ZEMPLER BANK

Pillar 3 Disclosures

for the year ended 31 March 2024

Contents

03 Overview
04 Strategy
07 Governance
09 Risk Management Strategy
24 Capital Management and Resources
33 Liquidity and Funding Risk
36 Credit Risk
40 Market Risk
42 Operational Risk
44 Remuneration
50 Appendices

List of tables

01 Overview of Risk Weighted Exposure Amounts (OV1)
02 Capital Ratios
03 Available Capital by Type
04 Leverage ratio exposures (LR1)
05 Leverage ratio common disclosure (LR2)
06 Split of on-balance sheet exposures (LR3)
07 IFRS9 transitional arrangements
08 Liquidity Coverage Ratio
09 Net Stable Funding Ratio
10 Pillar 1 Standardised Credit Risk Weighted Assets
11 Operational risk own funds and RWAs (OR1)
12 Remuneration awarded for FY 2022/23 (REM1)
13 Special payments to staff (REM2)
14 Key Metrics (KM1)
15 Composition of regulatory own funds (CC1)
16 Reconciliation of own funds to balance sheet (CC2)

Company information

Company name
Zempler Bank Limited

Registered Office & Trading Address
Cottons Centre
Cottons Lane
London
SE1 2QG

Company Registration Number
04947027
England and Wales

Overview

Introduction

Zempler Bank Limited is registered in England and Wales at Cottons Centre, Cottons Lane, London SE1 2QG (company number: 04947027). Its registered name changed to Zempler Bank Limited on 24 June 2024 and the bank launched its public rebrand as Zempler Bank on 9 July 2024. Previously, its registered name was Advanced Payment Solutions Limited, whilst it traded under the name Cashplus Bank.

We received our banking licence in February 2021. We are authorised by the Prudential Regulation Authority (PRA) and regulated by the PRA for prudential requirements and by the Financial Conduct Authority (FCA) for conduct of business matters.

Purpose

This report covers the period from 1 April 2023 to 31 March 2024. It provides information on our risk management, capital, liquidity and remuneration in line with the public disclosure requirements set out in Part VIII of the UK Capital Requirements Regulation (UK CRR) and the Disclosure (CRR) part of the PRA Rulebook. These requirements aim to encourage market discipline by enabling market participants to assess key pieces of information on our risk exposures. We have not omitted any recommended disclosures on the grounds that the information may be proprietary or confidential.

Our Pillar 3 report should be read in conjunction with the bank's Annual Report & Accounts that is available on the Zempler Bank website. The information presented in this report is not required to be, and has not been, subject to an external audit.

Basis of Preparation

We assess ourselves to be a non-listed 'small and non-complex institution' under Article 4(145) of UK CRR, as total value of our assets is less than EUR 5 billion and we do no use any internal models to meet prudential requirements.

We follow the disclosure requirements set out in Article 433b of the Disclosure (CRR) Part of the PRA Rulebook. The frequency and scope of disclosure will be reviewed annually, or more frequently in the event of a material change in the business.

The Disclosure (CRR) Part of the PRA Rulebook contains prescribed templates which have been adopted to present the quantitative disclosures within this document. Where certain rows or columns within prescribed templates are not relevant to us, these have been omitted.

Regulatory Developments

Following the consultation (CP 16/22) on the implementation of revisions to the Basel 3 standards i.e. Basel 3.1, the PRA had published first of two near-final policy statements (PS 17/23) in December 2023; followed by second near-final PS in September 2024. The final PS is intended to take effect from 1st Jan 2026.

We are reviewing and preparing for the implications of these proposed changes, particularly for the Standardised Approach for Credit, Market and Operational Risk.

However, we also meet all the criteria for the PRA's proposed new 'small domestic deposits takers' (SDDT) regime. We will assess the proposals for the SDDT regime in line with the PRA's guidance and expect to make a choice in H2 2024 on whether to apply the Basel 3.1 standards or to transition to the new SDDT regime.

Pillar 3 Disclosures

Strategy

Our strategy

Our purpose

Enabling a more open and successful financial future.

Zempler Bank was founded with the ambition to make banking services more inclusive and accessible to break down the barriers for underserved businesses and individuals. We remain committed to fulfilling that purpose by providing customers with the simple, easy-to-access digital banking they deserve, from a partner they can trust.

Our mission

Provide the UK's underserved microbusinesses and people with easy-to-access, simple-to-use banking that helps them succeed.

Our vision

Become the UK's best loved digital bank.

Our strategy

Our strategic priorities

Create brilliant, commercially sustainable products

We aim to provide our customers with genuinely useful products that are simple to use, easy to access and designed around them. We have a strong track record of data-driven decision making, which allows us to tailor and target our products to our customers' needs, giving them the tools they need to succeed and delivering strong product economics for the Bank.

Deliver a simple and easy banking experience to our customers

We know how tough it is to start and run a small business and how stressful managing money can be, so we want to make doing business with Zempler Bank as easy as possible. We remain committed to excellent, knowledgeable, and friendly personal service, based in the UK and easily available by telephone. We will support this offer with advanced technologies to enhance the overall experience for customers and get them the answers and support they need ever more quickly and easily.

Build a well-known brand with an outstanding reputation

As we grow, we recognise the need to raise positive awareness of our brand among the UK public and key stakeholders in our industry, the media and within the UK political arena. We want to be a trusted name for all stakeholders including our customers, colleagues, investors and society as a whole.

Scale our business

We know that our business has enormous potential and recognise that now is the time to grow more quickly and achieve the scale that will deliver exponential value for our shareholders, customers, colleagues and other stakeholders. We will seek to secure additional equity funding in the next financial year to accelerate growth by allowing us to acquire customers more quickly and unlocking our lending potential.

Pillar 3 Disclosures

Governance

Governance

The Board has overall responsibility for management of the business of the Bank and the protection of depositors and must ensure that the business is managed in accordance with the regulatory threshold conditions applicable to an authorised bank.

The Bank has a clear division of responsibility between the roles of the Chair of the Board and the Chief Executive Officer (CEO). The Non-Executive Chair, who does not have any executive responsibility for the day-to-day running of the Bank's business, is responsible for chairing and overseeing the performance of the Board and ensuring that it discharges its responsibilities.

The Board's role is to direct, supervise and oversee the business of the Bank. Implementation of the strategy set by the Board and management of the business of the Bank on a day-to-day basis within the financial, operational and risk limits and tolerances set by the Board is delegated to the CEO.

The CEO is supported by an Executive Committee whose role is to support the CEO in the management and day-to-day running of the business and delivery of the Board approved strategy, business plans and customer strategy within the financial, operational and risk limits and tolerances set by the Board.

The governance arrangements are intended to ensure that key decisions are made at the appropriate level and that there is adequate oversight of the performance and management of the business, with reporting lines making it clear who is accountable for each area of business risk.

For more details on our governance arrangements please see pages 22 to 25 of our Annual Report & Accounts.

Pillar 3 Disclosures

Risk Management Strategy

Risk Management Strategy

The Board aims to deliver the Bank's strategic and business objectives, together with operational and financial stability, whilst minimising and managing identified risks and ensuring good customer outcomes through appropriate mitigation.

Our risk strategy has three core elements: (i) Simplicity in approach with efficient and effective tools and processes delivering the right information to the right people at the right time; (ii) Sustainable controls enabling the Bank to absorb and adapt to shocks, and (iii) An embedded framework, utilised by trained and motivated colleagues to optimise risk versus reward.

Zempler faces a range of risks from both internal and external factors. To manage these effectively, it has developed and embedded a comprehensive Enterprise-wide Risk Management Framework (ERMF) with people and culture at its heart.

Simple

- Develop a clear approach to manage risk and compliance
- Supported by efficient and effective tools
- Provide insightful management information to the right people at the right time

Target Operating Model ensures risk resource is aligned to business growth

Sustainable

- 'Absorb and adapt to shocks' - customer service protected even in times of stress
- Effective controls in line with regulatory expectations and risk appetite
- External threats are monitored and mitigated

Proactive consideration of risk, compliance, and control in everything we do

Embedded

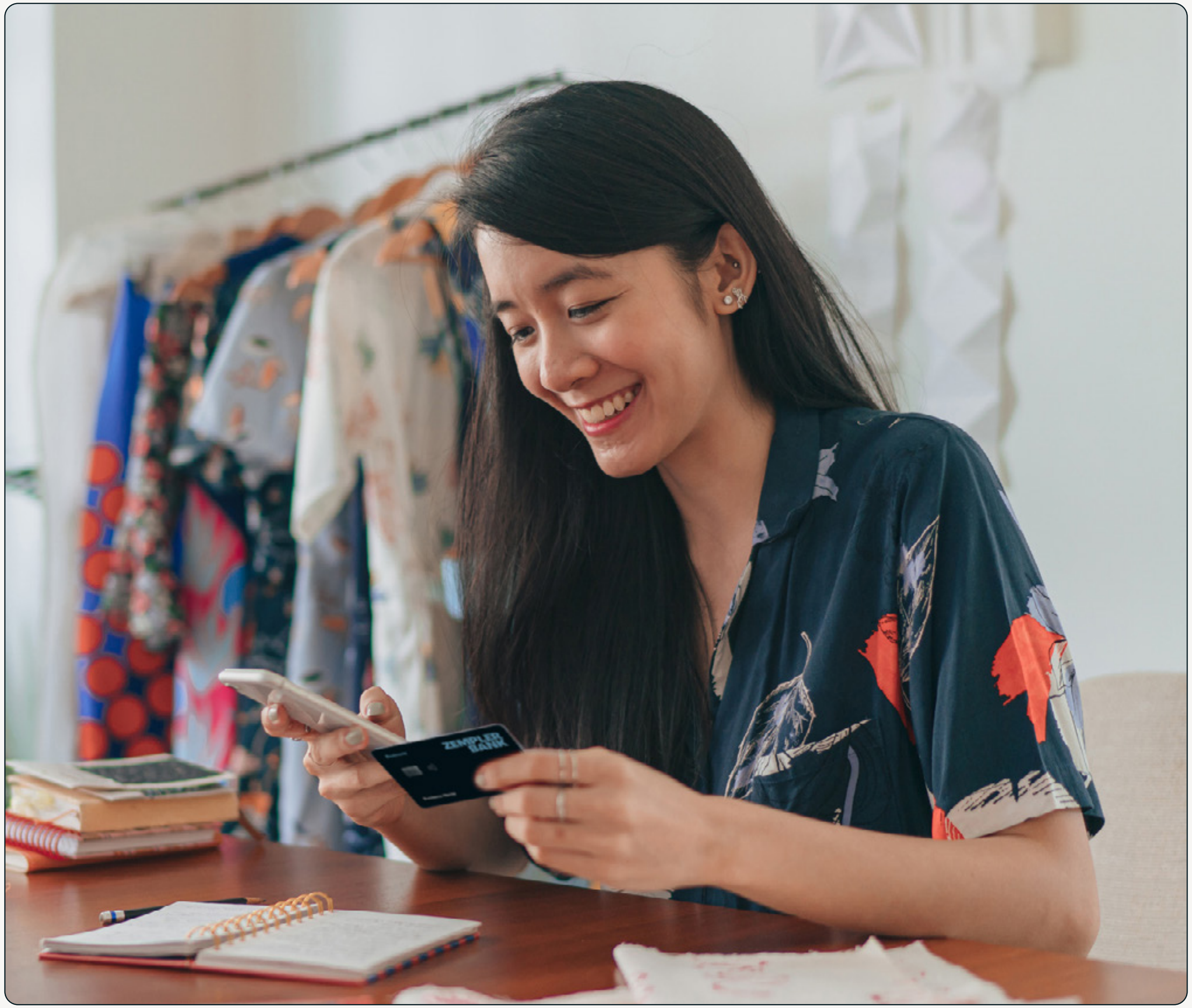
- Trained and motivated colleagues across the organisation embrace the framework
- Risk and compliance mindsets and behaviours linked to remuneration
- Collaborative culture supporting Senior Managers and Certification Regime accountability

Risk management 'baked into' Strategy

Risk Management Strategy

This is subject to continuous improvement and is reflective of the increasing focus on strong risk management and governance. The framework provides the tools to manage risk, organised around risk categories aligned to our governance structure: Conduct, Credit, Financial (including capital and liquidity), Economic Crime, Operational and Governance & Strategic.

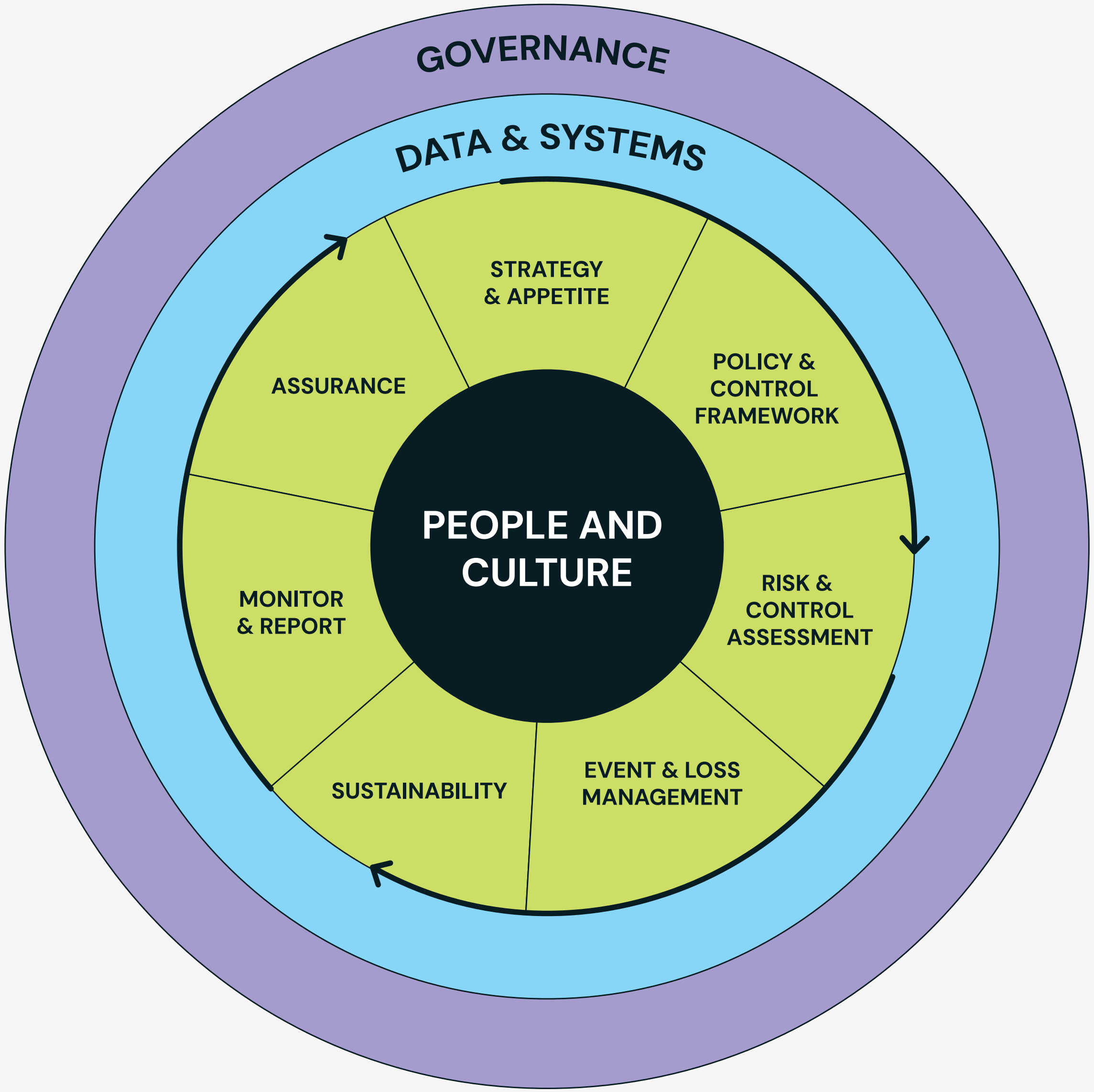
These risks encapsulate all material financial and non-financial risks faced by Zempler Bank and are supported by sub-categories to support identification, assessment, mitigation and monitoring of specific risks. They provide a common language to be used across the business and enable us to embed our risk appetites and associated policies into day-to-day management activity. The framework is designed to allocate risk ownership and accountability throughout the business. Each component forms part of a larger continuum, providing a holistic view of our risk profile across all risk categories.



Risk Management Framework

The Enterprise Risk Management Framework (ERMF) sets out the Bank's approach for managing risk and is designed and maintained by the Chief Risk Officer (CRO). It is reviewed and approved by the Risk Committee on at least an annual basis. The CRO is responsible for oversight and implementation of the framework and reports independently to the Board Risk Committee in relation to these matters, reporting directly to the CEO on a day-to-day basis.

Management of risk is everybody's responsibility. The risks are not owned by the second line Risk function, but by each individual business area owner. The Risk function delivers the framework and standardised approach, tools and processes to manage risk effectively and performs oversight to ensure that standards are being met. The risk function also helps 'reveal' the risk landscape for the benefit of the Risk Committee and Board.



Risk Operating Model

Zempler Bank has adopted the industry-standard three lines of defence model to articulate the accountabilities for risk management. The roles of key personnel are set out below:

Personnel/Line	*Responsibilities*
Senior Management/ First Line	• Responsible for the day-to-day management of risk within Zempler, as per the Management Responsibilities Map and Senior Managers and Certification Regime (SMCR). • Ensures the implementation of appropriate and effective internal controls to manage the Bank's exposure to risks. • Ensures key controls are evaluated and operating as intended to manage risk within risk appetite. • Ensures appropriate resources are in place to achieve risk management objectives. • Ensures that all policy documents become part of the corporate culture of Zempler Bank through established limits to manage quantitative risks; and through policies to manage qualitative risks.
Chief Risk Officer/ Second Line	• Responsible for the Risk and Compliance functions. Reports to the CEO for day-to-day activities, but independently to the Board Risk Committee to ensure oversight and adherence to the risk framework. • Establish the framework within which risk controls can be achieved to ensure that the inherent risks associated with the Bank's undertakings can be quantified and mitigated. • Provide oversight and challenge of risk management activities performed by the 1st line of defence.
Internal Audit Director/ Third Line	• Providing independent third line assurance and assessment of risk processes and controls on the overall effectiveness of the ERMF. The Internal Audit Director reports directly to the Chair of the Audit Committee to ensure independence, and to the CEO for day to day activities. An external firm is also used to supplement internal resource.
All Colleagues	• All colleagues are responsible for adhering to all rules and regulations, including Conduct Rules as well as processes and procedures which are designed to manage the risks associated with the work they perform. • They are also required to alert management to any risk incidents or potential risk incidents that they become aware of in the course of their work. • Colleagues should also discuss with their management any potential gaps in, or improvements to, the control framework that they identify.

Risk Operating Model

Risk appetite

Risk appetite, is set and owned by the Board, and is key in setting the parameters within which the business can operate. Qualitative and, in some cases, quantitative risk appetite statements have been developed for each of the risk categories. These set the overall tone for risk taking and influence the metrics (Board Risk Measures and Key Risk Indicators) used to measure the performance of each risk and ensure appropriate intervention where required. Risk appetite is supported by a robust set of principles, policies and procedures and is set on an annual basis. Amendments to risk appetite may be proposed proactively outside of the annual refresh cycle to ensure it remains appropriate to the current risk environment.

Risk identification and assessment –the Risk Register

A Risk Register is used to standardise and enhance the monitoring of the risks by the Risk and Compliance Function. Risk and Compliance help the relevant Senior Management Functions (SMF) and Functional owners to operationalise their Risk Registers through meetings and relevant training. Further, Risk and Compliance monitor the various Risk Categories through attendance at the sub-Risk Committee Groups/Committees, the Executive Committee (ExCo), the Risk Committee, and relevant thematic risk assessments. In addition, Risk and Compliance perform a second line review of the ILAAP, ICAAP and Recovery and Solvent Exit.

Emerging and future risks are also expected to be captured in the Risk Register commentary by the SMF and functional owners. In addition, relevant working groups support each of the Executive level committees. This also brings together horizon scanning across legal, regulatory, macro-economic and other such matters. The output helps inform the CRO's reporting to ExCo, the Risk Committee and Board.

Risk governance & reporting

The Board is responsible for ensuring that Zempler Bank operates in a principle-led manner and maintains an organisational structure to provide adequate support in discharging this duty. In addition, the Board ensures that the risk management processes are aligned with the corporate strategy, and that there is regular reporting of the risk profile and the results of the risk assessment process.

The Risk and Compliance function is under the remit of the CRO, who reports directly to the CEO on a day-to-day basis, with a dotted-line to the Chair of the Risk Committee. The CRO provides independent reporting to the Risk Committee, Audit Committee and Board, and occasionally to the Remuneration Committee as appropriate. The Risk Committee is responsible for the oversight and assessment of the Zempler ERMF, providing advice and guidance to ensure alignment with approved company policies. Enhanced governance is provided via the Executive Committee, who regularly review and discuss the risk profile to consolidate and ensure effective management and oversight of key outputs emanating from the various Risk Governance committees.

Principal Risks and Uncertainties

A description of Principal Risks and Uncertainties, and the controls in place to mitigate them, have been detailed in the table below:

Risk	*Description*	*Sub-risks*	*Mitigating actions and committee oversight*	*Over-arching processes*	
Conduct	The risk that any product, service, behaviour, systems and/or controls may cause detriment to a customer, and negatively impact the integrity of the market.	• Customer Communications • Customer Servicing • Product & Service Design • Conduct Compliance & Regulatory Affairs • Vulnerable Customers	Zempler Bank considers the Consumer Duty Principle to 'act to deliver good outcomes for retail customers' at every stage of the customer journey and has embedded the cross-cutting rules to 'act in good faith', avoid causing foreseeable harm' and 'enable and support customers to pursue financial objectives' into the culture of the organisation and into the Enterprise Risk Management Framework. Conduct Risk is managed and monitored by the Customer Committee which meets monthly and reports to the Executive Committee. This includes managing the assessment of new products and their features to ensure they are appropriate, including undertaking annual product assessments. In addition, there is an annual report to the Board on how we are meeting Consumer Duty requirements.	**Enterprise Risk Management Metrics and Monitoring to Risk Committee**	**Management Risk Committees Supporting Executive and Board Risk Committees**

Principal Risks and Uncertainties

Risk	Description	Sub-risks	Mitigating actions and committee oversight	Over-arching processes	
Credit	The risk associated with material financial disruption as a result of borrowers failing to meet obligations in accordance with agreed terms; lending exposures being grouped in such a manner that a correlated performance of the individual loans can be anticipated; and not acting in a customer's best interests, such that lending is not affordable, terms and conditions are not transparent and borrowers are not supported if they experience repayment difficulties.	• Credit Portfolio Risk • Credit Concentration Risk • Responsible Lending	The Credit Framework focuses on ensuring appropriate and affordable lending is provided to customers. Credit is managed to a defined risk appetite and associated measures, monitored by the Credit Risk Committee, which meets monthly and reports to the Executive Committee. The framework includes the use of: • Predictive underwriting models which are regularly reviewed; • Performance monitoring; and • Credit risk management policies and operational procedures across the full lifecycle.	Enterprise Risk Management Metrics and Monitoring to Risk Committee	Management Risk Committees Supporting Executive and Board Risk Committees

Principal Risks and Uncertainties

Risk	*Description*	*Sub-risks*	*Mitigating actions and committee oversight*	*Over-arching processes*
Economic Crime	Economic crime is the risk of loss associated with criminal activities of customer and non-customer entities.	• Money Laundering & Terrorist Financing • External Fraud • PEPs & Sanctions • Financial Crime Reporting • Internal Fraud	The Economic Crime framework focuses on minimising the loss associated with criminal activity. These risks are managed and monitored by the Economic Crime Committee which meets monthly and reports to the Executive Committee.	**Enterprise Risk Management Metrics and Monitoring to Risk Committee** **Management Risk Committees Supporting Executive and Board Risk Committees**
Financial	The risk associated with material financial disruption as a result of:		The Financial Risk Framework focuses on managing financial risks to within the Board's risk appetite and adhering to the rules of the banking regime set out by the Prudential Regulation Authority. The risks are monitored by the Asset and Liability Management Committee, which meets monthly and reports to the Executive Committee, with day to day responsibility for managing the risks delegated via the CFO with SMF accountability, to members of the Finance department. In addition, 2nd line oversight is provided by the Prudential Risk & Compliance team. A daily assessment of all the core Financial risks and metrics is provided daily to key teams in Finance, Treasury and Risk, with month end summaries provided to ALCO, Risk Co and the Board. The MI covers internal and regulatory specified metrics.	

Principal Risks and Uncertainties

Risk	*Description*	*Sub-risks*	*Mitigating actions and committee oversight*	*Over-arching processes*	
Financial	The business does not hold adequate capital to survive a stress potentially resulting in regulatory censure due to breaches of regulatory requirements and/or rendering the business, unsustainable.	Capital Adequacy	Capital risk management is encapsulated within the annual Internal Capital Adequacy Process (ICAAP) which identifies the level of capital required to meet forward looking requirements plus an internally defined severe-but-plausible stress scenario. Zempler Bank's ability to manage capital is driven through operational optimisation and efficiencies, keeping costs low, plus earnings from Fees, Commissions and interest received from its lending and current account activities. A recovery plan is reviewed annually to determine appropriate management action to support short term capital stabilisation in the event of severe but plausible stress. A more recent regulatory requirement for firms is the inclusion of Solvent Exit Plan, which in extremis, is intended to aid the orderly exit for the a firm.	Enterprise Risk Management Metrics and Monitoring to Risk Committee	Management Risk Committees Supporting Executive and Board Risk Committees
	Liquidity risk is the risk of Zempler having insufficient available resources to meet minimum regulatory requirements and its liabilities as they fall due, both in normal and stress conditions.	Liquidity & Funding Risk	As a predominantly current account business, Zempler maintains significant cash reserves at the Bank of England to limit the impacts from a severe run on funds. With the majority of cash received held at the Bank of England, for liquidity purposes, this naturally limits any funding concentration risk for the Bank. Liquidity risk management is articulated through the Internal Liquidity Adequacy Assessment Process (ILAAP), where a comparable severe-but-plausible stress is used to determine the potential impacts to Zempler Bank from any run on funds. The analysis is aided by a LCP (Liquidity Contingency Plan) which is an intended playbook for if a run on funds was to occur. It is also supported by the Recovery Plan (which identifies actions that may be used to increase the level of both capital and liquidity).		

Principal Risks and Uncertainties

Risk	*Description*	*Sub-risks*	*Mitigating actions and committee oversight*	*Over-arching processes*
Financial	IRRBB arises from where there is a mismatch in the term or the basis of interest rates applied to assets and liabilities (e.g. fixed rate deposits and floating rate loans).	Market Risk (Interest Rate Risk in the Banking Book)	The (opportunity) losses that can arise from financial assets or liabilities being adversely affected by the movement in market prices, interest rates or exchange rates are reflected in near term earnings or in the longer term capital because of changes in the economic value of future cashflows. With a sizeable part of its deposits held at the Bank of England, there is an inherent mismatch between the basis of Zempler Bank's interest income and its interest expense which it needs to manage. Zempler Bank's prudent view of the forward view of rates is supported by the holding of a Gilt and T-bill portfolio which immunises an element of the opportunity cost from a fall in interest rates. In addition, Zempler bank has the use of an option should interest rates fall suddenly - providing an additional hedge to its earnings capability.	Enterprise Risk Management Metrics and Monitoring to Risk Committee Management Risk Committees Supporting Executive and Board Risk Committees
	A lack of financial controls including internal daily controls, reconciliation of payment processing and regulatory returns.	Financial Controls, Accounting & Tax	Zempler bank has a low tolerance for weak financial controls supporting the management of its financial risks. Activities are supported and managed through Zempler's change management programme and Insurance, as well as 2nd line oversight which extends to all regulatory releases.	

Principal Risks and Uncertainties

Risk	Description	Sub-risks	Mitigating actions and committee oversight	Over-arching processes	
Financial	The risk of not meeting PRA regulatory rules, responsibilities and expectations.	PRA Compliance & Regulatory Affairs	The bank aims to comply with both the letter and the spirit of the PRA's rules, responsibilities and expectations. It will not seek to 'game' the regulations by looking to use favourable interpretations of the rules where they could be considered to be out of line with the underlying objectives of the rules. To support it in this aim, the Bank uses the services of the Prudential Risk & Compliance team to ensure transparent and regular communication is maintained with the PRA.	Enterprise Risk Management Metrics and Monitoring to Risk Committee	Management Risk Committees Supporting Executive and Board Risk Committees
Operational	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events.	• Project Management • Key Supplier Management • Execution, Delivery & Process Management • Cyber risk & Information Security • Service Delivery, Payment Processing • Operational Resilience • Software Development & Testing • Data Protection (GDPR) • Legal Risk	Operational risks are managed by the Operational and Security Risk Committee which meets monthly and reports to the Executive Committee. Key policies are the Business Continuity and Disaster Recovery plans that set out actions in the event of material IT systems disruption. Zempler Bank employs a suite of tools, software, and controls to minimise the potential impact of malicious cyber risk attacks. Dedicated functions are in place to monitor and manage information security risk. Regular penetration testing is also undertaken to assess perimeter and internal security.		

Principal Risks and Uncertainties

Risk	Description	Sub-risks	Mitigating actions and committee oversight	Over-arching processes	
Governance & Strategic	The risk that Zempler Bank's Governance Framework, culture, resources, capability and relationships with key stakeholders do not support the delivery of its stated strategic goals.	• Financial Risk from Climate Change • People & Resources • Business Model Risk • Governance & Culture • Model Risk	The Board is primarily responsible for the management of strategy and governance. It delegates some of these responsibilities to the Executive Committee which meets twice a month. Processes to manage risk in this area include a strategic five-year plan, which is updated at least once a year, the execution of an annual budget and milestones. Monthly reporting of progress to these targets is provided by the Executive at Board meetings and in a Monthly Reporting Pack. Regulatory affairs are managed by the Risk and Compliance function with regular communication and meetings with regulators in place and reporting to the Board. Model risk is managed to defined standards aligned to regulatory principles, and subject to ongoing monitoring and review. Key polices include the Management Responsibility Map and the Corporate Governance Manual.	**Enterprise Risk Management Metrics and Monitoring to Risk Committee**	**Management Risk Committees Supporting Executive and Board Risk Committees**

Principal Risks and Uncertainties

Emerging Risks

In addition to the Principal Risks and Uncertainties, we consider medium and long-term emerging risks and evolving threats that could affect our ability to meet strategic goals and objectives.

External information, including emerging regulatory changes, upstream risks and macroeconomic factors are monitored to support a better understanding of threats and uncertainties.

Consumer Duty

Since implementing the FCA's Consumer Duty in July 2023, Zempler has been embedding the Duty and making enhancements designed to deliver consistently good customer outcomes. In line with the FCA's requirement, the Board received its first annual report in July 2024. This report evidenced how the bank's strategy is aligned with the principles of the Duty. Zempler will continue to identify and address any gaps and opportunities, using a data-led approach.

Macroeconomic Environment

While inflation has reached the Bank of England's target, prices remain high and some aspects of inflation such as services and wages are likely to lead to more of a steady reduction in interest rates rather than a sharp decline. And while some green shoots in UK GDP have been observed in H1, global GDP looks set to remain sluggish for some time. Higher prices, a relatively weak economy and geopolitical uncertainties are therefore likely to weigh down on retail and business spending over the next two to three years. And changes in UK political direction will need to be cemented through the Autumn budget to fully understand how this might influence our customer base. Zempler has adopted a prudent strategy for its credit growth, taking account of the higher cost-of-living in its affordability assessment calculations, but also identified opportunities to support its customers through enhancements to its products.

Future Regulatory Change

Zempler continues to prepare for the introduction of Basel 3.1 regulation; to be implemented in the UK on 1 January 2026. But Zempler also meets the PRA's criteria as a Small Domestic Deposit Taker (SDDT) and is therefore eligible to transition to the associated strong and simple regime; to be implemented in the UK on 1 January 2027. Zempler is in the process of analysing the capital proposals for the new regime before making its decision on which approach to take. Zempler is also well positioned to meet the new Building Operational Resilience regulations by 31 March 2025. On 7th October 2024 the PSR proposals requiring mandatory reimbursement of customer fraud went live which also require liability for reimbursement to be split 50:50 between sending and receiving bank. Zempler have successfully mitigated this risk through enhanced fraud controls and was well prepared for the October deadline.

Principal Risks and Uncertainties

Economic Crime Risk

We note continued risks faced by our customers, generated by social engineering, which are consistent with trends across the wider industry, particularly in Authorised Push Payment (APP) Fraud. Further, there is growing sophistication in organised money laundering rings trying to operate below detection levels. This means that continued investment, both at company and industry level, is required to address emerging economic crime activity. As noted above, the bank executed a wide ranging economic crime Transformation Plan to enhance controls, protect customers and mitigate liability ahead of the PSR mandatory reimbursement proposals. This has successfully reduced receipt of the proceeds of fraud by 81% since 2022.

Resourcing Capability and Capacity

The recruitment market for finance and specialist resource remains competitive, potentially creating resource attrition and talent attraction headwinds. Zempler Bank's profitability and flexible working approaches allow for talent retention and key hiring, augmented by specialist third party resource / consultancy support where required.

Climate Change Risk

Financial risks from climate change (FRCC) arise through two primary channels: physical risks (related to specific weather events and longer-term shifts in the climate) and transitional risk (arising from the process of adjustment towards a low or net-zero carbon economy). Climate change risk can impact on the valuation of financial assets as well as the assumptions underpinning these valuations.

Zempler routinely assesses both the physical and transitional risks through quantitative assessments which include impacts of expected credit losses on its lending portfolios and concentrations risks in its deposit base. Key Risk Indicators on these measures are regularly provided to the Board along with an assessment which considers our suppliers' green credentials.

For Zempler, the materiality of financial risks from climate change is currently assessed to be 'low'. We are a small, microbusiness-focused bank with no secured lending portfolio and no significant concentration in high carbon-intensive industries (e.g. energy, transport, mining). Nevertheless, it is a key issue from both regulatory and reputational perspectives. We therefore keep FRCC under regular review, considering how we might respond and adapt to longer-term changes that may expose key sensitivities in existing business plans.

Further details on our approach to sustainability and the environment are set out in the Directors' Report.

Pillar 3 Disclosures

Capital Management and Resources

Capital Management and Resources

Risk Appetite

Our capital risk appetite seeks to ensure we maintain sufficient regulatory capital to meet minimum regulatory requirements and additional capital as required to absorb a series of extreme but plausible stress events. It is managed as follows:

- We hold a management buffer over regulatory capital requirements to provide time to enact effective management actions as part of our Early Warning Indicator trigger framework.
- We maintain an Internal Target Capital Ratio that is based on our own internal capital assessment plus a management buffer.
- Pillar 2A add-ons are reviewed regularly and adjusted upwards should an internal assessment identify an aggregate of risks not reflected by the minimum regulatory requirements.
- A stress-based target capital metric is used to assess the effectiveness of recovery actions should the bank be required to use its regulatory capital buffers.

Board-level metrics monitor key capital and leverage ratios and the large exposures limit. They are supplemented by Key Risk Indicators (KRIs) that are monitored and reviewed at ALCO and escalated if trends are moving in a significantly adverse direction.

Regulatory Capital Requirements

The regulatory capital requirements as they apply to Zempler Bank are:

Pillar 1

We adopt the Basel Standardised Approach for the calculation of our Pillar 1 Risk-weighted assets (RWAs) for credit and market risk and the Basic Indicator Approach (BIA) for the calculation of Pillar 1 operational risk RWAs (see section 5). Pillar 1 capital requirements are 8% of RWAs, of which at least 4.5% of RWAs must be met by Common Equity Tier 1 (CET1) capital, 6% of RWAs by Tier 1 (T1) capital and 8% of RWAs by Total capital.

Pillar 2A

Designed to capture the risks that are not covered or are not adequately covered under Pillar 1. Our Pillar 2A requirement prescribed by the PRA is 3.49% of RWAs. When added to Pillar 1 this equates to a firm-specific Total Capital Requirement (TCR) of 11.49% of RWAs. At least 56.25% of the Pillar 2A requirement must be met by CET1 capital and at least 75% by T1 capital.

Capital Buffers

We hold the prevailing industry-wide Capital Conservation Buffer (CCB) and Counter-cyclical Buffer (CCyB). As at 31 March 2024 the CCB was 2.5% of RWAs and the CCyB was 2% of RWAs. We are not classified as a systemically important bank and are not required to hold any systemic buffers. The PRA can also apply a firm-specific PRA buffer which is set on a confidential basis. All capital buffers must be met by CET1 capital.

Pillar 1 Risk-weighted Assets (RWAs)

Pillar 1 requirements set out the rules used to determine the minimum capital requirement for credit, Market and operational risk. Our Pillar 1 RWAs and minimum capital requirements are set out in the table below. It aligns with template OV1 as set out in the Disclosure (CRR) part of the PRA rulebook, with any blank cells removed.

Capital Management and Resources

Table 1: Overview of Risk Weighted Exposure Amounts (OV1)

		Risk Weighted Assets		Capital requirement	
		31 Mar 2024 £'000	**31 Mar 2023** £'000	**31 Mar 2024** £'000	**31 Mar 2023** £'000
1	**Credit Risk**	42,858	34,818	3,429	2,785
2	**of which the standardised approach**	42,858	34,818	3,429	2,785
6	**Counterparty Credit Risk – CCR**	780	–	62	–
8b	**Of which credit valuation adjustment – CVA**	299	–	24	–
9	**Of which other CCR**	481	–	38	–
20	**Market Risk**	–	–	–	–
21	**of which the standardised approach**	–	–	–	–
23	**Operational Risk**	84,032	62,464	6,723	4,997
23a	**of which the basic indicator approach**	84,032	62,464	6,723	4,997
29	**Total Risk-weighted Assets**	**127,670**	**97,282**	**10,214**	**7,783**

Capital Management and Resources

Available Capital

Our CET1 capital ratio was 15.57% on 31 March 2024 and our Total Capital ratio (including eligible Tier 2 capital) was 17.31%. We do not hold any Additional Tier 1 (AT1) capital.

Table 2: Capital Ratios

	31 Mar 2024	31 Mar 2023
CET1 ratio	15.57%	18.17%
T1 ratio	15.57%	18.17%
Total capital ratio	17.31%	21.04%

CET1 capital is the strongest form of capital, consisting of ordinary share capital, associated share premiums and allowable reserves, subject to appropriate regulatory deductions. Our available CET1 capital is stated after adjustments for the IFRS9 transitional arrangements. Tier 2 capital consists of subordinated debt instruments that are amortised over their lifetime.

Capital Management and Resources

Table 3: Available Capital by Type

Common Equity Tier 1	31 Mar 2024 £'000	31 Mar 2023 £'000
Paid up share capital	9	9
Share premium	43,334	43,321
Other reserves	3,993	3,247
Retained losses	(18,871)	(23,609)
Total equity per balance sheet	**28,466**	**22,968**
Regulatory capital adjustments		
Intangible assets	(5,986)	(4,520)
IFRS 9 transitional adjustments	1,265	1,897
Deferred tax assets	(3,868)	(2,654)
Additional coverage for non-performing exposures	0	(19)
Common Equity Tier 1	**19,877**	**17,672**
Tier 2 capital		
Issued Tier 2 capital instruments	2,226	2,794
Total Tier 2 capital	**2,226**	**2,794**
Total own funds	**22,103**	**20,466**

Capital Management and Resources

Minimum Requirements for Eligible Liabilities (MREL)

MREL is set annually by the Bank of England on a case-by-case basis. In line with its preferred resolution strategy for Zempler, the Bank of England does not currently require any additional MREL to be held by the bank over and above its minimum Pillar 1 and Pillar 2A requirements.

Leverage Ratio

Our Tier 1 Leverage ratio is our T1 capital resources expressed as a proportion of total exposure. On 31 March 2024, our T1 leverage ratio under the UK definition was 8.34%.

Table 4: Summary reconciliation of accounting assets and leverage ratio exposures (LR1)

		31 Mar 2024 £'000	31 Mar 2023 £'000
1	Total assets per published financial statements	617,973	558,055
4	Adjustment for exemption of exposures to central banks	(374,773)	(373,432)
8	Adjustment for derivative financial instruments	961	-
10	Adjustments for off balance sheet items	2,621	2,476
12	Other adjustments	(8,589)	(5,296)
13	**Leverage Ratio total exposure amount**	**238,194**	**181,803**

Capital Management and Resources

Table 5: Leverage ratio common disclosure (LR2)

On-balance sheet exposures		31 Mar 2024 £'000	31 Mar 2023 £'000
1	Total assets per published financial statements	617,973	558,055
6	Asset amounts deducted in determining Tier 1 capital	(8,589)	(5,296)
7	**Total on-balance sheet exposures**	**609,384**	**552,759**
Derivative exposures			
9b	Exposure determined under the original exposure method	961	-
13	**Total derivatives exposures**	**961**	**-**
Off balance sheet items			
19	Off-balance sheet exposures at gross nominal amount	26,211	24,760
20	Adjustments for conversion to credit equivalent amounts	(23,590)	(22,284)
22	**Total off-balance sheet exposures**	**2,621**	**2,476**
Capital Ratios and Buffers			
23	Tier 1 capital	19,877	17,672
24	Total exposure measure inc. claims on central banks	612,967	555,235
24a	Claims on central banks excluded	(374,773)	(373,432)
24b	Total exposure measure exc. claims on central banks	238,194	181,803
25	Leverage ratio excluding claims on central banks	8.34%	9.72%
25a	IFRS9 Fully loaded leverage ratio exc. claims on central banks	7.86%	8.77%
25c	Leverage Ratio including claims on central banks	3.24%	3.18%

Capital Management and Resources

Table 6: Split of on-balance sheet exposures (LR3)

		31 Mar 2024 £'000	31 Mar 2023 £'000
1	Total on-balance sheet exposures	617,973	552,759
3	Banking book exposures, of which:	617,973	552,759
5	Exposures treated as sovereigns	541,846	503,381
7	Institutions	21,666	10,012
9	Retail exposures	24,528	19,881
11	Exposures in default	3,077	2,540
12	Other exposures	26,855	16,945

IFRS9 transitional arrangements

IFRS9 transitional arrangements were agreed within the CRR to allow firms to phase-in the Day 1 capital impact of the change from IAS39 to IFRS9 over a five-year period. Zempler applies the transitional arrangements in line with Article 473a (6a) of the UK CRR.

Capital Management and Resources

Table 7: IFRS9 transitional arrangements

		31 Mar 2024 £'000	31 Mar 2023 £'000
Available Capital (amounts)			
1	Common Equity Tier 1 (CET1) capital	19,877	17,672
2	CET1 capital without IFRS9 transitional arrangements	18,612	15,775
3	Tier 1 capital	19,877	17,672
4	Tier 1 capital without IFRS9 transitional arrangements	18,612	15,775
5	Total capital	22,103	20,466
6	Total capital without IFRS9 transitional arrangements	20,838	18,569
Risk-weighted assets (amounts)			
7	Total Risk-weighted assets (RWAs)	127,670	97,282
8	Total RWAs without IFRS9 transitional arrangements	126,405	95,385
Capital Ratios			
9	CET1 ratio (as a % of risk exposure amount)	15.57%	18.17%
10	CET1 ratio without IFRS9 transitional arrangements	14.72%	16.54%
11	Tier 1 ratio (as a % of risk exposure amount)	15.57%	18.17%
12	Tier 1 ratio without IFRS9 transitional arrangements	14.72%	16.54%
13	Total capital ratio (as a % of risk exposure amount)	17.31%	21.04%
14	Total capital without IFRS9 transitional arrangements	16.49%	19.47%
Leverage Ratio			
15	Leverage ratio total exposure	238,194	181,803
16	Leverage ratio	8.34%	9.72%
17	Leverage ratio without IFRS9 transitional arrangements	7.86%	8.77%

Pillar 3 Disclosures

Liquidity and Funding

Liquidity and Funding

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due or can only do so at an excessive cost. It is assessed in relation to potential losses arising from the liquidation of assets and increases in the cost of funding during periods of stress.

Our risk appetite for liquidity risk is low and we hold sufficient liquid assets to cover liquidity needs under normal and stressed conditions. This is articulated through the following:

- Our internal risk appetite is to survive up to a minimum period of 90 days under extreme but plausible stressed conditions.
- Maintain a Net Stable Funding Ratio (NSFR) at a level of at least 150%.

The risk appetite is reviewed by ALCO and RiskCo and approved by the Board as part of the annual review and approval of the Internal Liquidity Adequacy Assessment Process (ILAAP). Adherence to the risk appetite is monitored daily by the Finance department. As part of the risk appetite monitoring and reporting, key metrics are in place to help identify any adverse movements at an early stage and take necessary actions before the risk appetite limits are breached.

We currently have a strong liquidity position with a customer deposit base that is significantly higher than our current lending portfolio. Most of our funds are held at central banks and available to withdraw on a same day basis. A smaller portfolio of short dated UK government bonds is held for liquidity diversification purposes and to minimise the Bank's exposure to interest rate risk. These qualify and are held as part of Zempler Bank's liquidity buffer. On 31 March 2024, our Liquidity Coverage Ratio was 893%.

Table 8: Liquidity Coverage Ratio

	31 Mar 2024 £'000	31 Mar 2023 £'000
High quality liquid assets	499,336	465,257
Cash outflows	73,375	63,375
Cash inflows	17,467	10,373
Net cash outflows	55,908	53,002
Liquidity coverage ratio	**893%**	**878%**

Liquidity and Funding

Our assets our primarily High-Quality Liquid Assets (HQLA), for which we adopt a conservative approach focused on UK gilts or cash held in the Bank of England reserve account. We assess our exposure to liquidity stresses through our annual ILAAP that concluded that our liquidity position is sufficient to withstand extreme but plausible liquidity stress events.

Funding Risk

Funding risk is the risk that the Bank does not have access to stable sources of funding to enable it to meet its financial obligations as they fall due. Funding concentration risk arises where funding is primarily from a single source and Zempler is unable to raise sufficient funds.

Our funding is primarily sourced from customer deposits. We regularly analyse transactional usage in our customer deposit accounts to understand the stickiness of these accounts and review our strategic product offering at least annually. We also apply limits across our deposit portfolio to ensure we identify and manage any exposure to geographic, sector or single-name concentrations.

On 31 March 2024, our Net Stable Funding Ratio was 798%.

Table 9: Net Stable Funding Ratio

	31 Mar 2024 £'000	**31 Mar 2023** £'000
Available Stable Funding	539,411	498,682
Required Stable Funding	67,565	45,238
Net Stable Funding Ratio	**798%**	**1102%**

Pillar 3 Disclosures

Credit Risk

Credit Risk

Credit Risk

Credit risk is defined as the potential risk that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. We are willing to accept a moderate level of credit risk subject to associated pricing commensurate with our target markets, maintaining effective measurement and controls and ensuring that credit is being provided and used on a responsible basis and in accordance with applicable regulatory and legal obligations and standards.

Credit Risk Management

Our credit framework focuses on ensuring that appropriate and affordable lending is provided to customers. Credit is managed to a defined risk appetite and associated measures and monitored by the Credit Committee which meets monthly and reports to the Board Risk Committee. The framework includes the use of underwriting models which are regularly reviewed, performance monitoring and key policies including the Credit Policy and Collections policies.

Credit Risk RWAs

We adopt the Basel Standardised Approach to determine its Pillar 1 credit RWAs, applying the risk weights set out in Chapter 2, Section 2 of the CRR. Standardised risk weights are applied by type of asset class to each net exposure (gross exposure minus provisions and undrawn elements). On 31 March 2024, we had £43.6m of credit RWAs, against which we held £3.49m of Pillar 1 capital.

Credit Risk

Table 10: Pillar 1 Standardised Credit Risk Weighted Assets (31 March 2024)

£'000	Gross Exposure	Provision	Net Exposure	Risk-Weight	RWAs
Retail - Consumer	**28,650**	**(5,505)**	**23,145**	**-**	**18,390**
Non-defaulted assets	23,558	(3,017)	20,541	75%	15,405
Default (>20% provision)	4,205	(2,359)	1,846	100%	1,846
Default (<20% provision)	887	(128)	759	150%	1,139
Retail - SME	**5,999**	**(1,539)**	**4,460**	**-**	**2,767**
Non-defaulted assets	5,050	(1,062)	3,988	57%	2,279
Default (>20% provision)	914	(473)	440	100%	440
Default (<20% provision)	35	(3)	32	150%	48
Central Banks	**541,846**	**-**	**541,846**	**0%**	**0**
Institutions	**21,666**	**-**	**21,666**	**-**	**7,457**
Bank Balances	11,252	-	11,252	20%	2,250
Collateral	10,414	-	10,414	50%	5,207
Other	**20,110**	**-**	**20,110**	**-**	**15,024**
Fixed Assets	3,112	-	3,112	100%	3,112
Deferred Tax Asset	862	-	862	250%	2,155
Counterparty Credit Risk including CVA	961	-	961	81%	780
Cash in collection	5,446	-	5,446	20%	1,089
IFRS9 transition	1,265	-	1,265	100%	1,265
Other	6,622	-	6,622	100%	6,622
Cash in hand & equivalent cash items	1841	-	1841	0%	0
Total	**618,271**	**(7,044)**	**611,227**	**-**	**43,638**

Credit Risk

In calculating Pillar 1 credit RWAs, the following approach is used:

- **Unsecured retail exposures – Non defaulted assets.** In line with UK CRR Article 123 a 75% risk weight is applied to the bank's non-defaulted exposure to natural person or persons and to SMEs.
- **Application of the SME scaling factor.** In line with UK CRR Article 501(1), a scaling factor of 0.7619 is applied to non-defaulted SME exposures, resulting in a net risk weight of 57.1%.
- **Unsecured retail exposures – defaulted assets.** In line with UK CRR Article 127(1), a 100% risk weight is applied to defaulted assets where provisions are > 20% of exposure and a 150% risk weight is applied to defaulted assets where provisions are < 20% of exposure.
- **Undrawn commitments.** In line with UK CRR Article 166 annex 1 the bank's undrawn credit commitments, which can be withdrawn unconditionally, are classed as low risk and are assigned a 0% risk weight.
- **Central Banks.** In line with UK CRR Articles 114(2) and 114(4), the bank's exposure to the Bank of England Reserve account and UK gilts are assigned a 0% risk weight.
- **Institutions – Bank balances.** In line with UK CRR Article 119(2) and 119(3), bank balances have a residual maturity of less than 3 months and are assigned a 20% risk weight.
- **Institutions – Mastercard Collateral.** In line with UK CRR Article 120(1), the Mastercard collateral has a maturity greater than 3 months and is with a counterparty (Barclays) rated as CQS2, so a 50% risk weight is applied.
- **Deferred Tax Assets.** In line with UK CRR Article 48(4), the portion of the bank's Deferred Tax Assets that are deemed to depend upon future profitability and arise from temporary timing differences are assigned a risk weight of 250% (as the relevant aggregate DTA amount is less than the threshold of 10% of CET1 capital).
- **Counterparty Credit Risk including CVA.** In line with UK CRR Article 273a(2), the exposure value for CCR is calculated using the Original exposure method. UK CRR Article 282 describes the calculation of exposure value which is the product of 1.4 times the sum of the current replacement cost and the potential future exposure. UK CRR Article 384 describes the calculation of own funds requirement for CVA.
- **Cash in the process of collection.** In line with UK CRR Article 134(3), cash items in the process of collection are assigned a 20% risk weight.
- **IFRS9 transition.** In line with Regulation (EU) 2020/873, the transitional arrangements are applied on a tapered basis, with a 50% weight applied to the adjustment made to CET1 capital for FY 23/24.
- **Fixed / Other Assets.** In line with UK CRR Article 134(1), tangible assets are assigned a 100% risk-weight.
- **Cash in hand and equivalent cash items.** In line with UK CRR Article 134(3), provision for credit balance is assigned a 0% risk weight as it relates to balances on accounts that are blocked but where the block has been in place for less than 12 months and therefore it remains a cash asset within our control.

Further information on our credit risk exposures and provisioning is detailed in note 28 to the 2023/24 Annual Report & Accounts.

Pillar 3 Disclosures

Market Risk

Market Risk

Market Risk

Market risk is defined as the potential for changes in the market value of a firm's trading and investment positions. We do not operate a Trading Book and our Banking Book operates primarily in the UK and in £ sterling. However, we do have some small-scale Foreign Exchange exposures against which we assess the need to hold Pillar 1 capital using the standardised approach. We do not hold any LIBOR linked products and are not materially impacted by other market risks such as currency exchange.

Interest Rate Risk in the Banking Book (IRRBB)

IRRBB is the risk of losses arising from volatility in interest rates associated with the mismatch between assets and liabilities in the banking book. These losses can arise from financial assets or liabilities being adversely affected by the movement in market prices, interest rates or exchange rates. It can be reflected in near term earnings or in the longer-term capital because of changes in the economic value of future cashflows.

The Bank's primary exposure to market risk is interest rate risk. As the Bank holds its interest rate sensitive assets in a mix of credit, cash held at central banks and financial institutions, and UK Government securities, the risk to the business comes from the impact to earnings associated with the interest rates on these balances, particularly negative rates. The Bank has a policy to manage this risk within set parameters using a combination of repricing of liabilities and managing maturity mismatches using GILTs at fixed rates. The Bank is also in the process of onboarding hedging counterparties to help mitigate its interest rate exposure.

The Bank measures and assesses interest rate risk primarily through variances on two methods:

- the risk arising from potential changes in interest rates impacting economic value of equity (EVE), which applies six prescribed interest rate scenarios, and
- changes in net interest income (NII), which applies 250 basis points parallel up and down shifts with a planned hedging instrument over a 12-month time horizon.

The sensitivity scenario is unchanged from the prior year. The ΔEVE on 31 March 2024 is £(1,208)k (2023: £(1,417)k) and ΔNII on 31 March 2024 is £(1,078)k (2023: £(1,371)k).

The Bank does not hold any LIBOR linked products, and so does not have any sensitivity to LIBOR. The Bank is not materially impacted by other market risks such as currency exchange.

Our Treasury Management function calculates and reviews our IRRBB exposure daily, monitoring movements and trends as the business grows and ensuring that we remain within risk appetite through hedging of net-liability maturity mismatches. This is also reviewed at the ALCO along with an IRRBB forecast and results of the underlying stresses. The IRRRBB policy and calculation methodology is reviewed annually or when there is a significant change in business strategy or balance sheet composition.

Interest Rate Option

Zempler Bank has entered into an Interest Rate Floor Option with Investec Bank PLC. The interest rate option is an over the counter (OTC) derivative financial instrument which is being transacted as an economic hedge against the future downward shock in the interest rate. There is a £100m notional and a floor strike rate of 4.15%. Zempler has placed £2.5m with Investec as independent collateral amount against this option and will receives monthly interest payments which are linked to GBP-SONIA. The option's maturity is 6th May 2025 and its fair value as at 31st March 2024 is £137k.

Pillar 3 Disclosures

Operational Risk

Operational Risk

Operational Risk
Operational Risk is defined as the risk of loss resulting from failed or inadequate internal processes, people and systems or external events. Our risk appetite seeks to optimise Operational Risk to ensure an appropriate balance between customer outcomes, financial sustainability and operational stability in line with our strategic objectives.

Operational Risk Management
Operational risks are managed by the Operational and Security Risk Committee which meets monthly and reports to the Risk Committee. Key polices are the Business Continuity and Disaster Recovery plans that set out actions in the event of material IT disruption. Zempler employs a suite of tools, software and controls to minimise the potential impact of malicious cyber risk attacks. Dedicated functions are in place to monitor and manage information security risk. Regular penetration testing is also undertaken to assess perimeter and internal security.

Operational Risk RWAs
We adopt the Basel Basic Indicator Approach (BIA) to determine our Pillar 1 operational risk RWAs. This is based on 15% of the average relevant income over the previous three years.

Table 11: Operational risk own funds requirements and risk-weighted exposure amounts (OR1)

	Relevant Indicator (£'000)			Pillar 1 Capital	RWAs
	21/22	22/23	23/24	£'000	£'000
Banking activities subject to Basic Indicator Approach (BIA)	32,473	42,418	59,560	6,723	84,032

Pillar 3 Disclosures

Remuneration

Remuneration

Remuneration Policy

Our Remuneration Policy covers our approach to remuneration for all staff including Material Risk Takers. The Policy is applied consistently for all colleagues and is designed to be inclusive for all. We understand that remuneration can influence behaviours and we wish to encourage the right activity from our colleagues. The focus is on simplicity, rewarding behaviours aligned to our values and which will produce the right outcomes for customers, shareholder, colleagues, and other key stakeholders, focusing on long-term sustainable growth, while ensuring that a risk-based approach and good conduct remain core to our remuneration policy and practices.

We've designed our policy to attract, motivate and retain people with the required experience and skills to meet the demands and complexity of the roles required, regardless of gender, ethnicity, age, disability, race, social class or background, sexual orientation, or any other factor unrelated to performance or experience within the Company.

The Remuneration Committee (RemCo) is responsible for, and oversees, the Remuneration Policy. The Board appoints the members of RemCo which is made up of three of our independent non-executive directors. RemCo reviews the Remuneration Policy annually to check it's aligned to the business strategy, objectives, and values, and that it complies with regulatory requirements, in consideration of proportionate requirements for Zempler Bank as a Level 3 firm. The Remuneration Policy was reviewed and re-approved in March 2024.

RemCo may appoint external consultants to help it discharge its duties and obligations as required. No such external consultancy appointment was made in the period ending 31 March 2024. The Risk and Audit functions contribute to remuneration decisions where appropriate. RemCo meets at least four times each year with additional meetings as required. In the financial year ending 31 March 2024 RemCo met four times.

Link between pay and performance

Remuneration for our people is made up of fixed pay (basic salary, flexible benefits allowance calculated as a % of basic salary, life assurance, company-funded pension contributions, and other benefits) and variable pay which, in the period ending 31 March 2024, was in the form of share options granted under the terms of the company's Long Term Incentive Plan, providing our people with an opportunity to share in our long-term success. and a discretionary "Share in Success" cash payment, recognising colleagues' contributions to a strong and successful start to the Company's financial year. The value of shares options is only delivered in the event of an exit event, which will depend on the overall performance of the business, including financial performance, our customer experience and our compliance and risk management.

The Remuneration Policy incorporates a framework that, alongside ensuring we meet all legal and regulatory requirements, includes the principle that remuneration decisions are made based on a combination of:

1. Business performance, including performance against strategic objectives and metrics from our Enterprise-wide Risk Management Framework.
2. Individual performance against Company strategic objectives as set out in personal performance reviews.
3. Adherence to Company values, business principles, risk-related policies and procedures and global conduct standards of the banking and financial services industry.

Remuneration

Fixed Pay

Fixed salaries are determined based on role accountability, impact and level of responsibility and contribution. We use external benchmarking data to determine the appropriate level of pay. We review salaries annually, although salaries may not be adjusted each year.

In addition, a fixed range of relevant benefits is provided for employees. The range of benefits on offer is reviewed from time-to-time by RemCo to ensure continued relevance and alignment to the market. Alongside life assurance and pension, we provide a Flexible Benefits Allowance to each member of staff amounting to 7.5% of base salary. Although this is a direct cash benefit, colleagues are encouraged to use this towards the arrangement of their own private medical coverage and to support contributions to their company pension plan. We provide several different leave options including enhanced Paid Core Holiday, Sabbatical Opportunities, and Enhanced Family Leave policies. Other voluntary benefits are made available to colleagues to support their financial wellbeing, their physical and emotional wellbeing, their social wellbeing and personal development and career wellbeing. There are no individual or Company performance measures related to benefits.

Variable Pay

The purpose of any variable pay arrangement is to recognise and reward performance. In the period ending 31 March 2024, variable pay was provided in the form of share options and in the form of a discretionary "Share in Success" cash payment. All staff appointed prior to October 2023 are eligible for an award of shares following appointment, the value of which considers their role, accountabilities, and contribution. All staff appointed prior to 1 January 2023 were eligible for a discretionary "Share in Success" cash payment in recognition of colleagues' contributions to a strong and successful start to the financial year, such payments calculated as either a % of salary for senior staff or as a fixed monetary value for junior staff.

Our approach to delivering variable pay through both the award of share options and discretionary cash payments balances a focus on the delivery of longer-term financial and strategic objectives alongside providing appropriate and timely recognition to colleagues.

The Company has not, as permitted under proportionality principles, elected to disapply deferral requirements and the Remuneration Policy provides that a portion (up to 40%) of any cash annual variable pay award (if such arrangement is operated) may be deferred if the amount exceeds individual proportionality thresholds (as set out in Table G SS2/17 – Remuneration). Where deferred, the deferred award will vest over a period of two years with 50% of the award vesting one year post award and the balance after two years. Deferred awards are subject to malus and can be cancelled, reduced, or repaid in appropriate circumstances. The total value of variable pay in each year is limited to a maximum of 100% of fixed pay. Variable pay awards granted to colleagues identified as Material Risk Takers are subject to malus and clawback.

The Remuneration Policy incorporates a policy that limits any guaranteed variable remuneration to exceptional circumstances, for example to secure a candidate for a role. Where approved by RemCo, such arrangement will be applicable only in the first year of employment. Any payments related to an early termination of contract will not reward failure or misconduct. Termination payments for Material Risk Takers will be approved by RemCo.

Alignment of Remuneration and Risk

The Terms of Reference for RemCo, which are

Remuneration

reviewed annually, set out the full duties of the Committee which include responsibility for ensuring remuneration arrangements are consistent with and promote sound and effective risk management. RemCo oversees the Remuneration Policy and its application to the businesses and functional areas.

To ensure the alignment of remuneration and risk alongside our business growth the following applies:

- The Chief Risk Officer (CRO) provides input to inform RemCo of risk-related issues across the Company, so they are considered in applying the remuneration framework and reaching remuneration decisions. The CRO also updates RemCo on performance against the Enterprise-wide Risk Management Framework, which describes and measures the amount and appetite for types of risk that the Company takes in executing its strategy. RemCo uses these updates to consider any risk-related adjustments made to any variable pay pool, to ensure that return, risk, and remuneration are aligned.

- The Internal Audit Director (IAD) will also provide input to RemCo on material issues that have been raised via the Audit Committee resulting from the work of Internal Audit, including communication of relevant internal audit findings on remuneration matters and the timeliness of clearing outstanding audit matters.

- RemCo seeks input from both Risk and Audit Committee Chairs (in consultation with second- and third-line management) who are also members of RemCo on the alignment of risk and remuneration and on any risk adjustments to be applied in assessing any variable pay pool and in respect of individuals within its remit.

Control Functions

In view of a potential conflict, RemCo will determine whether Control Function employees are included within variable pay schemes in operation for other staff in consideration of:

- the impact of personal performance within variable pay schemes looking at the performance assessment relative to objectives specific to the functional role;
- the extent of involvement in, and broader contribution, to variable plan design proposals;
- the materiality (value) of potential award including a review of values as a % of fixed remuneration;
- whether, or not, the schemes are felt to have the potential to impair independence and objectivity.

The remuneration of any senior members of Control Functions, such individuals identified as Material Risk Takers, will be reviewed by the People Team, and approved by RemCo.

Remuneration for Material Risk Takers

Material Risk Takers (MRTs) are defined as individuals whose professional activities can have a material impact on the firm's risk profile. We identify MRTs in line with the European Banking Authority's regulatory technical standards.

The remuneration of MRTs is managed in line with our overall reward approach, applying the Remuneration Code requirements in a way that is proportionate to our size, nature, and complexity.

In the financial year ending 31 March 2024 we identified 24 Material Risk Takers including part-year Material Risk Takers. Remuneration for identified MRTs in the financial year 2023/24 is shown in the table below.

Remuneration

Table 12: Remuneration awarded for the financial year 2023/24 (REM1)

	MB Supervisory Function £'000	MB Management Function £'000	Other Senior Management £'000	Other Identified Staff £'000
Number of identified staff	**7**	**2**	**10**	**5**
Fixed Remuneration: Cash-based	440.7	688.1	1,859.3	669.7
Total Fixed Remuneration	**440.7**	**688.1**	**1,859.3**	**669.7**
Variable Remuneration:				
Cash-based	-	28.6	138.2	67.0
Shares or equivalent interests	-	599.2	248.5	24.9
of which: deferred	-	599.2	248.5	24.9
Total Variable Remuneration	**-**	**627.8**	**386.6**	**91.9**
Total Variable Remuneration	**440.7**	**1,315.9**	**2,245.9**	**761.6**

Remuneration

Table 13: Special payments to staff (REM2)

	MB Supervisory Function £'000	MB Management Function £'000	Other Senior Management £'000	Other Identified Staff £'000
Guaranteed variable remuneration awards				
1. Guaranteed variable remuneration awards – Number of identified staff	–	–	1	–
2. Guaranteed variable remuneration awards – Total amount	–	–	20,000	–
3. Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	–	–	–	–
Severance payments awarded in previous periods, that have been paid out during the financial year				
4. Severance payments awarded in previous periods, that have been paid out during the financial year – Number of identified staff	–	–	–	–
5. Severance payments awarded in previous periods, that have been paid out during the financial year – Total amount	–	–	–	–
Severance payments awarded during the financial year				
6. Severance payments awarded during the financial year – Number of identified staff	–	–	–	1
7. Severance payments awarded during the financial year – Total amount	–	–	–	34,500
8. Of which paid during the financial year	–	–	–	34,500
9. Of which deferred	–	–	–	–
10. Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	–	–	–	–
11. Of which highest payment that has been awarded to a single person	–	–	–	34,500

Pillar 3 Disclosures

Appendices

Appendix 1: Key Metrics

The following table shows key metrics in the format prescribed by the Disclosure (CRR) part of the PRA rulebook. Any blank cells in the template have been removed.

Table 14: Key Metrics (KM1)

Available Own Funds		31 Mar 2024 £'000	31 Mar 2023 £'000
1	Common Equity Tier 1 capital	19,877	17,672
2	Tier 1 Capital	19,877	17,672
3	Total Capital	22,103	20,466
Risk Weighted Assets (RWAs)			
4	Total Risk Weighted Assets	127,670	97,282
Capital ratios (as a % of RWAs)			
5	Common Equity Tier 1 ratio	15.57%	18.17%
6	Tier 1 ratio	15.57%	18.17%
7	Total capital ratio	17.31%	21.04%
7a	Additional CET1 SREP requirements	1.96%	1.96%
7b	Additional AT1 SREP requirements	0.65%	0.65%
7c	Additional T2 SREP requirements	0.87%	0.87%
7d	Total SREP own funds requirements	11.49%	11.49%

Appendix 1: Key Metrics

Table 14: Key Metrics (KM1)

Combined buffer requirement (% of RWAs)		31 Mar 2024 £'000	31 Mar 2023 £'000
8	Capital conservation buffer	2.50%	2.50%
9	Institution specific countercyclical capital buffer	2.00%	1.00%
11	Combined buffer requirement	4.50%	3.50%
11a	Overall capital requirements	15.99%	14.99%
12	CET1 available after meeting SREP own funds requirements	4.08%	6.68%
Leverage ratio			
13	Leverage ratio total exposure measure	238,194	181,803
14	Leverage ratio	8.34%	9.72%
Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA)	499,336	465,257
16a	Cash outflows	73,375	63,375
16b	Cash inflows	17,467	10,373
16	Total net cash outflows	55,908	53,002
17	Liquidity coverage ratio (%)	893%	878%
Net Stable Funding Ratio			
18	Total available stable funding	539,411	498,682
19	Total required stable funding	67,565	45,238
20	NSFR ratio (%)	798%	1102%

Appendix 2: Composition of Own Funds

The following table shows the composition of own funds for the Bank in the format prescribed by the Disclosure (CRR) part of the PRA rulebook. Any blank cells in the template have been removed.

Table 15: Composition of regulatory own funds (CC1)

Common Equity Tier 1 capital: instruments and reserves		31 Mar 2024 £'000	31 Mar 2023 £'000
1	Capital instruments and related share premium	43,344	43,330
2	Retained Earnings	(18,871)	(23,609)
3	Accumulated other reserves	3,993	3,247
5a	Independently reviewed interim profits	0	0
6	Common Equity Tier 1 before regulatory adjustments	28,466	22,968
Common Equity Tier 1 capital: regulatory adjustments			
8	Intangible assets	(5,986)	(4,520)
10	Deferred tax assets	(3,868)	(2,654)
27a	Other adjustments	1,265	1,878
28	Total Regulatory adjustments to CET1	(8,589)	(5,296)
29	Common Equity Tier 1	19,877	17,672
45	Tier 1 capital	19,877	17,672

Appendix 2: Composition of Own Funds

Table 15: Composition of regulatory own funds (CC1)

Tier 2 capital and provisions		31 Mar 2024 £'000	31 Mar 2023 £'000
46	Tier 2 capital instruments and related share premium	2,226	2,794
51	Tier 2 capital before regulatory adjustments	**2,226**	**2,794**
58	Tier 2 capital	**2,226**	**2,794**
59	Total Capital	**22,103**	**20,466**
60	Total Risk-weighted assets	**127,670**	**97,282**
Capital Ratios and Buffers			
61	Common Equity Tier 1 (as % of total risk exposure amount)	15.57%	18.17%
62	Tier 1 (as % of total risk exposure amount)	15.57%	18.17%
63	Total capital (as % of total risk exposure amount)	17.31%	21.04%
64	Institution CET1 overall capital requirement	10.96%	9.96%
65	Of which: capital conservation buffer requirement	2.50%	2.50%
66	Of which: counter-cyclical buffer requirement	2.00%	1.00%
68	Common Equity Tier 1 available to meet buffers	9.11%	11.70%
Amounts below the threshold for deduction (before risk weighting)			
75	Deferred tax assets arising from temporary differences	862	693
Applicable caps on the inclusion of provisions in Tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	536	435

Appendix 3: Reconciliation

The following table shows the reconciliation of own funds to balance sheet for the Bank in the format prescribed by the Disclosure (CRR) part of the PRA rulebook. Any blank cells in the template have been removed.

Table 16: Reconciliation of regulatory own funds to balance sheet (CC2)

		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
Assets		31 Mar 2024 £'000	31 Mar 2024 £'000	
1	Cash and balances at other banks	386,025	386,025	
2	Investment Securities	167,073	167,073	
3	Loans and Advances to Customers	27,605	27,605	
4	Derivative financial assets	137	137	
5	Other assets	23,305	23,305	
6	Net Deferred Tax Assets	4,730	4,730	CC1 (10)
7	Plant, property and equipment	3,112	3,112	
8	Intangible Assets	5,986	5,986	CC1 (8)
	Total On B/S Assets	**617,973**	**617,973**	
9	Other items - IFRS9 adjustment and NPE charge	0	1,265	CC1 27(a)
	Total Assets	**617,973**	**619,238**	

Appendix 3: Reconciliation

Table 16: Reconciliation of regulatory own funds to balance sheet (CC2)

		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
Liabilities		**31 Mar 2024** £'000	**31 Mar 2024** £'000	
1	**Customer deposits**	544,010	544,010	
2	**Provisions for Liabilities and Charges**	–	–	
3	**Tier 2 debt**	2,226	2,226	CC1 (46)
4	**Tier 2 debt amortisation**	774	774	
5	**Loan Stock**	–	–	
6	**Other Liabilities and Accruals**	39,837	39,837	CC1 (10)
7	**Deferred Income**	2,660	2,660	
	Total Liabilities	**589,507**	**589,507**	

Appendix 3: Reconciliation

Table 16: Reconciliation of regulatory own funds to balance sheet (CC2)

		Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
Shareholder's Equity		31 Mar 2024 £'000	31 Mar 2024 £'000	
1	Share Capital	9	9	CC1 (1)
2	Share Premium	43,334	43,334	CC1 (1)
3	Other Reserves	3,993	3,993	CC1 (3)
4	Retained Earnings	(18,871)	(18,871)	CC1 (2) & 5(a)
5	IFRS 9 transitional adjustment	–	1,265	CC1 27(a)
	Total Shareholder's Equity	**28,466**	**29,730**	

ZEMPLER BANK