
NSFR ratio (%)	**150.6%**

The table below provides the breakdown of the Banks Total Available stable funding (ASF), required stable funding and the NSFR ratio across each quarter for the year 2022:

	Dec-22	Sep-22	Jun-22	Mar-22
Total ASF (£'m)	1,201.5	1,058.2	982.1	896.8
Average ASF (£'m)	**1,034.6**			
Total RSF (£'m)	797.9	735.1	679.6	651.8
Average RSF (£'m)	**716.1**			
NSFR ratio (%)	150.6	144.0	144.5	137.6
Average NSFR	**144.2**			

Recovery Plan and Resolution Pack ("RRP")

The Board regards the RRP as a key component of the Bank's risk management framework as it enables the Board to understand and monitor the indicators and events that have the potential to cause the Bank to fail due to a lack of capital and/ or liquidity.

The development of the RRP identified a range of metrics (referred to as Early Warning Indicators and Invocation Trigger Points) that may impact the Bank's available liquidity and / or capital, and various recovery options. Performance relative to Early Warning Indicators is monitored daily and reported monthly to ALCO and regularly to the BRCC.

Liquidity Contingency Plan ("LCP")

The LCP sets out the strategies, policies and actions that senior management and the Board have identified as being necessary to improve and enhance the Bank's liquidity in crisis situations and periods of market stress. In line with regulatory expectations each LCP action establishes a clear allocation of roles and clear lines of management responsibility, and is aligned and integrated into the liquidity component of the Bank's RRP.

Capital Adequacy and Liquidity Assessment Process

Gatehouse considers ICAAP and ILAAP to be working documents that are continually being updated to reflect current business activities. The ICAAP and ILAAP are standing items on the monthly ALCO meeting agenda and are discussed at quarterly BRCC meetings. The ICAAP and ILAAP are presented formally to the Board for approval once a year.

Through the ICAAP and ILAAP, Gatehouse completes an annual assessment of the key risks to capital and liquidity, based on scenario analysis as well as sensitivity and reverse stress testing.

The key sources of risk to capital and liquidity that the Bank assesses are:

- Credit Risk;
- Market Risk;
- Operational Risk;
- Liquidity Risk;
- Concentration Risk;
- PRRBB Risk;
- Group Risk; and
- Business Risk.

7. CREDIT RISK

Credit risk is the risk of suffering financial loss in the event that one or more of Gatehouse's clients or market counterparties fails to fulfil their contractual obligations. Credit risk may also arise where the downgrading of an entity's credit rating causes the fair value of the Bank's investment in that entity's financial instruments to fall. The credit risk that Gatehouse faces arises mainly from Treasury activities, real estate commercial finance, real estate residential finance and legacy real estate investments.

Gatehouse's Credit Risk functions covers three key areas:

- The overall management and implementation of the risk management framework and risk appetite as determined by the Board; determining mandate and scale limits as set by the Board;
- Assessment of investment and financing activities via the provision of comprehensive credit risk assessments and recommendations for appropriate decision making forums. This includes monitoring of portfolio composition; and
- The monitoring of exposures to ensure compliance with approved limits and to ensure that the credit quality of the counterparty or collateral has not deteriorated or circumstances changed. Monitoring provides a picture of the portfolio as a whole and its inherent risks, including concentrations and capital allocation.

A comprehensive control framework is in place. This incorporates:

- Maximum credit guidelines relating to exposure to an individual counterparty or transaction and where appropriate, the minimum level of collateral;
- Geographical location limits to avoid excessive concentration of credit risk in individual regions; and
- Sector specific limits to avoid excessive concentration of credit risk in individual economic sectors.

A range of analysis methodologies are used to determine the credit quality of a counterparty, such as quantitative analysis, qualitative analysis, external rating agency research, industry specific research and for wholesale assets, market information such as credit spreads.

As at 31 December 2022, credit risk capital requirements arose on treasury assets, financial assets held at fair value though the income statement, financial assets at fair value through other comprehensive income and non-trading financial assets.

Treasury Assets

The Bank has exposures to a range of banks and financial institutions in its portfolio of mainly short-term treasury placements. These exposures arise mainly due to the placement of surplus capital in the market. Current exposures are to counterparties ranging from unrated institutions to those categorised under credit quality step 1 with a recognised external credit assessment institution. Exposure sanctioning authorities are agreed by the Board. Counterparty exposures are monitored against limits by the Risk and Treasury Departments on a daily basis and by the ERC on a monthly basis.

Assets held at fair value through the income statement

Financial assets held at value through income statement include financing advanced to corporate customers and unquoted equity securities. Financing advanced to corporate customer has been classified in this caption as it has failed to meet all the requirements set out in the Solely Payments of Principal and Profit (SPPP) test indicating that its cash flows are not solely payments of principal and profit, irrespective of the business model. Unquoted equity securities are not held for trading and therefore the Bank has the irrevocable election at initial recognition to classify the instruments as FVTOCI, which has not been taken.

Assets at fair value through other comprehensive income (Sukuk):

As at 31st December 2022, the Bank had a portfolio of Sukuk. Sukuk yields offer attractive returns relative to money market deposits. Maximum limits per Sukuk are in place which are monitored daily.

Non-trading financial assets

Gatehouse Bank maintains a non-trading (or banking) book of investments in Shariah-compliant investment vehicles and bilateral financing transactions. These take the form of secured or unsecured financing and are usually funded by external treasury liabilities in the same currency to minimise any foreign exchange risk.

Treasury assets, assets held at fair value through the income statement and assets at fair value through other comprehensive income and non-trading financial assets are monitored by Treasury, Risk and Finance on a daily basis in respect of capital requirements, liquidity mismatch and large exposures.

Exposure

The table below shows the maximum exposure to credit risk for assets on the balance sheet at 31 December 2022:

	Exposure £'m	RWA £'m
Assets		
Cash and balances with banks	17.6	3.5
Financing and advances at amortised cost	1,227.8	446.7
Financial assets held at fair value through the income statement	17.1	25.6
Financial assets at fair value through other comprehensive income	19.4	-
Derivative financial instruments	34.1	6.8
Investment in Subsidiaries	22.8	26.4
Investment in Associates	0	-
Other Assets	10.2	4.4
Total	**1,349.0**	**513.4**

Analysis of Balance Sheet Assets

The Bank's exposures are distributed in the following geographical regions as at 31 December 2022:

	Exposure £'m	RWA £'m
GCC countries	137.7	39.4
Kuwait	9.7	3.8
Saudi Arabia	21.4	4.4
UAE	79.2	23.4
Qatar	20.6	5.6
Oman	2.3	0.8
Bahrain	4.5	1.4
Europe	913.8	344.0
North America	40.5	37.4
South America	1.1	0.4
Asia	220.4	79.1
Africa	20.0	7.6
Australasia	15.5	5.5
Total	**1,349.0**	**513.4**

Exposures by counterparty type as at 31 December 2022:

	Exposure £'m	RWA £'m
Counterparty Type		
Institution	131.5	26.3
MDB	8.7	-
Sovereign	31.2	
High Risk Item	39.9	52.0
Secured by mortgages of immovable properties	1,112.9	414.3
Exposure in default	14.6	16.4
Equity	-	-
Other Assets	10.2	4.4
Total	**1,349.0**	**513.4**

The residual maturity breakdown of exposures as at 31 December 2022:

Assets	Less than 1 month £'m	1-3 months £'m	3-6 months £'m	6-12 months £'m	1-5 years £'m	Total £'m
Fixed rate items	121.7	6.3	0.2	15.7	1,104.7	1,248.6
Non rate sensitive items	73.1	7.4	-	0.6	19.3	100.4
Total Assets	194.8	13.7	0.2	16.3	1,124.0	1,349.0

Credit quality

The table below shows the credit quality of financial assets on the balance sheet at 31 December 2022, based on the Bank's credit policies:

Assets	Investment grade £'m	Non-investment grade £'m	Non-rated £'m	Total £'m
Cash and balances with banks	17.6	-	0.0	17.6
Financing and advances at amortised cost	100.3	-	1,127.5	1,227.8
Financial assets held at fair value through the income statement	-	-	17.1	17.1
Financial assets held at fair value through other comprehensive income	19.4	-	-	19.4
Derivative financial instruments	34.1	-	-	34.1
Investment in Subsidiaries	-	-	22.8	22.8
Investment in Associates	-	-	-	-
Other Assets	-	-	10.2	10.2
Total assets	**171.4**	**-**	**1,177.6**	**1,349.0**

The Bank has adopted the standardised approach to credit risk and it follows the standard mapping of credit quality steps to ratings provided by recognised external credit assessment institutions.

Whilst the Bank uses credit risk mitigation techniques where suitable, these are not used in the calculation of the Pillar 1 capital requirements. Hence, the exposure values and exposure values after credit risk mitigation are the same.

Exposures to institutions with effective original maturity of 3 months or less

Credit quality step	Risk weight	Exposure (£'m)	Exposure after credit risk mitigation
1	20%	31.0	31.0
2	20%	76.6	76.6
2	50%	-	-
3	100%	0.2	0.2
NR	20%	-	-
NR	100%	23.6	23.6
Total		**131.4**	**131.4**

8. MARKET RISK

Market risk is the risk of loss arising from a potential change in the value of an instrument or portfolio of instruments as a result of changes in market parameters (such as interest rates, equity indices, bond prices, commodity markets and exchange rates) during a specified time horizon. Gatehouse Bank is exposed to market risk in the management of its balance sheet. The role of the Risk function is to identify, quantify, manage and monitor the potential effects of those potential changes on the value of the portfolio, and broader balance sheet.

The Board sets and approves the market risk appetite for the Bank's activities. The Bank's Treasury department generally manages market risk. The Risk function implements a quantitative and qualitative limit framework within the context of the approved market risk appetite. A daily market risk report summarises market risk exposures against agreed limits. This daily report is circulated to the Treasurer for review.

A detailed market risk presentation is produced monthly and discussed at the Asset and Liability Committee.

Market Risk Measurement

The techniques used to measure and control market risk include:

- Nominal exposure limits: overnight and intraday limits;
- Value at Risk: an estimate of potential changes in the fair value or market value of the Bank's portfolio due to changes in market risk factors;
- Maximum loss: an estimate of the potential loss the Bank would have made on its portfolio had it held the same portfolio every day for the last 12 months;
- Sensitivity Analysis: an estimate of the potential loss incurred due to a specified change in a specified market risk factor; and
- Stress Testing and Scenario Analysis: used to estimate vulnerability to exceptional but plausible events. Stress testing ensures the adequacy of capital and liquidity, the viability of strategy and assesses the risks impacting Gatehouse Bank across a range of market conditions.

Although the Bank only trades in Shariah-compliant products, the carrying value of financial instruments held by the Bank is sensitive to movement in interest rates. If interest rates had been 200 basis points higher/lower and all other variables were held constant, the Bank's profit for the year ended 31 December 2022 would decrease/increase £4,880k (2021: £4,887k).

In order to meet internal and client demand, the Bank maintains access to market liquidity by using all reasonable endeavors to quote bid and offer prices with other market makers and carries an inventory of approved capital market and treasury instruments, including a range of cash, securities and treasury products. These include Commodity Murabaha, Wakala, Islamic foreign exchange forwards and Profit Rate Swaps or a combination of these instruments.

Value at Risk

Profit Rate Risk (equivalent to Interest Rate Risk)

The varying profit share features and maturities of products, together with the use of Treasury products create Profit Rate Risk ('PRR') exposures due to the imperfect matching of margins and maturity differences between assets and liabilities.

The Bank uses derivatives to prudently manage its PRR. In 2022 the Bank held profit rate derivatives (swaps) totalling £555m (2021: £360m) in the form of fixed for floating rate, which allowed the Bank to tactically hedge against risks arising from deposits of certain short-term maturities and longer-term financing.

Overarching PRR limits are set by the Board and articulated accordingly within the Risk Appetite Statement. The Board have further delegated oversight of PRR to the Bank's Executive Committee who mandate the Bank's Asset and Liability Committee (ALCO) to monitor and assess PRR. Basis Point Value (BPV) and Value at Risk (VaR) is used to monitor the risk arising from open profit rate positions. The Bank's Pillar 1 minimum capital requirement allows for profit rate risk through the profit rate risk requirement.

As at 31 December 2022, the market value of nominal positions generating profit rate VaR was £137m (2021: £90m) which generated profit rate VaR of:

£	95% VaR
One day	(948)
One week	4,111

The Bank applies VaR methodology for measuring interest rate, currency and basis spread risks for both the trading portfolio and banking books. VaR measure adopted by the Bank estimates the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon. The Bank distinguishes the following types of VaR:

1. Total VaR is calculated for all risk factors taken in aggregate;
2. Interest rate VaR is originated from interest rate risk exposure of the portfolio;
3. Foreign exchange VaR is originated from foreign exchange risk exposure of the portfolio;
4. Residual VaR is originated from other factors exposure of the Sukuk portfolio.

LIBOR Interest Rate Benchmark Reform (IBOR)

In order to make the business ready for transition away from LIBOR, a working group was setup headed by the Treasurer who reports to the Assets and Liabilities Committee (ALCO). Aside from Treasury, this working group comprised of Finance, Risk, Legal, Operations, Compliance and the Front Office for the Residential and Commercial areas of the Bank.

The purpose of the working group was to understand existing exposures of the Bank which have reference to LIBOR benchmarking in their pricing, review current documentation and to prepare and deliver on an action plan to enable a smooth transition to alternative benchmark risk free rates (RFR) such as the Sterling Overnight Index Average Rate (SONIA).

The Bank has adopted IBOR reform Phase 2 and changed RFR from Libor to Sonia for its 7 Libor linked swaps with one counterparty in January 2022. In line with the guidance from IASB, this transition did not result in hedge ineffectiveness.

Foreign Exchange Risk

A proportion of treasury funding and investment activity is undertaken in foreign currencies, mainly US dollars, Euros and Kuwaiti dinar. Foreign currency exposure is hedged on the balance sheet to reduce currency exposures to acceptable levels. VaR and maximum loss are used to monitor the risk arising from open foreign currency positions. The Bank's Pillar 1 minimum capital requirement allows for foreign exchange risk through the foreign exchange risk requirement PRR.

As at 31 December 2022, the net market value of nominal foreign exchange exposure was £425k which generated Foreign Exchange VaR and maximum loss estimates of:

£	95% VaR
One day	(2,107)
One week	(6,198)

Financial assets at fair value through other comprehensive income - Sukuk Portfolio Risk

As part of liquidity management, the Bank's Treasury department invests in selected Sukuk. As at 31 December 2022, the Bank has not used derivatives to hedge Sukuk investments. VaR is used to monitor the risk arising from the available-for-sale Sukuk investment portfolio. The Group's Pillar I minimum capital requirement allows for investment risk through the equity position risk requirement.

As at 31 December 2022, the market value of nominal Sukuk investment exposure was £19,351k which generated estimated Price Risk VaR and maximum loss of:

£	95% VaR
One day	(47,025)
One week	(117,251)

Capital Resource Requirement for Market Risk

During the period ended 31 December 2022, the Bank entered into FX derivative transactions and PRS in order to hedge its exposures to exchange rates and profit rate risk. A Pillar I charge arises from its notional foreign currency position and profit rate risk requirement and its counterparty credit risk component.

Pillar I capital resources requirements for each of the market risks below as at 31 December 2022 were:

Market risk type	Trading Book (£'m)	All activities (£'m)
Profit rate PRR	-	-
Equity position PRR	-	-
Option PRR	-	-
Collective investment schemes PRR	-	-
Counterparty risk capital component	-	1.6
Concentration risk capital component	-	-
Foreign currency PRR	-	0.0
Commodity PRR	-	-

9. OPERATIONAL RISK

Operational risk is the risk of losses resulting from human factors, inadequate or failed internal processes and systems or from external events. Operational risks are inherent in the Bank's business activities and are typical of any financial enterprise. It is not cost effective to attempt to eliminate all operational risks and in any event it would not be possible to do so. Those of material significance have historically been rare and the Bank seeks to reduce the likelihood of these crystallising in accordance with its risk appetite.

Major sources of operational risk include: operational process reliability, IT security, outsourcing of activities, dependence on key suppliers, dependence on key staff, implementation of strategic change, fraud, customer service quality, regulatory compliance, recruitment, training and retention of staff, and social and environmental impacts.

The Bank's ICAAP document details the capital that the Bank regards as adequate to guard against losses that would potentially be incurred should these risks crystallise.

Operational risk oversight is the responsibility of the Chief Risk Officer, who reports directly to the Chief Executive Officer and the Chairman of the BRCC. The Chief Risk Officer is also a member of EXCO, ALCO and chair of the ERC.

The role of the Chief Risk Officer within the 3 lines of defence model in this capacity is to assist the first line in analysing the operational risks faced by the Bank. Ongoing assessment of operational risks are recorded and reported to the ERC and regularly to the BRCC. The operational risk reports include dashboards that capture and rate the significance of key operational risks, along with an analysis of mitigating controls in place. The role also involves input into outsourcing arrangements and reviewing of any new products.

Each business and functional area is required to report key indicators and the core risks facing their business. These are maintained in conjunction with the Chief Risk Officer, who provides challenge and oversight.

The Bank's Pillar 1 capital requirements to meet operational risks is £3.8m as at 31 December 2022.

10. CREDIT RISK MITIGATION

The Bank's business model means that a significant portion of its credit and country risks fall within the upper range of its grading system. In order to mitigate its credit and country risks, the Bank employs a number of risk mitigants:

- As set out in Section 7 and further explained in the Bank's Risk Appetite, the Bank has a framework of concentration limits and guidelines to diversify the risk of excessive exposure concentrations
- Limits are established for single regions and counterparties based on their gradings
- Single counterparty limits govern quantum, nature and tenor of exposure.
- The majority of Gatehouse exposures are secured by tangible credit risk mitigants with an aim to decrease the credit risk associated with the exposure. This can take the form of property and other tangible or intangible assets, all of which must be Shariah compliant.
- Surplus liquidity is primarily placed with highly rated financial institutions.
- The Bank uses a credit grading system to facilitate the monitoring of the portfolio and individual exposures.
- Risk mitigation forms an important part of the credit assessment of a potential business proposal.
- It is Gatehouse's policy to ensure that credit risk mitigants are valued at the time a facility is approved. This is documented in the credit application. Once a transaction is drawn down the credit risk mitigant is revalued or reviewed as part of the annual review process to take into account current market conditions.

11. EXPOSURES TO EQUITIES NOT INCLUDED IN THE TRADING BOOK

The Bank had £17.1m non-trading book equity investments as at 31 December 2022 – the breakdown is provided in table below. Please also see note 19 of the 'Notes to the Consolidated Financial Statements' in 2022 annual accounts for non-trading book equity investments.

Exposures to equities not included in the trading book	**31 December 2022 (£'m)**
Unquoted equity securities - Fair value through income statement	17.1
Total	**17.1**

12. LEVERAGE RATIO

Currently, the Bank is not within the scope of the UK Leverage Regime as its retail deposits are less than £50 billion. The Bank' leverage ratio as at 31 December 2022 was 7.5%. Appendix II provides breakdown of the Leverage ratio as at 31 December 2022.

13. ASSET ENCUMBRANCE

The Bank had an encumbered asset balance of £0.5m as at 31st December 2022. This asset was a Cash ratio deposit (CRD) which are non-interest-bearing assets deposited with the Bank of England in line with the CRD scheme. Following the CRD scheme the bank is required to deposit a proportion of our deposits with the Bank of England given the total liabilities exceed £600m as at 31st December 2022. Appendix III provides breakdown of the asset encumbrance as at 31 December 2022.

14. Key Metrics

The following tables show the Bank's Key metrics disclosure made in accordance with Article 447 Disclosure of Key metrics of the CRR. Any blank cells in the template have been removed from this disclosure.

		Dec -22	Sep -22	Jun -22	Mar -22	Dec -21
		T	T-1	T-2	T-3	T-4
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	103.2	91.9	93.4	93.7	94.5
2	Tier 1 capital	103.2	91.9	93.4	93.7	94.5
3	Total capital	112.2	100.9	102.4	102.7	103.5
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	594.7	561.3	529.9	505.7	523.0
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	17.4	16.4	17.6	18.5	18.1
6	Tier 1 ratio (%)	17.4	16.4	17.6	18.5	18.1
7	Total capital ratio (%)	18.9	18.0	19.3	20.3	19.8
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
UK 7a	Additional CET1 SREP requirements (%)	2.8	2.8	2.0	2.0	2.0
UK 7d	Total SREP own funds requirements (%)	13.0	13.0	11.6	11.6	11.6
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.5	2.5	2.5	2.5	2.5
9	Institution specific countercyclical capital buffer (%)	0.7	0.0	0.0	0.0	0.0
UK 11a	Overall capital requirements (%)	16.2	15.5	14.2	14.2	14.2
	Leverage ratio					
13	Total exposure measure excluding claims on central banks	1,382.5	1,268.7	1,171.6	1,067.9	1,028.4
14	Leverage ratio excluding claims on central banks (%)	7.5	7.2	7.9	8.7	9.2
	Additional leverage ratio disclosure requirements					
14b	Leverage ratio including claims on central banks (%)	7.5	7.2	7.9	8.7	9.2
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	39.4	35.7	53.3	37.7	33.1
UK 16a	Cash outflows - Total weighted value	44.9	47.4	41.8	31.5	36.2
UK 16b	Cash inflows - Total weighted value	115.3	82.0	94.5	39.5	39.1
16	Total net cash outflows (adjusted value)	11.2	11.9	10.4	7.9	9.0
17	Liquidity coverage ratio (%)	350.7	301.1	510.8	478.5	365.4

	Net Stable Funding Ratio					
18	Total available stable funding	1,201.5	1,058.2	982.1	896.8	-
19	Total required stable funding	797.9	735.1	679.6	651.8	-
20	NSFR ratio (%)	150.6	144.0	144.5	137.6	-

APPENDIX 1 – OWN FUNDS DISCLOSURE

The following table shows the Bank's own funds disclosure made in accordance with the Commission implementing regulation (EU) No. 1423/2013. Any blank cells in the template have been removed from this disclosure.

		31 Dec 2022 (£'m)
	Common Equity Tier 1 capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	150.0
	of which: ordinary shares	150.0
2	Retained earnings	(39.5)
3	Accumulated other comprehensive income (and any other reserves)	(5.2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	105.3
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	
8	Intangible assets (net of related tax liability) (negative amount)	(11.1)
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0
25a	Losses for the current financial year (negative amount)	9.0
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	(2.1)
29	**Common Equity Tier 1 (CET1) capital**	103.2
44	**Additional Tier 1 (AT1) capital**	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	103.2
58	**Tier 2 (T2) capital**	9
59	**Total capital (TC = T1 + T2)**	112.2
60	**Total risk-weighted assets**	594.7
	Capital ratios and buffers	
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	17.4%
62	Tier 1 (as a percentage of total risk exposure amount	17.4%
63	Total capital (as a percentage of total risk exposure amount	18.9%
64	Institution specific buffer requirement	3.2%
65	of which: capital conservation buffer requirement	2.5%
66	of which: countercyclical buffer requirement	0.7%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	9.4%
	Amounts below the thresholds for deduction (before risk-weighting)	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	10.3

APPENDIX II – ANALYSIS OF LEVERAGE RATIO

The following tables show the Bank's leverage ratio disclosure made in accordance with the Commission Implementing Regulation (EU) 2016/200. Any blank cells in the template have been removed from this disclosure.

		31 Dec 2022 (£'m)
Summary reconciliation of accounting assets and leverage ratio exposures		
1	Total assets as per published financial statements	1,349.0
4	Adjustments for derivative financial instruments	6.8
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	33.1
7	Other adjustments	(6.4)
8	**Total leverage ratio exposure**	1,382.5
Leverage ratio common disclosure, CRR leverage ratio exposures		
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,349.0
2	(Asset amounts deducted in determining Tier 1 capital)	(6.4)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	1,342.6
	Derivative exposures	
EU-5a	Exposure determined under Original Exposure Method	6.8
11	Total derivative exposures	6.8
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	172.2
18	(Adjustments for conversion to credit equivalent amounts)	(139.1)
19	Other off-balance sheet exposures	33.1
	Capital and total exposures	
20	Tier 1 capital	103.2
21	Total leverage ratio exposures	1,382.5
22	**Leverage ratio**	**7.5%**
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully Phased -in

		31 Dec 2022 (£'m)
Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	1,349.0
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	1,349.0
EU-5	Exposures treated as sovereigns	31.2
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	8.7
EU-7	Institutions	131.5
EU-8	Secured by mortgages of immovable properties	1,112.9
EU-12	Other exposures	64.7

APPENDIX III – ASSET ENCUMBRANCE

The following table shows the analysis of asset encumbrance in accordance with the EBA Guidelines on disclosure of encumbered and unencumbered assets (EBA/GL/2014/03).

As at 31 Dec 2022	Carrying amounts of encumbered assets (£m)	Fair value of encumbered assets (£m)	Carrying amounts of unencumbered assets (£m)	Fair value of unencumbered assets (£m)
Assets of the reporting institution	0.5	-	1,348.5	1,349.0
Equity instruments	-	-	17.1	17.1
Debt securities	-	-	19.4	19.4
Other assets	0.5	-	1,312.0	1,312.5