



FBN Bank (UK) Ltd

Pillar 3 disclosures for the year ended 31 March 2009

FBN Bank (UK) Ltd, London

Pillar 3 Disclosures

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Overview

Background

FBN Bank (UK) Ltd, 'the Bank' adopted Basel II in January 2008 in line with the Capital Requirements Directive which came into effect in January 2007.

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

- **Standardised Approach for Credit risk** - similar to previous (Basel 1) requirements whereby regulatory capital requirements are calculated by multiplying the value of the Bank's exposure by an appropriate risk weight. Under Basel 2, 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.

Under the **Pillar 2** of the new Basel II requirements, FBN Bank (UK) Ltd has undertaken a self-assessment of its internal capital requirements - an Internal Capital Adequacy Assessment Process, or ICAAP.

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. All figures are as 31 March 2009, the bank's year end.

Pillar 3 disclosure report will be produced on an annual basis. The disclosures will be as at the Accounting Reference Date (ARD), i.e. as at 31 March, 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

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 focussed on catering for banking and financial services needs of customers with interests in Nigeria and other African Countries, mainly West Africa.

The Bank offers a range of banking products and services covering:

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 financial services to the Central Bank of Nigeria to serve the banking needs of Government and parastatal or state industries

Commercial and Corporate Banking: Providing services in the area of trade finance, especially letter of credits, working capital and project finance

Wealth Management: Providing banking facilities to 'high net worth' individuals, including various deposit accounts, mortgages, internet banking and funds transfer.

TradeFinance: Offering a comprehensive range of trade finance services including export LC, import LC, standby LC, bills discounting, etc.

Structured Trade Finance: Providing structured trade finance to facilitate smooth importation and exportation of goods and commodities from one market to the other.

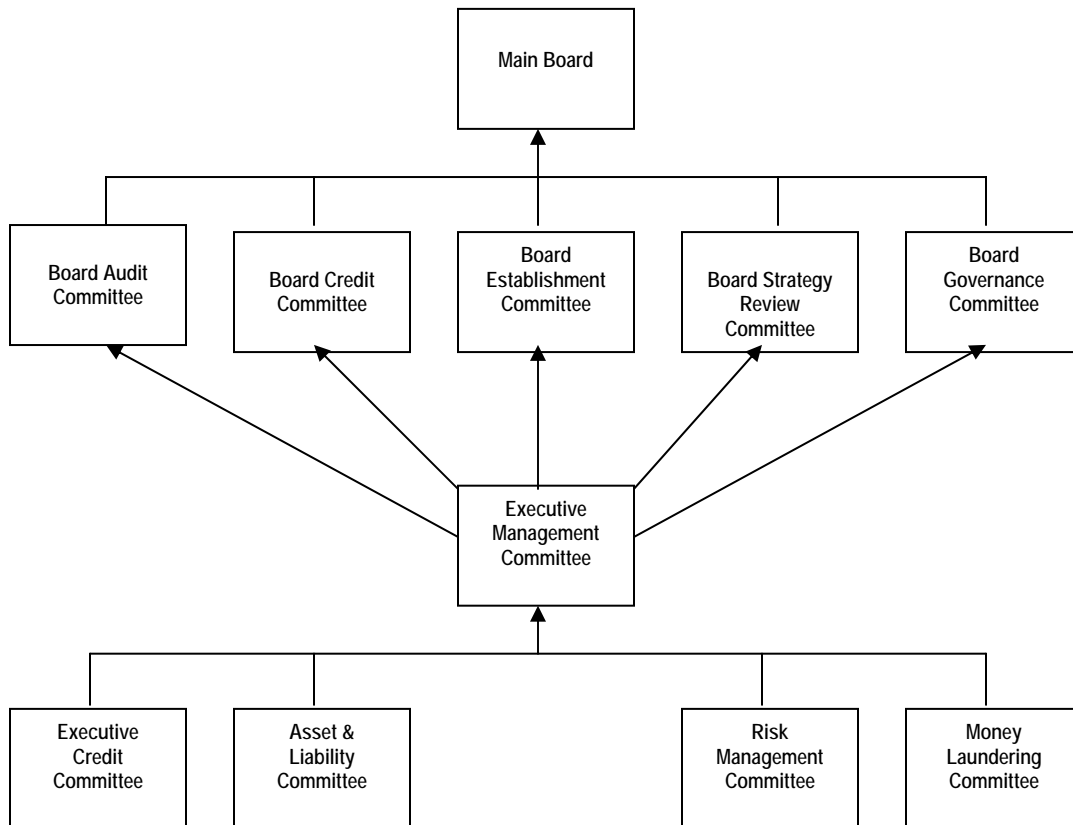
Internet Savings: Offering online savings accounts to UK resident individuals under the brandname 'FirstSave'

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, 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 – Operations, Executive Director – Business Development, Head of Risk, Head of Finance 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 Committee (BAC)

BAC is a standing Board Committee comprising of 4 Non-Executive Directors of the Bank that considers the Bank's internal audit and operational reports periodically to ensure transparency and adherence to internal controls.

Board Credit Committee (BCC)

BCC is standing Board Committee comprising 5 Directors (3 Non-Executive and 2 Executive) and is responsible for all credit related risks at the Bank. The BCC approves and reviews the Banks Credit Policy Guidelines. It also reviews all loans granted by the Bank and approves specific loans within the authority delegated to it by the Board but above the authorities it has delegated to the Executive Credit Committee. The BCC is responsible for ensuring the maintenance of strong internal credit risk controls, consistency of guidelines and limits established. Its authorities are set by the Board.

Board Establishment Committee (BEC)

BEC is a standing Board Committee comprising 4 Directors (3 Non Executive and 1 Executive) 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 (SRC)

The Board Strategy Review Committee is a standing Board Committee comprising 7 Directors (4 Non Executive and 3 Executive) of the bank that considers the continued development and implementation of the appropriate strategy to achieve profitable growth; maintain highest standards of product and service quality and professional ethics.

Board Governance Committee

The Governance Committee 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)

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

Risk Management Committee (RMC)

To monitor adherence to guidelines and limits established by the Bank and Regulatory Authorities for maintaining the safety, soundness and profitability of the Bank and to ensure the Disaster Planning arrangements are satisfactory

Asset & Liability Committee (ALCO)

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

Executive Credit Committee (ECC)

The committee reviews, sanctions or declines credit applications within its level of authority. It reviews the credit risks to which the Bank is exposed and ensures that these are within the policies laid down by the Board.

Money Laundering Committee (MLC)

The Committee facilitates a coordinated and effective review of all money laundering and related matters to ensure consistent compliance with existing regulations.

Capital Resources

Total Capital Available as at 31st March 2009

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

Gross amount: £101,147

Deductions -

Net amount: **£101,147**

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

Gross amount: £16,500

Deductions -

Net amount: **£16,500**

Total tier 1 and 2 capital resources ('000) are as below:

Gross amount: £117,647

Deductions -

Net amount: **£117,647**

Tier 1 Capital

Tier 1 capital is comprised of ordinary shares (£82,000,000) and profit reserve (£19,147,466) as at 31st March 2009. These figures have been verified and audited by the Bank's external auditors.

Tier 2 Capital

Tier 2 capital resources represent subordinated loans of £11,500,000 and £5,000,000 granted by the parent company, First Bank of Nigeria Plc, repayable on 7th December 2015. The interest rates payable on the subordinated loans are 0.25% and 3% margin respectively over LIBOR for the respective interest period. First Bank of Nigeria Plc has the right to determine the interest period at each repriced date

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 FSA, an Internal Capital Adequacy calculation is performed monthly 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 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 twice 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.

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 31st March 2009.

	(£'000)
Credit risk (standardized)	50,563
Market risk	53
Operational risk (BIA)	2,188
Minimum Capital Resource requirement	52,804
Total own funds	117,647
Excess of own funds over minimum capital requirement	64,843

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 assets as at 31st March 2009.

Exposure classes	(£'000)
Institutions	34,194
Corporates	13,695
Retail	
Secured on real estate property	1,757
Past due	200
Others	717
Credit Risk Minimum Capital Requirement	50,563

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 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.

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 Lending Authority 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 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.

As a result the credit limits are adjusted if considered necessary. 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.

Credit Risk: Standardised Approach

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

- 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:

	Exposure value before mitigation (£'000)	Exposure value after mitigation (£'000)
Institutions	1,198,284	1,141,985
Corporates	171,271	171,186
Retail		
Secured on Real Estate Properties	62,753	62,753
Past Due	2,495	2,495
Others	8,962	8,962

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

Credit quality step	Fitch ratings	Exposure value before mitigation (£'000)	Exposure value after mitigation (£'000)
1	AAA to AA-	489,119	489,119
2	A+ to A-	253,489	253,489
3	BBB+ to BBB-	11,986	11,986
4	BB+ to BB-	130,178	130,178
5	B+ to B-	130,568	124,727
6	CCC+ and below		
Unrated		425,930	375,387
Past due items		2,495	2,495

The table below shows the breakdown of the Bank's exposures by counterparty type as at 31st March 2009.

	Maximum exposure (£'000)
Loans and advances to financial institutions	
Banks	1,084,555
Other financial institutions	
Past due items	2,495
Loans and advances to customers	
Parastatals and government agencies	
Corporates	243,865
Retail	
Past due items	

The table below shows the residual maturity breakdown of the Bank's exposure classes as at 31st March 2009.

	Demand (£'000)	Within 3 months (£'000)	Between 3 months and 1 year (£'000)	Between 1 year and 5 years (£'000)	Over 5 years (£'000)
Financial Institutions	504,814	440,637	133,800	40,308	
Corporates	15,646	84,212	16,501	105,232	22,274
Retail					
Past due items	2,495				

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.

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 31st March 2009

	Impaired exposures (£'000)	Total provision (£'000)
Loans and advances to banks	6,820	405
Loans and advances to customers		

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

	Impaired exposures (£'000)	Total provision (£'000)
Europe		
Eastern Europe	6,820	405
Nigeria		
Africa (excludes Nigeria)		
Others		

Credit exposure by location

	March 2009
	£'000
Europe	730,379
Eastern Europe	168,407
Nigeria	175,667
Africa (excludes Nigeria)	32,154
Others	259,312
	<hr/>
	1,365,919
	<hr/> <hr/>

The above sector and geographical analyses only include cash at bank and in hand and loans and advances to banks and to customers.

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 March 2009, the Bank's maximum exposure to credit was £1,477m, none of which 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 £191m against which the Bank held cash collateral of £87m. In addition, the Bank had collateral of £102m 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 March 2009 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 £'000	USD £'000	EUR £'000	OTHER CCY £'000	TOTAL £'000
As at 31 March 2009					
Total financial assets	655,159	679,276	27,687	3,797	1,365,919
Less: Fixed rate assets	-	(71,221)	(1,186)	-	(72,407)
Total variable rate assets	655,139	608,055	26,501	3,797	1,293,512
Total financial liabilities	564,002	578,341	20,340	10,027	1,172,710
Less: Fixed rate liabilities	(393,976)	-	-	-	(393,976)
Total variable rate liabilities	170,026	578,341	20,340	10,027	778,734
Net Cash Flow Interest Rate Risk exposure	485,133	29,714	6,161	(6,230)	514,778
Possible movement in Libor/Euribor (bps)	100	150	100	100	
Possible impact of increase in Libor/Euribor on profit/loss	4,851	446	62	(62)	5,297
Possible impact of decrease in Libor/Euribor on profit/loss	(4,851)	(446)	(62)	62	(5,297)

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 March 2009 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 £'000	EUR £'000	Other Currencies £'000
As at 31 March 2009			
Net foreign currency exp.	10,208	7,124	(1,230)
Impact of 5% increase in FC : GBP rate	(510)	(356)	62
Impact of 5% decrease in FC: GBP rate	510	356	(62)

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.

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.

Liquidity Risk

The Bank is regulated in the United Kingdom by the Financial Services Authority (FSA) 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 FSA 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.

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.

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.