FBN BANK (UK) LTD

Pillar 3 disclosures for period ended 31 December 2018

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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 1st 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 other areas this is being phased in under transitional arrangements.

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

Policy

This document has been prepared by FBN Bank (UK) Ltd in accordance with regulatory requirements (BIPRU chapter 11). These disclosures are on a standardised basis and all figures are as at 31 December 2018, the Bank's year end unless otherwise stated.

In accordance with the requirements of the EU's Capital Requirements Regulation, the disclosures contained in this document cover both the qualitative and quantitative requirements.

Frequency of disclosure

This Pillar 3 disclosure report is 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

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 the Nigerian Government and parastatal or state industries.

Commercial and Corporate Banking: Providing services in the area of trade finance, especially letters of credit.

Private Banking: Providing banking facilities to 'high net worth' clients of the Bank, including Assets under management and Property finance.

Trade Finance: Offering a comprehensive range of trade finance services including export LC, import LC, guarantees, bills discounting, etc.

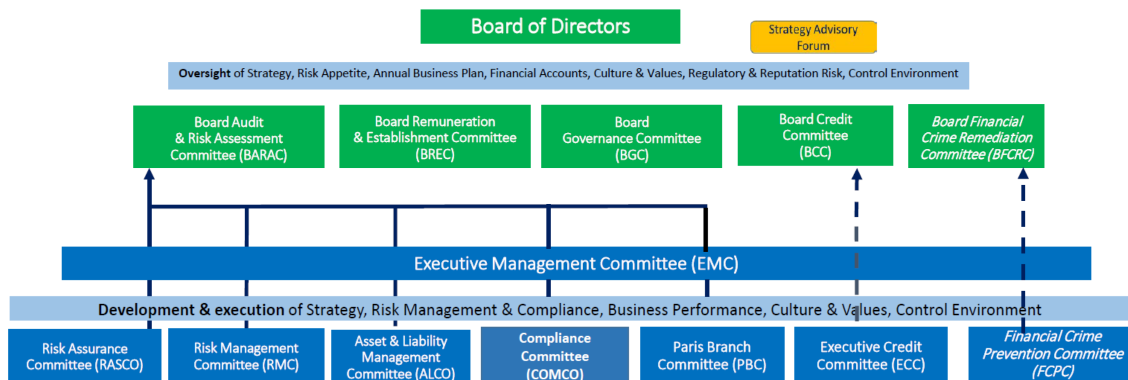
Structured Trade & Commodity Finance: Providing structured trade finance solutions to facilitate smooth importation and exportation of goods and commodities from one market to the other.

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 three 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 of the Chief Executive Officer, Executive Director – Business Development, Executive Director/ Chief Financial Officer, Chief Operations Officer, Chief Risk Officer, Chief Compliance Officer, Head of Paris branch, General Counsel and Head of Human Resources.

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 three 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 Remuneration & Establishment Committee (BREC)

BREC is a standing Board Committee comprising three Non-Executive Directors of the Bank that considers its capital expenditure, infrastructure needs and HR requirements including remuneration of the employees of the Bank, the executives and the non-

executive directors of the Board on a periodic basis to ensure availability of resources consistent with current scope and future growth projections.

Board Governance Committee (BGC)
BGC is a standing Board Committee comprising of three Non-Executive Directors of the Bank that considers the composition of the Board to enable it to discharge its duties and to enhance the Bank's governance through a continuing assessment of its approach to corporate governance.

Board Credit Committee (BCC)
BCC is a standing Board Committee comprising three Non-Executive Directors of the Bank that considers its credit and other risk portfolios periodically to ensure consistency with guidelines and limits established.

Board Financial Crime Remediation Committee (BFCRC)
The Board Financial Crime Remediation Committee (BFCRC) is an ad-hoc Committee of three Non-Executive Directors appointed by the Board and authorized to provide guidance and oversight over the Bank's remedial action plan and financial Crime prevention framework and continuous assurance in relation thereto.

Executive Management Committee (EMC)
EMC is responsible for carrying out the business and operational strategies established by the Board and oversees the overall governance and management, strategy and business performance, risk management, regulatory issues and financial performance of the Bank.

Risk Assurance Committee (RASCO)
RASCO is responsible to strengthen the 'third line of defence' of the bank with a dedicated senior management forum where the control environment can be further assured, therefore enhancing/supplementing the insight provided by internal audit function.

Its primary objective is the overall oversight of:

(i) **Good Governance:** the maintenance and adequacy of effective systems of integrated governance, internal controls and risk management across the whole Bank, and to ensure that they are designed appropriately;
(ii) **Control Effectiveness Assurance:** the design and effectiveness of the Bank's control framework and risk mitigation; and
(iii) **Audit:** the evaluation of significant findings in regard of the Bank's internal controls (and the associated recommendations) arising from: internal audits, external audits, regulatory reviews and compliance and risk assessments.

Risk Management Committee (RMC)
RMC is responsible for the overall oversight of all material aspects of risk management, with a specific responsibility for:

(i) **Operational risk:** all areas of operational risk, which are material to the Bank's activities, inter alia: systems and technology, information security, data protection, health and safety policy, business continuity and disaster recovery, outsourcing risk, HR and legal risk; and
(ii) **Systems and controls:** establishment, management and monitoring of the Bank's risk control systems, policies and management information, including risk modelling and stress testing framework.

In this context, RMC will have responsibility for general risk oversight and control across ALL risk domains but will not have responsibility for specific credit risk and market risk related issues.

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.

ALCO assists in the management of the Bank's capital, the resulting investment portfolio, the Bank's liquidity and to provide oversight of all material aspects of market risk.

Executive Credit Committee (ECC)

The primary responsibility of ECC is, working with Board agreed policies and strategy, to review and, if appropriate, recommend or approve all credit proposals that exceed four eye delegation limits.

In coming to an overall assessment, the ECC will also focus on any conflicts with local regulations, operational credit issues, reputational risk and tax and legal matters.

Compliance Committee (COMCO)

COMCO reviews regulatory compliance issues affecting the activities of the Bank. Its purpose is to ensure good compliance management and to protect the Bank from reputational damage, financial loss or regulatory penalties by ensuring, inter alia,

(i) Conduct: a sound culture and appropriate conduct by all employees with the Interests of the client and market integrity as main objective;
(ii) Financial Crime: robust financial crime prevention, in particular money laundering, terrorist financing, bribery and corruption, sanctions violations.

Financial Crime Prevention Committee (FCPC)

The Financial Crime Prevention Committee (FCPC) is set up to provide a dedicated governed forum to assess Financial Crime risks while ensuring the quality of the assessment process and effectiveness of controls to mitigate the identified risks. The Committee reviews and make recommendations to Executive Management Committee (EMC) for ratification, on decisions to on-board a prospective client

(“KYC”) or continue to do business (“KYB”) with an existing client following a renewal or referral (of an event driven review) to the Committee.

Paris Branch Committee (PBC)
PBC oversees the business and operational strategies of FBNUK branch in Paris and oversee the management, strategy, risk and financial performance of the Branch.

Three Lines of Defence Model
FBNUK recognises and promotes the importance of internal controls in accordance with the practice of ‘three lines of defence’ at business unit, oversight unit and audit unit levels. These three units work together as follows:

- Business/functional unit (first line of defence): This is where risk is identified, monitored and managed. There is a separation of duties between operators and supervisors, and preparation of accurate, timely and reliable business, risk or financial reports;

- Oversight unit (second line of defence): The units headed by the Chief Risk Officer (CRO), Head of Compliance and the Money Laundering Reporting Officer advise, monitor and test the activities of the business units and are responsible for assessing and reporting whether the business units comply with relevant laws, regulations and the Bank's policies and procedures; and

- Audit unit (third line of defence): Internal auditors (in conjunction with the Risk Assurance Committee) are responsible for assessing the adequacy of internal controls and providing advice to the Board to ensure that the Bank has effective internal control systems.

Capital Resources

Total Capital Available as at 31st December 2018

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

Gross amount:	£173,244
Deductions	£27,301
Net amount:	**£145,943**

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

Gross amount:	£46,871
Deductions	-
Net amount:	**£46,871**

Total capital resources (‘000) are as below:

Gross amount:	£192,814
Deductions	-
Net amount:	**£192,814**

Tier 1 Capital

Tier 1 capital is comprised of ordinary shares (£221,059,000), retained loss reserve of (£82,181,953) as at 31 December 2018 and IFRS9 Transitional Adjustment of £36,176,000 with 95% Capital add-back. Deduction of intangible assets of (£1,510,000) and Deferred Tax Asset (DTA) of (£25,790,847) resulted in the qualifying Tier 1 capital of the Bank. These figures have been verified and audited by the Bank’s external auditors.

Tier 2 Capital

Tier 2 capital includes:

i. subordinated loan of $60,000,000 (£46,871,340) by parent company, First Bank of Nigeria Limited, repayable on 20th of March 2027 at an interest rate of 8.25%; and

ii. qualifying collective impairment allowance of £Nil as per Capital Requirements Regulation (CRR) rules.

Leverage Ratio

The leverage ratio was introduced under the Basel III reforms as a simple, transparent, non-risk-based ratio intended to restrict the build-up of leverage in the banking sector to avoid a distressed deleveraging process that can damage the broader financial system.

This ratio is disclosed in compliance with article 451 of CRR under CRDIV.

The Bank has a leverage ratio of 6.24% as at 31 December 2018. The leverage ratio has remained relatively stable throughout the year with no significant movements. The minimum regulatory requirement is <=3%.

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 is 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 capital provides an appropriate mitigant.

In addition to capital adequacy reporting to the Prudential Regulation Authority (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, liquidity position and scenario analysis under a range of scenarios. The scenarios 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 31st December 2018.

	(£'000)
Credit risk (standardised)	72,210
Market risk	1,046
Operational risk (BIA)	9,618
Credit Value Adjustment (CVA)	11
Minimum Capital Resource requirement	**82,885**
Total own funds	192,814
Excess of own funds over minimum capital requirement	**109,929**

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 31st December 2018.

Exposure classes	**(£'000)**
Central Government & Central Banks	269
Institutions	6,507
Corporates	54,093
Retail	8
Secured on real estate property	3,053
Past due	7,908
Others	372
Credit Risk Minimum Capital Requirement	**72,210**

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. Apart from these risks, the Bank is also exposed to other risks like Strategic risk, Capital Risk, Regulatory Risk, Conduct Risk and Reputational Risk.

The significant risks are discussed below:

Credit Risk

Credit risk is the risk of loss arising from the inability or failure of a borrower or counterparty to meet its obligations. It is created when the Bank commits to, or enters into, an agreement with a borrower or counterparty.

The Bank works to prevent large unexpected losses through a balanced client, sector, country risk portfolio that can withstand the stress of a credit cycle. Any concentrations that may arise from business strategy are managed within a sound credit risk management framework to identify, measure, monitor and mitigate credit risk. The Bank maintains robust underwriting standards, credit policies and actively uses risk asset distribution and other risk mitigants for managing credit risk.

The Bank's credit policy documents include details on lending authorities, large exposures, concentration risk, use of external credit assessments, and credit risk collateral.

Credit Risk Management

The Bank's Executive Credit Committee as per its delegated authority within the Bank's Credit Policy and the Credit Risk Department are responsible for day to day credit risk management.

The primary responsibilities are:

1. Define, implement and maintain a credit risk management framework, including adequate systems and policies, risk acceptance framework, risk portfolio management, risk modelling and stress testing framework; Ensure its proper functioning, and recommend to BCC the need for changes in framework and policies, or any investigation in selected areas of credit risk.

2. Ensure consistency and alignment in credit risk management, including strict adherence to credit risk policies and procedures, risk acceptance criteria, single obligor limits, deploying "best practice" risk management tools and risk reporting;

3. Consider, approve or decline all such new credit risk proposals within its delegated authority, ensuring that the relevant policies and procedures have been followed and making an assessment as to the acceptability of the credit risk and its conformity with the Bank's risk appetite;

4. Consider, approve or decline all annual reviews of existing credits and/or excess positions, within its delegated authority;

5. Review of the overall credit risk portfolio of the Bank, the actual positions versus limits and risk acceptance statements; and

6. Review of any new material loan loss reserves (LLR), together with a review of the actual LLR provisions, whether such reserves are adequate, and recommend LLR provisions, appropriate remedial management and/or recovery strategy.

Credit Risk Assessment

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 (the Bank has implemented an approved system in order to guide risk assessments where there is no external rating.

Not only the counterparties, but also the markets and the countries in which the counterparties' conducts business are also assessed. Counter party limits and country limits are established 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.

In the instances of where not only the borrowers but also their related entities have obtained facilities, the total exposure on a group basis is taken into account in determining credit risk and single obligor exposure. Appropriate risk mitigation techniques like funded sell down are used for exposures which are in breach of internal Single Obligor positions on a single or group customer basis.

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 & Poor's.

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)
Central Government & Central Banks	1,750,572	1,454,226
Institutions	576,848	576,848
Corporates	1,061,020	607,526
Retail	129	129
Secured on Real Estate Properties	109,053	109,053
Past Due	59,502	25,567
Others	20,350	20,350

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

Credit quality step	ECAI Rating	Exposure value before mitigation (£'000)	Exposure value after mitigation (£'000)
1	AAA to AA-	1,846,529	1,846,529
2	A+ to A-	116,423	116,423
3	BBB+ to BBB-	15,227	15,227
4	BB+ to BB-	36,299	36,299
5	B+ to B-	214,868	214,869

6	CCC+ and below	-	-
Unrated		1,288,625	538,785
Past due items		59,502	25,567

The table below shows the breakdown of the Bank's on-balance sheet exposures by counterparty type as at 31st December 2018.

	Maximum exposure (£'000)
Loans and advances to financial institutions	
Banks	764,389
Other financial institutions	-
Past due items	7,195
Loans and advances to customers	
Central governments, parastatals and government agencies	3,547
Corporates	400,401
Retail	50,793
Past due items	52,306
Hold-to-collect-securities	
Government	1,032,548
Banks	449,956
Corporates	-
Past due items	-

The table below shows the residual maturity breakdown of the Bank's exposure classes as at 31st December 2018.

	Demand (£'000)	**Within 3 months (£'000)**	**Between 3 months and 1 year (£'000)**	**Between 1 year and 5 years (£'000)**	**Over 5 years (£'000)**
Government	-			3,547	-
Financial Institutions	560,048	128,076	38,833	37,432	-
Corporates	66,080	2,167	34,537	72,581	225,036
Retail	3,435	3	75	3,695	43,585
Hold-to-collect-securities	-	1,110,242	160,797	211,465	-
Past due items	-	2,185	9,396	1,823	46,098

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 provision (IFRS9)

The adoption of IFRS 9 has fundamentally changed FBNUK's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the bank to record an allowance for ECL for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECL over the life of the asset.

The governance around ECL models in FBNUK centres around impairment methodology and accounting policies. The approach defines the likely event that could lead to Significant increase in credit risk, Definition of default, Modification and derecognition and Period over which to estimate ECL. Each section details the requirements as set by the standard, applicable guidance on its interpretation and the approach to be implemented by the bank.

Macroeconomic Scenarios

The Bank uses three scenarios that affect the credit quality of FBNUK's portfolio. The scenarios are guided by data analysis involving credit ratings, GDP movements and the Oil price as they affect the Nigerian economy.

The main risk drivers of FBNUK's portfolio are the macroeconomic events that drive the Nigerian and other Sub-Saharan African (SSA) countries' economies.
Given that the main driver of Nigeria and SSA countries' economies is the global commodity market and in particular the oil-energy sector, we model our macroeconomic scenarios around these three factors.

Our base macroeconomic scenario is taken from the World Bank predictions for the price of Oil and Nigerian GDP. Based on these macroeconomic predictions we estimate the likelihood of credit quality improvements and the Expected Credit losses using the gross number of NPL in the Nigerian banking sector.

FBN's staging rules

The Bank defines the relevant stages as follows:

Stage	Description	Accounting implication
Stage 1	No significant changes in credit quality of exposure since initial recognition	• 12-month expected credit losses • Interest calculated on gross carrying amount
Stage 2	The credit risk of the exposure has increased significantly since initial recognition	• Lifetime expected credit losses • Interest calculated on gross carrying amount
Stage 3	The credit risk of the exposure has increased significantly since initial recognition and there is objective evidence of impairment	• Lifetime expected credit losses • Interest calculated on net carrying amount

Definition of default

A facility is considered in "default" under IFRS 9 when:

1. the facility is 90 DPD (180DPD for mortgages and Project Finance) or
2. the bank considers that the borrower is 'unlikely to pay' the facility without recourse by the bank to actions such as realising the security (if held)

Determination of PD and LGD

The Bank uses an approved system to obtain PD for all non-externally rated entities. Our system allows for the PD assessment of private emerging market firms and is able to generate 1 to 5-year PD term structures. Relevant LGD module within the system provides a systematic quantitative approach in estimating the recovery (referred to as the quantitative LGD) for a specific debt issue. The system is intended to assess credit risk parameters of specifically emerging market private firms. As a result, it most appropriately serves Small to Medium enterprises (SMEs), which tend to be unrated entities. The tool incorporates both static and forward-looking drivers of recovery as well as the time value of money.

The following table shows the allowances for impaired exposures by counterparty as at 31st December 2018.

	Impaired exposures (£'000)	Total provision (£'000)
Available For Sale Investment	-	-
Investment – Royalty		
Loans and advances to banks	-	-
Loans and advances to customers	334,230	218,616

FBN Bank UK

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

	Impaired exposures (£'000)	Total provision (£'000)
Europe	222,067	182,652
Eastern Europe	-	-
Africa	110,156	35,404
Others	2,008	560

Credit exposure by sector (net)

	31 Dec 2018 £'000
Banks	1,244,296
Corporates	435,232
Government	1,036,095
Individuals	65,892
	2,781,515

Credit exposure by location (net)

	31 Dec 2018 £'000
Western Europe	725,392
Africa	590,629
Others	1,465,494
	2,781,515

The above sector and geographical analyses include 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. 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 2018, the Bank's maximum exposure to credit was £3,532m, of which £334m 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 £469m against which the Bank held cash collateral of £366m. In addition, the Bank had collateral of £210m in respect of other credit exposures.

New International Accounting Standard (IFRS9)

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 and all previous versions of IFRS 9. This standard was effective for annual periods beginning on or after January 1, 2018.

The Bank fully adopted IFRS9 on 1 January 2018. In comparison to IAS 39, the Bank's impairment charge under IFRS 9 increased by about 20% of the impairment allowance than under IAS 39 and this ultimately resulted in an increase in the total level of current impairment allowances.

Market Risk

Market risk is the risk that changes in market conditions may adversely impact the value of assets or liabilities, or otherwise negatively impact earnings. Market risk in FBN UK is composed of currency risk and interest rate risk.

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 table below summarises the variable rate assets and liabilities as at 31 December 2018 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 Bank's profit or loss.

As at 31 December 2018	GBP £'000	USD £'000	EUR £'000	OTHER CCY £'000	TOTAL £'000
Total financial assets	478,844	2,212,831	88,757	1,083	2,781,514
Less: Fixed rate assets	-	(1,499,056)	(2,745)	-	(1,501,801)
Total variable rate assets	478,844	713,775	86,012	1,083	1,279,713
Total financial liabilities	717,753	1,543,283	28,098	939	2,290,073
Less: Fixed rate liabilities	(624,045)	(148,701)	(9,391)	-	(782,137)
Total variable rate liabilities	93,709	1,394,582	18,707	939	1,507,936
Net Cash Flow Interest Rate Risk exposure	385,135	(680,807)	67,305	144	(228,223)
Possible movement in Libor/Euribor (bps)	100	150	100	100	-
Possible impact of increase in Libor/Euribor on profit/loss	3,851	(10,212)	673	1	(5,687)
Possible impact of decrease in Libor/Euribor on profit/loss	(3,851)	10,212	(673)	(1)	5,687

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 Bank's net foreign currency exposures as at 31 December 2018 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.

As at 31 December 2018	US dollar £'000	EUR £'000	Other Currencies £'000
Net foreign currency exp.	45,436	(500)	(60)
Impact of 5% increase in FC : GBP rate	(2,272)	25)	3
Impact of 5% decrease in FC: GBP rate	2,272	(25)	(3)

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 customer mitigates this risk.

Liquidity Risk

The Bank is regulated in the United Kingdom by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) who set the required regulatory liquidity risk measurement 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 liquidity risk measurement 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 assessing, monitoring and testing in this area rests with the Chief Risk Officer, on a day-to-day basis this is handled by the Operational Risk team. 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.

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 2A

The Pillar 2A assessment requires firms to assess their exposure to risks that are not covered, or not adequately covered, by Pillar 1 over a time horizon of 12 months from the reference date. 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 additional credit risk, operational risk, 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.

Asset Encumbrance

The Bank in the ordinary course of business undertake certain activities which result in certain assets being encumbered. These activities are limited to forward contracts derivatives.

Remuneration Code

For the year ended 2018, the current guidance for the Bank from the FCA remains as our General Guidance on Proportionality: The Remuneration Code (SYSC 19D) & Pillar 3 Disclosures on Remuneration (BIPRU 11). The Bank also refers to the PRA Supervisory Statement – SS2/17 on Remuneration. Both the FCA and PRA set out their requirements in this regard.

The Bank's Remuneration and Establishment Committee (BREC) 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 lies with the Board Remuneration and Establishment Committee ("BREC") for remuneration of the employees and the Executive and the Non-Executive Directors of the Board. The BREC comprises of 3 Non-Executive Directors. The Chief Executive and the Chief Human Resources Officer 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 Remuneration and Establishment Committee (BREC) 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.

The Bank has in place a discretionary bonus plan for the benefit of its employees. This plan was reviewed and updated in 2016 with the key principles of reinforcing our values and appropriate employee behaviour to help manage risk, reinforcing a strong performance culture and encourage individual accountability as part of collective contribution to the Bank's long term success and help attract and retain valued employees as part of a market competitive reward package. For Executive Management Committee core members, the Bank has gone one step further, although not required to do so under the Remuneration Code, to introduce an element of deferral into the Bonus Plan to reflect our core principles and ethics.

Bonus awards under the scheme qualify as "variable remuneration" as defined in the Code. 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 for the year ended 2018.

In 2018, the Board approved discretionary 'Long Term Incentive Plans' for senior employees of the Bank. Details of the plan are in line with the regulatory remuneration code.

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 FCA. 24 staff at the end of 2018 were identified as Code Staff/Material Risk Takers and this included 3 Executive Directors, 7 Non-Executive Directors, members of the Executive Management Committee and those individuals who were either FCA Investment advisory roles or Senior Management Functions identified as appropriate under the PRA and FCA guidelines for Material Risk Takers. Guaranteed bonuses are not offered as part of the bank's current discretionary bonus 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 2018.

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

The table below analyses the remuneration of the Material Risk Takers in accordance with clause (h) of CRR Article 450.

	£ '000
Business	1,333
Support, Risk and Control	2,318
Total	**3,651**