



# FBN BANK (UK) LTD

Pillar 3 disclosures for period ended 31 December 2015

# FBN Bank (UK) Ltd

## Pillar 3 Disclosures

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# Overview

## Background

FBN Bank (UK) Ltd (“FBNUK” or “the Bank”) is a wholly owned subsidiary of First Bank of Nigeria Limited (“FBNL”). FBNUK provides banking services to government institutions, financial institutions, corporates and individuals from Europe, Nigeria and the rest of Africa, with the aim of becoming their preferred UK & European Bank.

The Bank adopted Basel II in January 2008 in line with the Capital Requirements Directive which came into effect in January 2007.

From 1<sup>st</sup> January 2014, Basel II was replaced by Basel III which is implemented in Europe through the Capital Requirements Directive (CRD IV). The impact in some areas was immediate, however in some cases this will be phased in under transitional arrangements.

Basel III is based on a ‘three pillars’ concept: pillar 1, minimum capital requirement; pillar 2, supervisory review; pillar 3, market discipline.

The Bank elected to adopt a 'simple' approach with respect to **Pillar 1** requirements:

- **Standardised Approach for Credit risk** - whereby regulatory capital requirements are calculated by multiplying the value of the Bank's exposure by an appropriate risk weight. The risk weight is determined by the credit rating of the counterparty, where available, as well as the type of exposure.
- **Basic Indicator Approach for Operational risk** - whereby regulatory capital is calculated by taking a single risk-weighted multiple (15%) of the Bank's average gross operating income.
- **Standard Position Risk Requirement Approach for Foreign Currency** – regulatory capital is calculated by applying minimum capital ratio to total foreign currency position.

Under the **Pillar 2** of Basel III requirements, FBN Bank (UK) Ltd has undertaken a self-assessment of its internal capital requirements - an Internal Capital Adequacy Assessment Process, or ICAAP. Any amount of additional capital required is assessed by the Prudential Regulatory Authority (PRA) during its Supervisory Review and Evaluation Process (SREP)

The Bank is required to make certain disclosures on solo basis to the market to encourage market transparency and discipline. The aim is to allow market participants to assess key

pieces of information on the Bank's capital, risk exposures and risk assessment process. The disclosures, which are to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2), are to be made to the market for the benefit of the market. These disclosures are described as **Pillar 3** disclosures.

## Frequency

This document has been prepared by FBN Bank (UK) Ltd in accordance with regulatory requirements (BIPRU chapter 11). All figures are as 31 December 2015, the Bank's year end unless otherwise stated.

Pillar 3 disclosure report will be produced on an annual basis and should be read in conjunction with the Bank's Annual Report and Financial Statements for the same financial year end. The disclosures will be as at the Accounting Reference Date (ARD), i.e. as at 31 December, and will be published as soon as practicable. The Bank will aim to make the disclosures shortly after the publication of the Annual Report & Financial Accounts.

## Media and Location

The report will be published on the FBN Bank (UK) Ltd corporate website [www.fbnbank.co.uk](http://www.fbnbank.co.uk)

## Verification

The disclosures are not subject to audit except where they are deemed to be equivalent to those made under accounting or listing requirements.

Pillar 3 disclosures have been prepared purely for explaining the basis on which the Bank has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose.

# Risk Management Objectives and Policies

FBN Bank (UK) Ltd business activities are focused on catering for banking and financial services needs of customers with interests in Nigeria and other African Countries.

The Bank offers a range of banking products and services serving the following markets:

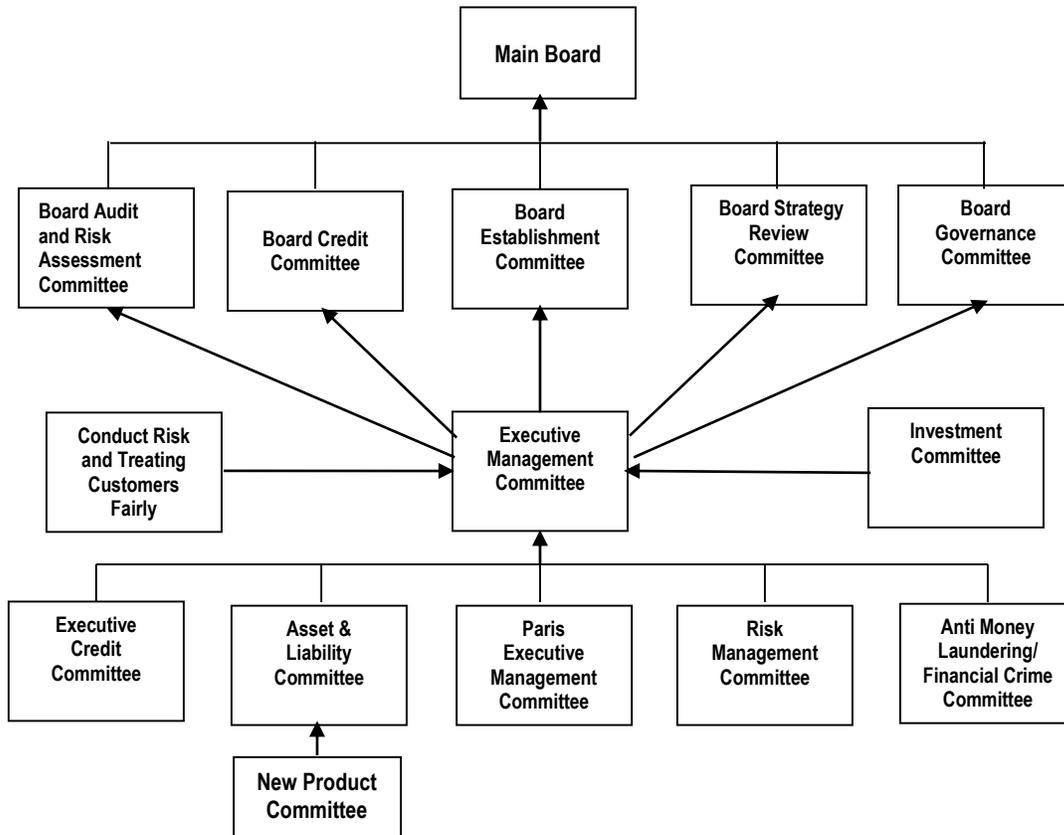
- Correspondent Banking:** Working with quality banks in Africa to provide services to most of the upper quartile banks and their customers, largely through the facilitation of trade finance, foreign exchange and payment transactions.
- Government and Parastatal Banking:** Extending essential international services (parent bank) to serve the banking needs of Nigerian Government and parastatal or state industries
- Commercial and Corporate Banking:** Providing services in the area of trade finance, especially letter of credits.
- Private Banking:** Providing banking facilities to ‘high net worth’ clients of the Bank.
- Trade Finance:** Offering a comprehensive range of trade finance services including export LC, import LC, Guarantees, bills discounting, etc.
- Structured Trade & Commodity Finance:** Providing structured trade finance solutions to facilitate smooth importation and exportation of goods and commodities from one market to the other.
- Project Finance:** Providing financial products to assist with medium term corporate project finance mainly in Africa.
- Property Finance:** To assist with investment in the UK residential property market primarily in and around London.
- Internet Savings:** Offering online savings accounts to UK resident individuals under the brand name ‘FirstSave’.

## Risk Governance Structure

The Board of Directors of the Bank (“the Board”) is ultimately responsible for the management of the Bank – including its branch and representative offices in Europe and Africa – and for establishing and monitoring the effectiveness of its corporate governance framework. The Board, the membership of which includes six Non-Executive Directors and four Executive Directors, is also responsible for determining the Bank’s strategic direction and Risk Appetite.

The Board meets on a quarterly basis and more frequently should the need arise, however day to day management responsibilities are delegated to the Bank’s Executive Management Committee, which comprises the Managing Director, Executive Director – Business Development, Executive Director/ Chief Financial Officer, Chief Operations Officer, Chief Risk Officer and Head of Compliance.

To fulfill its responsibilities the Board is supported by a number of committees and an illustration of the Company's committee structure is provided below. The formal committee structure, including terms of reference and membership details, is maintained centrally and any changes to these are approved by either the Executive Committee and/or the Board, as appropriate.



The main roles and responsibilities of the committees shown in the above diagram are as follows:

### **Board Audit and Risk Assessment Committee (BARAC)**

BARAC is a standing Board Committee comprising of not less than 3 Non-Executive Directors of the Bank that considers matters relating to Audit, Compliance, Internal Control, Financial Control and Business Risks periodically to ensure transparency and control.

### **Board Credit Committee (BCC)**

BCC is a standing Board Committee comprising 5 Directors of the Bank that considers its credit and other risk portfolios periodically to ensure consistency with guidelines and limits established.

### **Board Establishment Committee (BEC)**

BEC is a standing Board Committee comprising 54 Directors of the Bank that considers its capital expenditure, infrastructure needs and HR requirements on a periodic basis to ensure availability of resources consistent with current scope and future growth projections.

### **Board Strategy Review Committee (BSRC)**

BSRC is a standing Board Committee comprising 8 Directors of the Bank that considers the continued development and implementation of the appropriate strategy to achieve profitable growth; maintain highest standards of quality and ethics; and deliver acceptable shareholder returns.

### **Board Governance Committee (BGC)**

BGC is a standing Board Committee comprising of 3 Non-Executive Directors of the Bank that considers the composition of the Board to enable it to discharge its duties together with the appropriate level of remuneration.

### **Executive Management Committee (EMC)**

EMC is responsible for the daily management of the Bank and ensures the maintenance, safety, soundness and profitability of the Bank.

### **Risk Management Committee (RMC)**

RMC monitors adherence to guidelines and limits established by the Bank and Regulatory Authorities for maintaining the safety and soundness of the Bank and to ensure the Business Continuity arrangements are satisfactory.

### **Asset & Liability Committee (ALCO)**

ALCO has overall responsibility for managing the Bank's balance sheet within the defined risk/return preferences set by the Board. It will provide the Bank with the ability to continuously assess current asset and liability management (ALM) direction and balance sheet structure.

### **Executive Credit Committee (ECC)**

ECC has responsibility to recommend, sanction or decline credit applications within its level of authority and to review the portfolio on a regular basis including any accounts out of order

### **Anti - Money Laundering/Financial Crime Committee (MLFCC)**

MLC has responsibility to discuss all money laundering and related matters to ensure compliance with correct regulations.

### **New Product Committee (NPC)**

NPC deliberates and makes recommendation on every new product before adoption.

### **Investment Committee (IC)**

IC reviews and makes recommendation on selected fund companies and ensures the companies and the funds are suitable for the Bank to recommend to clients.

### **Conduct Risk and Treating Customers Fairly Committee (CRTCF)**

CRTCF reviews and monitors the application of Conduct Risk and TCF principles to all aspects of the Bank's customer business. It recommends appropriate systems and controls to deliver fair treatment of customers.

# Capital Resources

## Total Capital Available as at 31<sup>st</sup> December 2015

**Tier 1 capital resources** ('000) are as below:

|               |                 |
|---------------|-----------------|
| Gross amount: | £277,768        |
| Deductions    | -               |
| Net amount:   | <b>£277,768</b> |

**Tier 2 capital resources** ('000) are as below:

|               |   |
|---------------|---|
| Gross amount: | - |
| Deductions    | - |
| Net amount:   | - |

**Total capital resources** ('000) are as below:

|               |                 |
|---------------|-----------------|
| Gross amount: | £277,768        |
| Deductions    | -               |
| Net amount:   | <b>£277,768</b> |

### Tier 1 Capital

Tier 1 capital is comprised of ordinary shares (£182,000,000) and profit reserve (£95,768,265) as at 31<sup>st</sup> December 2015. These figures have been verified and audited by the Bank's external auditors.

# Capital Adequacy

## Capital Management

FBN Bank (UK) Ltd endeavors to maintain sufficient capital resources to support its lending business and general business growth. Capital adequacy will be formally reviewed and approved annually; the monitoring and reporting of changes to the capital forecasts will take place quarterly. The Board will consider the need to change its capital forecasts and capital plans based on these reviews.

The Bank holds capital at a level that the Board considers necessary and the assessment of minimum capital requirements is a combination of regulatory requirement and sound judgment exercised by the Board. In assessing the adequacy of its capital, the Bank considers its Risk Appetite, the material risks to which the Bank is exposed and the appropriate management strategies for each of the material risks, including whether or not capital provides an appropriate mitigant.

In addition to capital adequacy reporting to the PRA, an Internal Capital Adequacy calculation is performed weekly for the Executive Management and quarterly for the Board, in order to assess the Bank's capital adequacy and to determine the levels of capital required going forward to support the current and future risks in the business.

## Internal Capital Adequacy Assessment Process

As part of its regulatory obligation, the Bank undertakes an annual (or more frequently should the need arise) Internal Capital Adequacy Assessment Process (ICAAP) using the regulatory capital model.

The ICAAP considers all material risks to establish additional capital resource requirement over the medium term taking account of the Bank's business plans and relevant financial projections. These projections are stressed under various idiosyncratic and market scenarios, the results of which inform management actions to be taken.

The final ICAAP document is updated and reviewed annually by the Executive Management Committee and formally presented to the Board for challenge and approval.

## Stress Testing

The Bank performs regular stress tests on its capital adequacy and liquidity position under a range of scenarios. The scenarios are agreed by ALCO and reviewed by EMC, and are regularly updated to reflect the Bank's risk profile and external risks, including the risks of an economic recession.

Where applicable the stress tests cover all relevant risks to which the Bank is exposed; for example, capital adequacy stress tests based on macro-economic scenarios analyse the impact on both credit and market risk exposures.

Liquidity stress tests are performed monthly and capital adequacy stress tests are performed yearly. In addition, periodic ad-hoc stress tests are performed as required by the executive management or the ALCO.

Detailed results of stress tests are presented to ALCO, including the impact of the stress scenario on the Bank's capital requirement, its capital resources and its profitability; summary results are presented to EMC. Stress testing is used to determine the Bank's capital adequacy, the adequacy of its liquidity position and to influence strategy and medium term planning.

As part of its risk management process and in line with regulatory requirements, the Bank carries out annual reverse stress testing. This entails review of scenarios that could lead to insolvency and how to mitigate such scenarios.

### **Pillar 1 Minimum Capital Requirement**

Pillar 1 capital amount is calculated by adding the Credit Risk Capital using the Standardized approach to both the Operational Risk Capital using the Basic Indicator approach and the foreign exchange Position Risk Requirement element of Market Risk.

The following table shows the aggregate Pillar 1 minimum Capital Resource Requirement of the Bank as at 31<sup>st</sup> December 2015.

|   | (£'000)        |
|---|----------------|
| Credit risk (standardised)                                  | 127,329        |
| Market risk   | 97             |
| Operational risk (BIA)                                      | 10,340         |
| <b>Minimum Capital Resource requirement</b>                 | <b>137,766</b> |
| Total own funds   | 277,768        |
| <b>Excess of own funds over minimum capital requirement</b> | <b>140,002</b> |

### **Minimum Capital Requirement for Credit Risk**

The following table illustrates the Bank's total minimum capital requirement for credit risk as calculated using the Standardized approach at 8% of total risk weighted asset as at 31<sup>st</sup> December 2015.

| <b>Exposure classes</b>                        | <b>(£'000)</b> |
|--|----------------|
| Central Government & Central Banks             | 1,120          |
| Institutions                                   | 16,410         |
| Corporates                                     | 103,384        |
| Retail   | 28             |
| Secured on real estate property                | 4,219          |
| Past due                                       | 89             |
| Others   | 2,079          |
| <b>Credit Risk Minimum Capital Requirement</b> | <b>127,329</b> |

# Risk Measurement, Mitigation and Reporting

Risk is inherent in the Bank's business and activities. Our ability to identify, assess, monitor and manage each type of risk to which the Bank is exposed is an important feature in our financial soundness, performance, reputation and prospect. The most significant risks, faced by the Bank, are credit risk, market risk (including interest rate risk), liquidity risk and operational risk.

These risks are discussed below:

## Credit Risk

Credit risk is defined as the risk that financial loss arises from the failure of a customer or counterparty to meet its obligation under a contract. It arises principally from lending, trade finance and treasury activities. Internal controls are in place within the Bank's credit function which are designed to ensure that loans are made in accordance with the Bank's credit policy and Risk Appetite and that once made such facilities are monitored on a regular basis by the appropriate level of management.

Moreover, significant changes in the economy, or state of a particular industry could result in risks that are different from those provided for at the balance sheet date. To manage these risks, management has established limits in relation to individual borrowers or group of borrowers, industry sectors, countries, commodities etc.

### Credit Risk and Asset/Liability Concentration

The Bank's Executive Credit Committee is responsible for approving credit recommendations and making other credit decisions as per its delegated authority within the Bank's Credit Policy. This includes decisions on individual credits, reviewing and recommending credits, large exposures and/or concentration limits to the Board of Directors for their approval. The Credit Committee is also responsible for monitoring the credit approval delegated to the Credit Risk Management Department by the Board of Directors.

The limits established are constantly monitored and are subject to a regular review by an approval body (based on the amount of the limit). Limits relating to specific sectors, products and countries are examined and approved by the Board of Directors.

The Bank's credit policy documents include details on lending authorities, large exposures, concentration risk, transactions with parent and affiliates, country risk exposure, industry lending, use of external credit assessments, credit risk collateral and provisioning.

The exposure to credit risk is managed by an analysis of the ability of the borrowers to meet their obligations using internal credit rating systems and methodologies.

In the instances of borrowers who have obtained facilities in other group companies, the total exposure on a group basis is taken into account in determining credit risk and the respect of our single obligor position.

As a result credit limits are adjusted if considered necessary, or gross limits reduced by credit insurance or sell-down. In addition the above analysis takes into account the interest rate spread and collaterals held.

The Bank's exposure to credit risk is determined by the counterparties with whom the Bank conducts business, as well as the markets and countries in which those counterparties conduct their business. Counterparty and country limits are in place and the Bank performs credit appraisal procedures prior to the advancing of any facilities. The Bank also has policies on the levels of collateral that are required to secure facilities where relevant.

### **Credit Risk: Standardised Approach**

The Bank calculates credit risk for exposures under the standardized approach and uses the following PRA recognized external credit assessment institutions (ECAIs) where relevant:

- Moody's,
- Fitch, and
- Standard & Poors.

The external rating of each ECAI is mapped to the prescribed credit quality assessment scale which produces asset risk weightings.

The standardized credit risk exposure classes for which the ECAIs are used are:

- Central Government or Central Banks
- Multilateral Development Banks
- Institutions
- Corporates
- Other items

The tables below provide details of exposure values under each exposure class:

|                                    | <b>Exposure value before mitigation<br/>(£'000)</b> | <b>Exposure value after mitigation<br/>(£'000)</b> |
|------------------------------------|---|--|
| Central Government & Central Banks | 267,614   | 252,268  |
| Institutions                       | 257,217   | 257,217  |
| Corporates                         | 1,567,086   | 1,137,111  |
| Retail                             | 1,471   | 1,471  |
| Secured on Real Estate Properties  | 152,068   | 150,695  |
| Past Due                           | 84,698  | 84,698   |
| Others                             | 25,963  | 25,963   |

The following table illustrates exposure values associated with each credit quality steps:

| <b>Credit quality step</b> | <b>Fitch ratings</b> | <b>Exposure value before mitigation<br/>(£'000)</b> | <b>Exposure value after mitigation<br/>(£'000)</b> |
|----------------------------|----------------------|---|--|
| 1                          | AAA to AA-           | 343,248   | 343,248  |
| 2                          | A+ to A-             | 66,209  | 66,209   |
| 3                          | BBB+ to BBB-         | 160,724   | 160,274  |
| 4                          | BB+ to BB-           | 54,700  | 51,967   |
| 5                          | B+ to B-             | 277,113   | 96,889   |
| 6                          | CCC+ and below       | -   | -  |
| Unrated                    |                      | 1,369,425   | 1,106,138  |
| Past due items             |                      | 84,698  | 84,698   |

The table below shows the breakdown of the Bank's on-balance sheet exposures by counterparty type as at 31<sup>st</sup> December 2015.

|  | <b>Maximum exposure (£'000)</b> |
|--|---------------------------------|
| <b>Loans and advances to financial institutions</b>      |                                 |
| Banks  | 801,519                         |
| Other financial institutions                             | -                               |
| Past due items   | 82,490                          |
| <b>Loans and advances to customers</b>                   |                                 |
| Central governments, parastatals and government agencies | 30,556                          |
| Corporates   | 1,064,972                       |
| Retail   | 69,310                          |
| Past due items   | 2,208                           |
| <b>Available –for-sale-securities</b>                    |                                 |
| Government   | -                               |
| Banks  | 114,517                         |
| Corporates   | -                               |
| Past due items   | -                               |

The table below shows the residual maturity breakdown of the Bank's exposure classes as at 31<sup>st</sup> December 2015.

|                                      | <b>Demand<br/>(£'000)</b> | <b>Within 3<br/>months<br/>(£'000)</b> | <b>Between 3<br/>months and 1<br/>year (£'000)</b> | <b>Between 1<br/>year and 5<br/>years (£'000)</b> | <b>Over 5<br/>years<br/>(£'000)</b> |
|--------------------------------------|---------------------------|--|--|---|-------------------------------------|
| <b>Financial Institutions</b>        | 149,817                   | 607,519                                | 33,769   | 10,414  |                                     |
| <b>Corporates</b>                    | 240,259                   | 344,010                                | 43,006   | 313,800   | 123,897                             |
| <b>Retail</b>                        | 1,117                     | 969                                    | 4,467  | 20,418  | 42,339                              |
| <b>Available-for-sale Securities</b> | -                         | -                                      | 34,530   | 79,987  | -                                   |
| <b>Past due items</b>                | -                         | 84,698                                 | -  | -   | -                                   |

## **Credit risk mitigation**

The Bank uses various techniques to reduce credit risk of its lending. These include comprehensive review of the ability of the counterparty to repay the facility without distress and in some cases the receipt of collateral for the facility advanced as well as structuring transactions in order that the underlying commodity is effectively under the control of the Bank.

## **Impairment provisions**

A financial asset is treated as past due when the borrower has failed to make a payment when contractually due. However, according to regulatory rules a financial asset is regarded as past due when the payment is ninety days past the contractual due date.

A financial asset is regarded as impaired if its recoverable amount is less than its carrying amount on the balance sheet.

The Bank assesses at each balance sheet date whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset or group of financial assets are impaired. Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments or the debt being restructured to reduce the burden on the borrower.

The Bank first assesses whether objective evidence of impairment exists either individually for assets that are separately significant or individually or collectively for assets that are not separately significant. If there is no objective evidence of impairment for an individually assessed asset it is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment.

In the absence of objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The resultant provisions have been deducted from the appropriate asset values in the balance sheets.

The process and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised the

provision is adjusted and the amount of the reversal is recognised in the income statement.

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

Loans subject to collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due or impaired but are treated as new loans after the minimum required number of payments under the new arrangements have been received. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or are considered to be past due.

The following table shows the allowances for impaired exposures by counterparty as at 31<sup>st</sup> December 2015

|                                 | <b>Impaired exposures<br/>(£'000)</b> | <b>Total provision<br/>(£'000)</b> |
|---------------------------------|---------------------------------------|------------------------------------|
| Available For Sale Investment   | 21,298                                | 21,298                             |
| Investment – Royalty            | 13,694                                | 13,694                             |
| Loans and advances to banks     | -                                     | -                                  |
| Loans and advances to customers | 4,529                                 | 4,161                              |

The following table shows geographical analysis of the impaired exposures detailed above.

|                | <b>Impaired exposures<br/>(£'000)</b> | <b>Total provision<br/>(£'000)</b> |
|----------------|---------------------------------------|------------------------------------|
| Europe         |                                       |                                    |
| Eastern Europe |                                       |                                    |
| Africa         | 29,624                                | 29,256                             |
| Others         | 9,897                                 | 9,897                              |

## Credit exposure by sector

|             | <b>December<br/>£'000</b> |
|-------------|---------------------------|
| Banks       | 1,050,306                 |
| Corporates  | 1,067,188                 |
| Government  | 30,556                    |
| Individuals | 69,310                    |
|             | <b>2,217,360</b>          |
|             | =====                     |

## Credit exposure by location

|                | <b>December<br/>2015<br/>£'000</b> |
|----------------|------------------------------------|
| Western Europe | 726,106                            |
| Eastern Europe | -                                  |
| Africa         | 1,083,909                          |
| Others         | 407,345                            |
|                | <b>2,217,360</b>                   |
|                | =====                              |

The above sector and geographical analyses includes cash at bank and in hand, loans and advances to banks and to customers and available-for-sale financial assets.

The Bank extends credit facilities to quality rated and unrated counterparties. All rated counterparties must have a Fitch (or equivalent) rating of no less than B. A large percentage of the Bank's total financial assets were to high quality financial institutions, the majority of which had ratings of between A and AAA.

As at 31 December 2015, the Bank's maximum exposure to credit was £2,356m, of which £39.15m was deemed to be impaired or doubtful. These amounts include all financial assets and undrawn irrevocable loan and trade commitments.

Total trade related exposure was £102m against which the Bank held cash collateral of £68m. In addition, the Bank had collateral of £531m in respect of other credit exposures.

## Market Risk

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises four types of risk: interest rate risk, foreign currency risk, equity position risk and commodity position risk. The objective of market risk management is to maintain market risk exposures within acceptable parameters, whilst optimising the return on risk.

## Interest Rate Risk

Interest rate risk originating from banking activities arises due to the Bank holding a combination of fixed and variable rate assets and liabilities that arise during the normal course of business. The tables summarise the variable rate assets and liabilities as at 31 December 2015 as a basis of disclosing the Bank's interest rate sensitivity analysis.

### Interest Rate Sensitivity Analysis

The Bank holds a combination of fixed and variable rate assets and liabilities. As a consequence of holding variable rate financial instruments, the Bank is exposed to cash flow interest rate risk.

Interest rate sensitivity analysis has been performed on the net cash flow interest rate risk exposures as at the reporting dates. A range of possible upward/downward movements in Libor/Euribor of 100 – 150bps has been assumed for the different currencies.

If all other variables are held constant, the tables below present the likely impact on the Banks profit or loss.

|   | GBP<br>£'000   | USD<br>£'000     | EUR<br>£'000   | OTHER<br>CCY<br>£'000 | TOTAL<br>£'000   |
|---|----------------|------------------|----------------|-----------------------|------------------|
| <b>As at 31 December 2015</b>                               |                |                  |                |                       |                  |
| Total financial assets                                      | 475,351        | 1,397,826        | 343,567        | 616                   | 2,217,360        |
| Less: Fixed rate assets                                     | -              | (238,465)        | (2,560)        | -                     | (241,025)        |
| <b>Total variable rate assets</b>                           | <b>475,351</b> | <b>1,159,361</b> | <b>341,007</b> | <b>616</b>            | <b>1,976,335</b> |
| Total financial liabilities                                 | 1,228,528      | 543,292          | 76,022         | 298                   | 1,848,140        |
| Less: Fixed rate liabilities                                | (1,058,688)    | -                | (50,296)       | -                     | (1,108,984)      |
| <b>Total variable rate liabilities</b>                      | <b>169,840</b> | <b>543,292</b>   | <b>25,726</b>  | <b>298</b>            | <b>739,156</b>   |
| Net Cash Flow Interest Rate Risk exposure                   | 305,511        | 616,069          | 315,281        | 586                   | 1,237,179        |
| Possible movement in Libor/Euribor (bps)                    | 100            | 150              | 100            | 100                   | -                |
| Possible impact of increase in Libor/Euribor on profit/loss | 3,055          | 9,241            | 3,153          | 3                     | 15,452           |
| Possible impact of decrease in Libor/Euribor on profit/loss | (3,055)        | (9,241)          | (3,153)        | (3)                   | (15,452)         |

## Foreign Currency Risk

Foreign exchange exposure arises from normal banking activities, particularly from the receipt of deposits and the placement of funds denominated in foreign currencies. It is the policy of the Bank to match the currencies and its assets and liabilities as far as practicable. It is also the policy of the Bank to adhere to the limits laid down by the Board in respect of the “overall net open position”. The tables below give details of the company’s net foreign currency exposures as at 31 December 2014 as a basis of disclosing the Bank’s foreign currency sensitivity analysis.

## Foreign Currency Sensitivity

Foreign currency sensitivity analysis has been performed on the foreign currency exposures inherent in the Bank’s financial assets and financial liabilities at the reporting dates presented, net of FX derivatives. The sensitivity analysis provides an indication of the impact on the Bank’s profit or loss of reasonably possible changes in the currency exposures embedded within the functional currency environment that the Bank operates in. Reasonably possible changes are based on an analysis of historic currency volatility, together with any relevant assumptions regarding near-term future volatility.

The Bank believes that for each foreign currency net exposure it is reasonable to assume a 5% appreciation/depreciation against the Bank’s functional currency. If all other variables are held constant, the tables below present the impacts on the Bank’s profit or loss if these currency movements had occurred.

|  | US dollar<br>£’000 | EUR<br>£’000 | Other<br>Currencies<br>£’000 |
|--|--------------------|--------------|------------------------------|
| <b>As at 31 December 2015</b>          |                    |              |                              |
| <b>Net foreign currency exp.</b>       | 25,787             | 2,199        | 176                          |
| Impact of 5% increase in FC : GBP rate | (1,289)            | 110          | (9)                          |
| Impact of 5% decrease in FC: GBP rate  | 1,289              | (110)        | 9                            |

## Equity Position Risk

This risk arises from adverse change in the price of stocks and shares. The Bank currently does not hold any financial instruments that use equity prices as part of their valuation, hence is not exposed to equity risk.

### **Debt Securities Position Risk**

This risk arises from adverse changes in interest rates affecting the value of holdings of fixed interest bearing instruments such as debt securities. Treasury, Risk and Senior Management are closely involved in managing this risk. Controls and limits are set and maintained by Risk department.

### **Commodity Position Risk**

This risk arises from adverse change in commodity prices. The Bank currently does not engage in commodity trading, hence is not exposed to commodity risk. However, the Bank is involved with financing commodities throughout the World and in these cases the commodity risk is taken by the customer, however, in all cases the Bank assesses how the company mitigates this risk.

### **Liquidity Risk**

The Bank is regulated in the United Kingdom by the Prudential Regulation Authority (PRA) who set the required liquidity mismatch parameters. The Asset & Liability Committee (ALCO) manages the liquidity structure of the Bank's assets, liabilities and commitments so that cash flows are appropriately balanced to ensure that all funding obligations are met when due and the required mismatch parameters by the PRA are not breached. The policy of the Bank is to match the maturities and currencies as far as practicable for all (and particularly large) exposures or placements.

FBN Bank (UK) Ltd performs a comprehensive annual review of its liquidity adequacy and forecast liquidity requirement for a twelve month period in line with the new regulatory liquidity requirements.

### **Operational Risk**

Operational risk is defined as the potential risk of financial loss or impairment to reputation resulting from inadequate or failed internal processes and systems, from the actions of people or from external events.

Major sources of operational risk include: outsourcing of operations; dependence on key suppliers; IT security; internal and external fraud; implementation of strategic change; regulatory non-compliance, for example, process errors and external threats such as the loss of a critical site.

Although overall responsibility for this area rests with the Chief Risk Officer, on a day-to-day basis this is handled by the Operational Risk Manager. Individual business areas manage this risk through appropriate controls and loss mitigation actions, including insurance. These actions include a balance of policies, appropriate procedures and internal controls to ensure compliance with laws and regulations. At a detailed level, risk and control assurance is facilitated by the Risk department, in conjunction with line managers and internal audit, on the risks and control effectiveness within their areas of responsibility.

A process is in place for the recognition, capture, assessment analysis and reporting of risk events. This process is used to help identify where process and control requirements are needed to reduce the recurrence of risk events.

The Bank has adopted the Basic Indicator Approach to operational risk and assesses relevant operating income from the business. Regulatory capital is calculated by taking a single risk-weighted multiple (15%) of the Bank's average of 3 years gross operating income.

## **Pillar 2**

Pillar 2 Capital is the Bank's internal capital assessment over and above Pillar 1 credit, market and operational risk capital requirements. This is arrived at by simply deducting the regulatory Pillar 1 capital requirement from the Bank's overall internal assessment.

The internal capital assessment includes consideration for concentration risk, residual legal risk, documentation risk, key personnel risk, business and strategy risks which are not reflected in Pillar 1 capital calculation. Additional capital charge is computed and provided on the basis of these other risks.

## REMUNERATION POLICY – DISCLOSURE FOR REPORT AND ACCOUNTS

During 2015, there was continued extensive debate from the European Central Bank and the Financial Conduct Authority and Prudential Regulation Authority regarding remuneration in the banking sector. The European Banking Authority (“EBA”) published a consultation paper on its guidelines for sound remuneration policies (the “Guidelines”) in March 2015.

For the year ended 2015, the current guidance from the FCA, has remained unchanged. It remains as their General Guidance on Proportionality: The Remuneration Code (SYSC 19A) & Pillar 3 Disclosures on Remuneration. These set out the FCA’s requirements in this regard.

The Bank’s Board Establishment Committee (see below) is responsible for the implementation of the Remuneration Code (as set out by the FCA and PRA) and the annual review of the Bank’s adherence to it. This statement sets out the disclosures required under the Code as they apply to FBN Bank (UK) Limited (“the Bank”). The Bank qualifies as a Level 3 firm under the Code.

Governance of all matters related to remuneration within the Bank continues to lie with the Board Establishment Committee (“BEC”) for all staff below Executive level and the Board Governance Committee (“BGC”) for Executive staff. The BEC comprises of four Non-Executive Directors, ~~one of which is the Chairman~~ and the Managing Director. The Head of Human Resources attends by invitation. The Board Governance Committee comprises of three Non-Executive Directors. The Managing Director attends by invitation.

The Non-Executive Directors are regarded as being independent of the Bank and also to possess the necessary skills to exercise the appropriate judgement.

The Board Establishment Committee is continually reviewing the Bank’s remuneration policies to ensure compliance with the Code. Additionally it has confirmed the rules for use within the Bank for the identification of Code Staff as required under principle 12 of the Code.

The Bank has in place a discretionary bonus (performance award) scheme for the benefit of its employees. Bonus awards under the scheme qualify as “variable remuneration” as defined in the Code.

The calculation of bonus awards for individuals is undertaken annually and is linked to three factors:

- Assessed compliance with the Bank's documented core standards of behaviour
- Assessed individual performance
- The Bank's performance against the business plan prepared before the start of the year to which it relates

The Bank had 154 employees globally at 31 December 2015 who were eligible for bonus awards in respect of their service during 2015. As the Bank's level of profit did not trigger any bonus funding in order to pay out a bonus under the current discretionary bonus arrangement, no bonuses were payable under the scheme. However, in view of the hard work and commitment of staff during the 2015 year, the Bank's Board decided to pay an exceptional flat rate % payment to all staff, of circa 7.5% of basic salary. The total cost equated to less than £500,000.

The Code requires that banks identify relevant senior executives and designate them as "Code Staff/Material Risk Takers". Restrictions do not currently apply to the remuneration of such staff in terms of deferral or method of payment following the guidelines set by the FSA (FCA). Thirty staff are identified as Code Staff/Material Risk Takers and this included 3 Executive Directors, 3 UK Non-Executive Directors, members of the Executive Management Committee (listed in the Annual Accounts) and those individuals who were either FSA (FCA) Approved Persons or Senior Management identified as appropriate under the FCA guidelines for Code Staff. The Bank will be undertaking a further detailed review of their Code Staff/Material Risk Takers in the coming months to review in line with the new expected Senior Managers Certification Regime, a new set of regulations, being brought in by the FCA.

Guaranteed bonuses are not offered as part of the bank's current discretionary bonus (performance award) arrangements.

There is also the additional request for FBNUK to complete an annual High Earners Return to the FCA/PRA to advise of staff whose remuneration is over €1m. The Bank does not have any staff who qualify as high earners under the FCA/PRA definition and therefore a Nil return was submitted for 2015.

Going forward, FBNUK is monitoring closely any future developments on regulatory changes and will respond accordingly to ensure compliance and best practice.