Public

FBN Bank (UK) Limited

Pillar 3 Disclosures

As at 31st December 2019

Version 2.2

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Prepared by: Regulatory Reporting Team

Contents

Glossary

ALCO	Asset and Liability Committee.
Asset Encumbrance	A claim against an asset by another party. Encumbrance usually impacts the transferability of the asset and can restrict its free use until the encumbrance is removed.
Basel II	Basel II is a set of international banking regulations put forth by the Basel Committee on Bank Supervision, which levelled the international regulation field with uniform rules and guidelines. Basel II expanded rules for minimum capital requirements established under Basel I and provided the framework for regulatory review, as well as set disclosure requirements for assessment of capital adequacy of banks.
Basel III	Basel III is an international regulatory accord that introduced a set of reforms designed to improve the regulation, supervision and risk management within the banking sector.
Capital Conservation Buffer (CCB)	A capital buffer designed to ensure that banks are able to build up capital buffers outside of periods of stress which can then be drawn upon as losses are incurred.
Capital Requirements Directive (CRD)	An EU legislative package that contains prudential rules for banks, building societies and investment firms. Most of the rules in the legislation have applied since 1 January 2014.
Capital Requirements Regulation (CRR)	The Capital Requirements Regulation (EU) No. 575/2013 is an EU law that aims to decrease the likelihood that banks become insolvent, reflecting Basel III rules on capital measurement and capital standards.
Countercyclical buffer (CCyB)	A capital buffer which aims to ensure that capital requirements take account of the macro-economic financial environment in which banks operate. This aims to provide the banking sector with additional capital to protect it from potential future losses. In times of adverse financial or economic circumstances, when losses tend to deplete capital and banks are likely to restrict the supply of credit, the CCyB should be released to help avoid a credit crunch.
Counterparty Credit Risk	The risk that a counterparty to a transaction will default before the final settlement of the transaction’s cash flows.
Covid-19	An infectious disease caused by a newly discovered Coronavirus.
Credit Conversion Factor (CCF)	The CCF converts an off balance sheet exposure to its credit exposure equivalent which is then risk weighted. Off balance sheet exposures have a probability of becoming a credit exposure and shifting onto the balance sheet. The CCF is an estimate of this probability. The expected value of the credit exposure is derived by multiplying the CCF with the value of the off balance sheet exposure.
Credit Quality Step (CQS)	A step in the European Commission credit quality assessment scale which is based on the credit ratings applied by external credit assessment institutions. The scale is used to assign risk weightings to exposures under the Standardised Approach.

Credit Risk	Credit Risk is the risk that a borrower will default on a debt or obligation by failing to make contractually obligated payments, or that the Bank will incur losses due to any other counterparty failing to meet their financial obligations.
Credit Risk Mitigation (CRM)	Techniques (such as collateral agreements) used to reduce the Credit Risk associated with an exposure.
CVA	Currency Valuation Adjustment is based on risk that the effect of theoretical exchange rate movements could have on the balance sheet valued in sterling, the Bank's base currency for reporting its financials.
Derivatives	Financial instruments whose value is based on the performance of one or more underlying assets.
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
External credit assessment institutions (ECAI)	These include external credit rating agencies such as Standard & Poor’s, Moody’s and Fitch.
FBNL	First Bank of Nigeria Limited, FBN Bank (UK)’s parent.
FBNUK	FBN Bank (UK) Limited.
FCA	Financial Conduct Authority. The regulatory authority responsible for consumer protection and markets that has, inter alia, taken over responsibility from the FSA for supervising conduct of business.
Funding Risk	The risk that the institution does not have sufficiently stable and diverse sources of funding.
ICG	Individual Capital Guidance. Guidance given by the PRA on the amount and quality of capital resources which the PRA considers that a firm needs to hold as a result of its supervisory review (SREP) of the Bank’s ICAAP.
IFRS 9 Transitional Arrangements	EBA approved transitional arrangements to mitigate the impact on capital and leverage ratios arising from the introduction of the new IFRS 9 standard for the accounting treatment of impairments.
ILAAP	Internal Liquidity Adequacy Assessment Process.
ILG	Individual Liquidity Guidance.
Impaired Exposures	Exposures where it is not expected that all contractual cash flows will be collected or will be collected when they are due.
Impairment charge and impairment provisions	Provisions held on the balance sheet as a result of the raising of an impairment charge against profit for the expected credit loss inherent in the lending book. Impairment provisions may be individual or collective.
Interest Rate Risk in the Banking Book (IRRBB)	IRRBB is the risk of value changes to both earnings and capital arising from timing differences in the re-pricing of the Bank’s assets and liabilities and unexpected changes to the level and/or shape of the yield curve.
Internal Capital Adequacy Assessment Process (ICAAP)	The institution’s own assessment of the level of capital needed in respect of its regulatory capital requirements (for Credit, Market and Operational Risks) and for other risks including stress events.

LGD	Loss Given Default. Loss should a credit exposure fail taking recovery (e.g. value of collateral) into account.
Leverage Ratio	Tier 1 capital divided by the exposure measure.
Liquidity Risk	Liquidity Risk is the risk that the institution has insufficient cash resources to meet its obligations as they fall due or can only do so only at excessive cost.
Market Risk	Market Risk is defined as the risk that movements in market prices (such as interest rates, foreign exchange rates and the market value of financial instruments) lead to a reduction in either the Bank's earnings or capital.
Minimum capital requirement	The minimum regulatory capital that must be held in accordance with Pillar 1 requirements for Credit, Market and Operational Risk. This is currently 8%.
Over the counter derivatives (OTC)	Derivatives for which the terms and conditions can be freely negotiated by the counterparties involved, unlike exchange traded derivatives which have standardised terms.
Operational Risk	Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
PD	Probability of Default. Likelihood that credit obligor will default.
PFE	Potential Future Exposure. Multiply notional amounts or underlying reference asset values as applicable by percentages in tables in CRR and according to principles in CRR.
Pillar 1	The first pillar of the Basel II framework sets out the minimum regulatory capital requirements (8%) for Credit, Market and Operational Risks.
Pillar 2	The second pillar of the Basel II framework, known as the Supervisory Review Process, sets out the review process for a bank's capital adequacy; the process under which supervisors evaluate how well banks are assessing their risks and the actions taken as a result of these assessments.
Pillar 3	The third pillar of the Basel II framework aims to encourage market discipline by setting out disclosure requirements for banks on their capital, risk exposures and risk assessment processes. These disclosures are aimed at improving the information made available to the market.
PSM	Periodic Summary Meeting (PSM) letter of 6 June 2016, which sets out supervisory strategy and ICG requirements.
Prudential Regulatory Authority (PRA)	Responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.
RAS	Risk Appetite Statement which articulates the level and types of risk that the Bank is willing to accept or that it seeks to avoid.
Regulatory capital	The capital that a bank holds, determined in accordance with the relevant regulation arising from Basel III.
Residual maturity	The length of time remaining from present date until the maturity of the exposure.

Risk appetite	The level and types of risk that a firm is willing to assume to achieve its strategic objectives.
Risk Weighted Asset (RWA)	Calculated by assigning a degree of risk expressed as a percentage (risk weight) to an exposure value in accordance with the applicable Standardised Approach rules.
Settlement Risk	Settlement Risk is the risk that a counterparty fails to deliver a security or its value in cash in accordance with contractual agreements after the other counterparty has already delivered a security or cash value in accordance with the same agreement.
Stress testing	The term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the capital resources which are required to be held.
Standardised Approach	In relation to Credit Risk, the method for calculating Credit Risk capital requirements using risk weightings that are prescribed by regulation. Standardised Approaches, following prescribed methodologies also exist for calculating Market and Operational Risk capital requirements.
Tier 1 capital	A component of regulatory capital, comprising Common Equity Tier 1 capital and other Tier 1 capital. Other Tier 1 capital includes qualifying capital instruments such as non-cumulative perpetual preference shares and other Tier 1 capital securities.
Tier 2 capital	A component of regulatory capital, comprising qualifying subordinated loan capital and related non-controlling interests.

1 Overview

1.1 Background

FBN Bank (UK) Limited ("FBNUK" or "the Bank") is a subsidiary of First Bank of Nigeria Limited (FBNL). FBNUK provides banking services to government institutions, financial institutions, corporates and individuals from Europe, Nigeria and Sub-Saharan Africa (SSA), with the aim of becoming their preferred UK & European Bank.

The Bank is an ultimate subsidiary of FBN Holdings Plc, a publicly listed entity on the Nigerian Stock Exchange. FBNUK's immediate majority shareholder is FBNL. FBNL has a long history in the West Africa region, celebrating its 125th anniversary in March 2019. It was the first banking institution established in Nigeria as The Bank for British West Africa. FBNUK is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority. The Bank was incorporated in England and Wales in 2002 as a Limited Company under the Companies Act 1986. Prior to that it operated as a Branch of its parent since 1982. The Bank operates from the City of London with Representative Offices in Paris and Lagos. The Paris Representative Office was opened in November 2019 following the closure of FBNUK's Paris Branch in October 2019.

These disclosures have been prepared to give information on the basis of calculating capital requirements and on the management of risks faced by the Bank in accordance with the rules laid out in the Capital Requirements Regulation (Part Eight) unless otherwise stated and should be read in conjunction with the Bank's 2019 Annual Report and Financial Statements.

1.2 Basis and Scope of Disclosures

The European Union (EU) Capital Requirements Directive (CRD) came into effect on 1 January 2007. Commonly referred to as Basel II, the legislative framework introduced capital adequacy standards and an associated supervisory framework in the EU. This was replaced by the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (together collectively known as CRD IV) which came into force on 1 January 2014.

In the UK, implementation of the Directive has been through rules introduced by the Prudential Regulation Authority (PRA). These are known as Pillar 3 disclosures because they complement the minimum capital requirements in Pillar 1 and the supervisory review process in Individual Capital Requirements (ICR) and capital buffers. The Pillar 3 disclosures are aimed at promoting market discipline by providing information on risk exposures and the management of those risks.

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 as stated above 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 and are described as Pillar 3 disclosures.

1.3 Frequency and Location

The Bank's Pillar 3 is prepared annually in accordance with CRD IV and may differ from similar information in the Bank's Annual Report and Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS). The information in these disclosures may therefore not be directly comparable with information contained in the Bank's Annual Report and Financial Statements. All figures are as at 31 December 2019 unless otherwise stated. The Pillar 3 report is published on the Bank's website: www.fbnbank.co.uk

1.4 Verification and Supervision

This report was prepared and approved in line with the Bank's Pillar 3 policy, which is updated on a yearly basis. No significant changes have been made to the Pillar 3 policy compared to the prior year.

Internal providers of data attest to its accuracy and at the same time, consistency checks and reconciliations were performed with the 2019 Annual Report and Financial Statements and regulatory returns where applicable. The disclosures have been subject to internal verification and reviewed by the Audit Committee on behalf of the Board but have not been, and are not required to be, subject to independent external audit.

2 Changes to Disclosures

The Bank continues to develop the transparency and quality of its disclosures to ensure they are as clear and informative as possible. For 2019, the structure and contents of the Pillar 3 document have been enhanced to include applicable recommendations by the Enhanced Disclosure Task Force (EDTF) which seeks to give enhanced information either within Annual Report and Financial Statements or Pillar 3 disclosures.

IFRS 9 transitional arrangements
IFRS 9 Financial Instruments became effective for annual periods beginning on or after 1 January 2018 and is reflected in the Bank's disclosures. The Bank has elected to use the transitional arrangements available under Article 473a of the CRR. These arrangements allow the IFRS 9 impact on capital to be phased in over a period of 5 years. As such, the values reported throughout this document are on a transitional basis.

Covid-19 pandemic
Since the year end significant economic and social disruption has arisen from the Covid-19 pandemic. The Bank has invoked business continuity plans, as it seeks to serve and support its customers throughout the pandemic while maintaining the safety and well-being of staff.

As a result of the pandemic the Bank is expected to be impacted in the year ahead by a reduction in income from interest earning assets. However, management are putting measures in place to minimise the full impact on profitability. Although the overall financial impact of Covid-19 cannot be reliably estimated at this time, the Bank assessed that its key sensitivity was in relation to expected credit losses on customer lending.

The Bank estimated the potential impact on expected credit losses under various stress scenarios assuming a several notch downgrade on the Bank's asset portfolio to account for Covid-19 induced stress on credit and counterparty risk and deprecation of the GBP/USD foreign exchange rate. Under these stress scenarios there would be a material increase in expected credit loss provisions.

In the base to mid case stress scenarios the Bank is able to restore its capital by taking appropriate management action to reduce balance sheet growth by reducing lending, which in turn reduces capital requirement. In the most severe but plausible stress scenario, a capital injection from the Bank's parent may be required. The Bank has a financial guarantee from the parent that would be sufficient in all modelled stress scenarios.

From a liquidity perspective, the Bank has sufficient liquidity buffer to satisfy both business-as-usual and stress conditions as demonstrated in the various stress scenarios modelled.

3 Capital Adequacy

3.1 Capital Management

FBNUK endeavours to maintain sufficient capital resources to support its current business and growth aspirations. Capital adequacy target is approved annually by the Board, with ongoing monitoring and reporting of changes to the capital forecasts by management. The Board considers the need to change capital forecasts and plans based on these reviews.

The Bank holds capital at a level that the Board considers necessary and the assessment of minimum capital requirement 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 and reviewed at least weekly by Executive Management and quarterly by the Board, in order to assess the Bank's capital adequacy and to determine the levels of capital required going forward to support current and future risks in the business. The adequacy of the Bank's capital is monitored using among other measures, the rules and ratios established by the PRA.

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 (EMC) 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 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 as part of the ICAAP process (or more frequently should the need arise). In addition, periodic ad-hoc stress tests are performed as required by EMC or 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.

3.2 Capital Requirements

The Basel framework is structured around three pillars which govern minimum capital requirements, outline the supervisory review framework and promote market discipline through disclosure requirements.

- **Pillar 1** sets out the minimum capital requirement that firms are required to meet for Credit, Market and Operational Risk.
- The **Pillar 2** supervisory review process requires firms and supervisors to form a view on whether a firm should hold additional capital against risks not taken into account or not fully covered in Pillar 1 (e.g. interest rate risk in the banking book and pension risk); and factors external to the firm (e.g. economic cycle effects). To comply, institutions are required to develop adequate arrangements, strategies, processes and mechanisms, to maintain sound management and coverage of their risks, including maintenance of the prescribed capital under stress scenarios.
- **Pillar 3** aims to complement the capital requirement and supervisory review process by encouraging market discipline through developing a set of disclosure requirements that allow market participants to assess the scope of application, risk exposures, risk assessment process and capital adequacy of the firm. The Pillar 3 disclosures contained within this document have two principal purposes:
    - (i) to meet the regulatory disclosure requirements under Part Eight of the CRR, supplemented by any specific additional requirements of the EU and the PRA; and
    - (ii) to provide transparency and further useful information on the capital and risk profile of the Bank.

With respect to Pillar 1 requirements, the Bank elected to adopt a measured approach, proportionate to its size and complexity, as follows:

- **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 Pillar 2 of Basel III requirements, FBNUK has undertaken a self-assessment of its internal capital requirements as part of ICAAP. Any amount of additional capital required is assessed by the PRA during its Supervisory Review and Evaluation Process (SREP).

Under Pillar 3 of Basel III requirements, 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.

The following table analyses the Pillar 1 capital requirement by approach and exposure class. In the table below and throughout the document, unless otherwise stated, the documented exposures are reported as Exposure at Default (EAD). For standardised exposures, EAD includes undrawn commitments post Credit Conversion Factors (CCFs) defined in CRR Article 111 and is net of eligible provisions.

Table 1 – Analysis of Pillar 1 Capital Requirement

Pillar 1 Capital Requiremnt As at 31 December 2019	**EAD £'000**	**RWA £'000**	**Capital Requirement £'000**
Exposure classes:			
Central Government & Central Banks	1,255,026	7,019	561
Multilateral Development Banks	389,364	23,854	1,908
Institutions	80,414	16,627	1,330
Corporates	545,379	606,445	48,516
Retail	658	493	39
Secured on real estate property	101,750	36,910	2,953
Past due	35,933	53,900	4,312
Others	499,082	20,385	1,631
Credit and counterparty risk	**2,907,606**	**765,632**	**61,251**
Settlement risk		6	1
Market risk (PRR)		11,002	880
Operational risk (BIA)		108,161	8,653
Credit valuation adjusment (CVA)		448	36
Total Risk Weighted Assets		**885,249**	
Pillar 1 Capital Requirement			**70,820**

The Bank’s capital requirement for credit risk is determined in accordance with Pillar 1 of CRR and constitutes 8% of risk weighted assets (RWA) of all credit and counterparty exposures as detailed in table 1 above. Other components of Pillar 1 capital requirement include:

- **Operational risk**: calculated using the Basic Indicator Approach (BIA) where the capital charge amounts to 15% of the average gross operating income for the last three years.
- **Market risk**: calculated as the sum of:

(i) foreign currency Position Risk Requirement (PRR) using the standardised approach and calculated as 8% of the net open currency position.

(ii) counterparty Risk for foreign currency swaps based on 8% of their calculated future credit exposure following the mark-to-market approach.

- Credit Valuation Adjustment: introduced under Basel III intended to cover the risk of potential mark-to-market losses associated with deterioration in the creditworthiness of counterparties to non-cleared (OTC) derivatives i.e. for FBNUK, FX trading.
- Settlement risk: the risk that a counterparty fails to deliver a security or its value in cash in accordance with contractual agreements after the Bank has already delivered a security or cash value in accordance with the same agreement.

Pillar 2A

As noted above, the Pillar 1 capital requirement covers credit risk in accordance with CRR. However, there are asset classes for which the standardised approach may result in underestimation of risk (e.g. zero risk-weighted sovereigns). The PRA therefore assesses credit risk as part of its Pillar 2 review of firm's capital adequacy.

In addition to Pillar 1 capital requirement, FBNUK is required to hold additional capital of 6.71% of RWA (£59.4m) being a 'bank specific add-on' for pillar 2A that forms part of its Total Capital Requirement (TCR) for FBNUK of 14.71%. The Bank is expected to meet its TCR (regulatory minimum) at all times.

PRA and Combined buffers

Further to Pillar 2A requirements set out above, the Bank is required to maintain a 'firm-specific' PRA buffer and Combined buffer comprising of Capital Conservation Buffer ("CCB") and Countercyclical Buffer ("CCyB"). These buffers may be used either immediately or in future to withstand the impact of a severe but plausible stress.

3.3 Capital Resources

Total Capital Available as at December 2019 was £205,132 including Tier 2 as detailed in the table below:

Table 2 – Capital Resources

Capital Resources	**31 Dec 2019 £'000**
Share Capital	200,000
Share Premium	20,450
Profit and Loss Reserve	(53,416)
Deferred Tax Assets	(21,996)
Current year Losses (if any)	-
IFRS 9 Transitional Arrangement year 2 (85%)	30,750
Less: Intangibles	(3,191)
Revaluation loss	-
Prudent Valuation (PVA)	(20)
Tier 1 Capital Available	**172,577**
Tier 2 Capital	32,555
Total Capital Available	**205,132**
Capital Adequacy Ratio	**23.17%**

First Bank of Nigeria Limited holds 182,000,000 (2018: 182,000,000) or 91% (2018: 91%) of the ordinary shares issued, the remaining issued shares are held by FBN Capital Partners.

Tier 2 capital comprises of a USD 60 million subordinated loan due to First Bank of Nigeria Limited (FBNL), repayable on 20th of March 2027 at an interest rate of 8.25%. The tier 2 amount included in table above has been restricted to 25% of the Bank's Individual Capital Guidance (ICG), in accordance with its Periodic Summary Meeting (PSM) letter of June 2016.

A summary of FBNUK's capital requirements against available capital resources as at 31 December 2019 is provided in the table below:

Table 3 – Capital Stack Ratios

Capital Stack Ratios	31 Dec 2019 £'000
1. Total Capital Requirement (Pillar 1 + Pillar 2)	**14.71%**
Total Capital Requirement (Pillar 1 + Pillar 2)	130,220
Total Capital Available	205,132
Surplus / (Shortfall)	**74,912**
2. CET 1 Minimum Capital Requirement	**11.03%**
CET 1 Minimum Capital Requirement	97,665
Tier 1 Capital Available	172,577
Surplus / (Shortfall)	**74,912**
3. Combined Buffer	**2.56%**
CET 1 Minimum Requirement plus Combined Buffer	**13.59%**
CET 1 Minimum Requirement plus Combined Buffer	120,325
Tier 1 Capital Available	172,577
Surplus / (Shortfall)	**52,253**
4. PRA Buffer	**0.87%**
TCR plus Combined & PRA Buffers	**18.14%**
TCR plus Combined & PRA Buffers	160,581
Total Capital Available	205,132
Surplus / (Shortfall)	**44,551**

CET 1 minimum capital requirement is calculated as 75% of TCR. Combined buffer comprises CCB (2.5%) and CCyB (0.06%). The CET 1 minimum capital requirement and Combined buffer should be maintained from the Bank's tier 1 capital resources.

3.4 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.

The Bank has a leverage ratio of 6.14% as at 31 December 2019. The leverage ratio has remained relatively stable throughout the year with no significant movements. The minimum regulatory requirement is 3%.

Details of the components of the leverage ratio calculation as required to be disclosed by the CRR article 451 and which are applicable for the Bank are given in the following table.

Table 4 – Leverage Ratio common disclosure

Leverage ratio common disclosure	**31 Dec 2019 £**
On-balance sheet items (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,679,192
Asset amounts deducted in determining Tier 1 capital	(3,211)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**2,675,981**
Derivative exposures	
Replacement cost associated with all derivative transactions	11,024
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	4,165
Total derivative exposures	**15,189**
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	238,432
Adjustments for conversion to credit equivalent amounts	(119,216)
Total other off-balance sheet exposures	**119,216**
Capital and total exposure measure	
Tier 1 Capital	172,577
Leverage ratio total exposure measure	2,810,386
Leverage ratio	**6.14%**

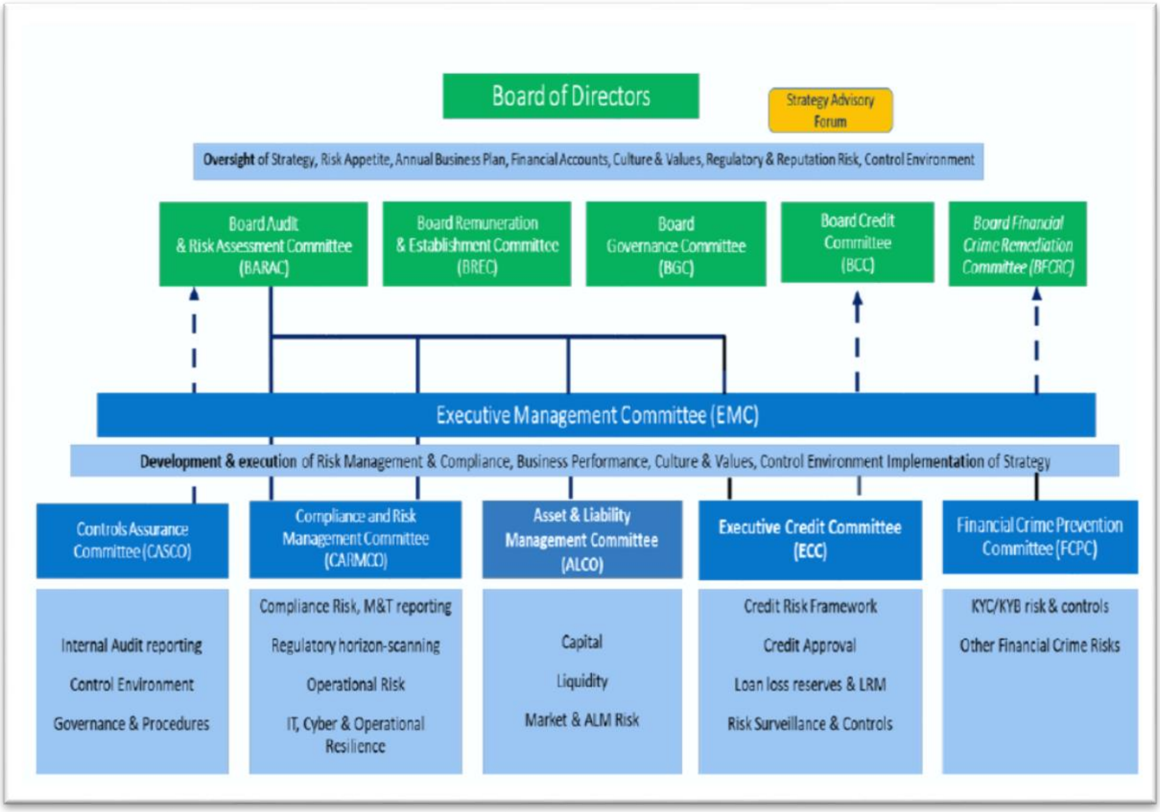
4 Risk Management Governance

The Board of Directors of FBN Bank (UK) Limited (“the Board”) is responsible for determining applicable framework for risk management and control; approval of policies and governance terms of reference. The Board is ultimately responsible for the management of the Bank – including its Representative offices in Paris and Nigeria – and for establishing and monitoring the effectiveness of its corporate governance framework. The Board, the membership of which are two independent Non-Executive Directors, Four Non-Executive Directors and two 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, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Head of Compliance and MLRO, General Counsel and Head of Human Resources.

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

Diagram 1 - Corporate Governance Arrangements



4.1 Governance Committees

The main roles and responsibilities of the committees shown in the above diagram are as described 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 executive directors and the non-executive directors of the Bank on a periodic basis to ensure availability of resources consistent with current scope and future growth projections.

Board Governance Committee (BGC)
BGC objective is to assist the Board in discharging its responsibilities relating to the nomination of members and enhancing the Bank's governance through a continuous assessment of its approach to corporate governance. The BGC covers two main areas: nomination of new Directors and corporate governance matters. The Committee comprises three Non-Executive Directors of the Bank.

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 policies as well as portfolios 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 authorised 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.

Control Assurance Committee (CASCO)
CASCO 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.

Compliance and Risk Management Committee (CARMCO)
CARMCO 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, CARMCO will have responsibility for general risk oversight and control across all risk domains but will not have responsibility for specific credit, market, liquidity and capital risk related issues.

Asset & Liability Management 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 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.

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 EMC for ratification, on decisions to on-board a prospective client or continue to do business with an existing client following a renewal or referral (of an event driven review) to the Committee.

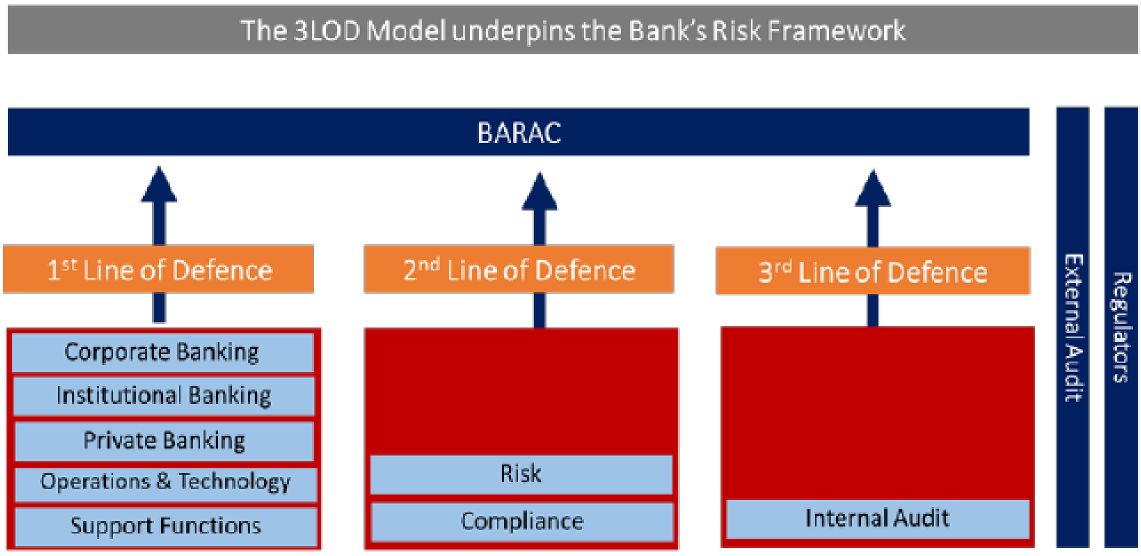
4.2 Other Governance Tools

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 Controls 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.

Diagram 2 – The 3 Lines of defence model



5 Risks and their Management

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:

5.1 Credit Risk

Credit risk is the risk of loss arising out of the failure of counterparties to meet their financial or contractual obligations when due. Credit risk comprises counterparty risk, settlement risk and concentration risk.

Credit risk continues to represent the biggest risk to FBNUK. The strategy over the last two years has therefore been to place more emphasis on increasing the effectiveness of the credit function by strengthening the credit risk architecture and framework to enhance the pro-activeness in the detection of early warning signals, and surveillance. This is in view of the dynamic market conditions and the macro-economic environment in FBNUK's main target markets which has gone through some challenging times driven mainly by weaker commodity prices. The Bank has positioned itself such that it continues to deepen its knowledge of its target markets and counterparties. This is achieved through creation of stronger risk processes, including stress testing and sensitivity analysis to mitigate to the fullest extent possible the risk of loss. This has enabled a greater understanding of the risks involved within the existing portfolios, while making sure an in-depth analysis is undertaken on review of new and existing transactions. Conscious efforts have also been made to upskill the credit resources and increase staff awareness on risk factors within transactions through driving changes to the risk culture.

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 system (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' conduct business are assessed. Counterparty limits and country limits are established prior to the advancement 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 considered in determining credit risk and single obligor exposure. Appropriate credit risk mitigation techniques such as funded and unfunded risk mitigation which involves sell down are used for exposures to manage internal Single Obligor limits on a single or group customer basis.

Credit Risk: Standardised Approach

The Bank calculates credit risk for exposures under the standardised approach and uses the following PRA recognised 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 standardised 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:

Table 5 – Exposure value by exposure class

Exposure classes	Exposure value before mitigation £'000	Exposure value after mitigation £'000
Central Government & Central Banks	1,433,226	1,255,026
Multilateral Development Bans	387,716	389,364
Institutions	80,414	80,414
Corporates	847,437	545,379
Retail	658	658
Secured on Real Estate Properties	101,750	101,750
Past Due	35,933	35,933
Others	20,471	499,082

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

Table 6 – Exposure value by credit quality step

CQS Credit Quality Step	ECAI Rating	Exposure value before mitigation £'000	Exposure value after mitigation £'000
1	AAA to AA-	1,654,327	1,654,327
2	A+ to A-	18,796	18,796
3	BBB+ to BBB-	25,965	25,965
4	BB+ to BB-	193,338	15,746
5	B+ to B-	458,338	192,615
unrated		520,908	457,775
past due items		35,933	-

The table below shows the breakdown of the Bank's on-balance sheet exposures by counterparty type as at 31st December 2019.

Table 7 – On-balance sheet exposures by counterparty type

On-balance sheet exposures by counterparty type	Maximum Exposure £'000
Loans and advances to financial institutions:	
Banks	25,617
Other financial institutions	-
Past due items	-
Loans and advances to customers:	
Central governments, parastatals and government agencies	271,310
Corporates	753,601
Retail	658
Secured on property	101,750
Past due items	35,933
Hold to Maturity Securities:	
Government	984,324
Banks	425,768
Corporates	34,552
Past due items	-

The table below shows the residual maturity breakdown of the Bank's exposure classes as at 31st December 2019.

Table 8 – Residual maturity by exposure class

Residual maturity by exposure clas	Demand £'000	Within 3 months £'000	Between 3 months and 1 year £'000	Between 1 year and 5 years £'000	Over 5 years £'000
Central Government & Central Banks	270,634	981,686	-	2,277	1,037
Multilateral Development Bans	0	87,949	140,444	159,323	-
Institutions	25,904	38,053	-	-	-
Corporates	101,158	260,510	240,093	139,386	46,716
Retail	609	5	39	5	-
Secured on Real Estate Properties	-	3,184	3,937	13,659	80,970
Past Due	9,870	-	-	-	26,064
Others	-	20,471	-	-	-

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

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, the allowance is based on the change in the ECL over the life of the asset.

The governance around ECL model 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 ECL using the gross number of NPL in the Nigerian banking sector.

FBN's staging rules

The Bank defines the relevant stages as follows:

Table 9 – IFRS staging definitions

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) 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 risk rating system to obtain PD for all non-externally rated entities. Our system allows for the PD assessment of private emerging market firms and can 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 specifically emerging market private firms. As a result, it most appropriately serves small to medium enterprises, which tend to be unrated entities. The system 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 financial statement categories as at 31st December 2019.

Table 10 – Allowances for impaired exposures by category

Allowances for impaired exposues by categoty	Impaired Exposures £'000	Total Provision £'000
Available for sale investment	-	-
Loans and advances to banks	-	-
Loans and advances to customers	35,933	18,713

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

Table 11 – Geographical analysis of impaired exposures

Geographical analysis of impaired exposures	Impaired Exposures £'000	Total Provision £'000
Europe	19,979	5,932
Eastern Europe		
Africa	14,142	11,288
Others	1,812	1,493

The following table shows credit exposures by sector.

Table 12 – Credit exposures by sector (net)

Credit exposure by sector (net)	31 Dec 2019 £'000
Government	1,255,634
Banks	451,674
Corporates	862,812
Individuals	63,394
Total	**2,633,513**

The following table shows credit exposures by geographical location.

Table 13 – Credit exposures by geographic locations

Credit exposure by location (net)	31 Dec 2019 £'000
Western Europe	394,935
Africa	687,305
North America	977,655
Others	573,618
Total	**2,633,513**

The above sector and geographical analyses include cash at bank and in hand, loans and advances to banks and to customers and financial instruments measured at amortised costs. 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 2019, the Bank's maximum exposure to credit was £2,907.6m, of which £34.1m was deemed to be impaired or doubtful. These amounts include all financial assets, undrawn irrevocable loan and trade commitments and derivatives.

Total trade related exposure was £234m against which the Bank held cash collateral of £218m. In addition, the Bank had collateral of £487m in respect of other credit exposures.

5.2 Liquidity and Funding Risk

Liquidity risk concerns the Bank's ability to meet its financial obligations as they fall due as a result of imbalances in the cash flow of its activities. This risk is subject to an Individual Liquidity Adequacy Assessment Process ('ILAAP'). The ILAAP is analogous with the ICAAP and is designed to identify and manage all aspects of liquidity risk faced by the Bank as well as regulatory liquidity requirements and the Individual Liquidity Guidance ('ILG') received from the PRA following their risk assessment and liquidity review.

The ILAAP assesses the minimum amount of liquidity FBNUK should hold and was updated in March 2019. The ILAAP also informs the Board and proposes the liquidity risk appetite and policies and appropriate controls to enable compliance with this appetite. Liquidity risk is managed on an ongoing basis by The Asset & Liability Committee (ALCO) which oversees day to day liquidity risk management by the Bank Treasury function.

ALCO also 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.

Details of the Bank's Liquidity Coverage Ratio (LCR), presented as rolling 12-monthly averages as at each quarter end, are given in the table below. The liquidity buffer includes High Quality Liquid Assets ('HQLA') held to cover Pillar 2 risks.

Table 14 – Liquidity Coverage Ratio (LCR) for reporting periods ended

LCR adjusted values	Mar-19	Jun-19	Sep-19	Dec-19
Liquidity buffer	1,561,902	1,318,165	1,719,616	1,603,571
Net cash outflows	320,853	260,228	574,890	703,955
LCR (%)	486.8	506.5	299.1	227.8

5.3 Market Risk

Market risk is the risk of loss in on and off-balance sheet positions arising from adverse movements in market prices. Market risk stems from all the positions included in the Bank's Trading Book as well as from commodity and foreign exchange risk positions in the whole balance sheet. FBNUK is exposed to market interest rate risk movements through its bond investments holdings and loan portfolio. The Bank trades in selected SSA bonds within its banking book, but does not own or trade any equity products or commodity. The Bank is exposed to daily currency, which is mitigated through its balance sheet hedging operations. All positions are subject to continuous monitoring. Restrictions and enforced stop-loss rules are placed on the maximum position allowed on each currency.

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 2019 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 – 150 basis points 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.

Table 15 – Interest Rate sensitivity analysis

As at 31 December 2019	*GBP £'000*	*USD £'000*	*EUR £'000*	*currencies £'000*	*Total £'000*
Total financial assets	375,151	2,176,960	34,241	4,606	2,590,958
Less: fixed rate assets	-	(1,402,955)	(1,727)	(3,637)	(1,408,319)
	375,151	774,005	32,514	969	1,182,639
Total financial liabilities	626,888	1,594,172	17,734	10,018	2,248,812
Less: fixed rate liabilities	(565,176)	(349,990)	(4,380)	(9,530)	(929,076)
	61,712	1,244,182	13,354	488	1,319,736
Net Cash Flow Interest Rate Risk exposures	313,439	(470,177)	19,160	481	(137,097)
Possible movement in Libor/Euribor (bps)	100	150	100	100	-
Possible impact of increase in Libor/Euribor on profit/loss	3,134	(7,053)	192	5	(3,722)
Possible impact of decrease in Libor/Euribor on profit/loss	(3,134)	7,053	(192)	(5)	3,722

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 2019 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.

Table 16 – Foreign Currency sensitivity analysis

Foreign Currency sensitivity analysis **As at 31 December 2019**	**US dollar £'000**	**EUR £'000**	**Other Currencies £'000**
Net foreign currency exp.	(6,808)	3,900	(18,584)
Impact of 5% increase in FC: GBP rate	340	(195)	929
Impact of 5% decrease in FC: GBP rate	(340)	195	(929)

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 the 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.

5.4 Operational Risk

Operational risk is defined as the risk of direct or indirect loss caused due to an event or action resulting from failure of internal processes, people and systems, or from external events. In other words, operational risk may be defined as any risk which is not credit risk, market risk, liquidity risk, strategic risk or compliance risk.

Major sources of operational risk include but are not limited to: outsourcing of operations; dependence on key suppliers; IT and information security; internal and external fraud; implementation of strategic change; non-compliance with regulations, process errors, pandemics and external threats such as the loss of a critical site.

Although overall responsibility for identifying, assessing, monitoring and reporting operational risk rests with the Chief Risk Officer, on a day-to-day basis this is handled by the Operational Risk team. Individual business areas as the first line of defence manage this risk through appropriate controls and loss mitigation actions, including the use of insurance where relevant. These include application of policies, appropriate procedures and internal controls to ensure operational risks are well mitigated.

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

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

5.5 Other Principal Risks

Legal risk

Legal risk is the risk of financial or reputational loss that may result from failure to adequately comply with legislation and regulation, failure to correctly document, enforce or adhere to contractual relationships, inadequate management of non-contractual rights, failure to meet our non-contractual obligations, and mis-management of legal disputes for or against the

Bank. The Bank has sought to mitigate the potential for legal risk by recruiting experienced personnel in key departments and establishing an in-house legal function to identify and manage exposure to legal risk. The Bank's in-house legal function manages legal risk through enforcement of legal policy, provision of legal training, advice on legal matters generally and undertaking the structuring, negotiation and documentation of designated transactions where specialist external counsel is not instructed.

Regulatory risk

FBNUK defines regulatory risk twofold, in relation to existing rules as well as to future regulatory requirements. The control environment across the Bank has been further strengthened during the year, to mitigate the risk to earnings and capital created from failure to comply with current laws, policies and procedures. The second line of defence actively provide regular checks and challenge to ensure the business remain compliant at all times. The Bank considers regulatory risk in relation to the impact of new requirements on the Bank's ability to retain its banking license and to operate across borders. FBNUK mitigates the potential detriment by taking a proactive approach to regulatory change ensuring the Bank's readiness to operate in line with emerging regulatory expectations. This is demonstrated by the introduction of horizon scanning as part of the business as usual practice across the Bank.

Conduct risk

Conduct risk is the risk of detriment to our customers, clients, markets or the bank arising from inappropriate execution of our business activities. The Bank mitigates conduct risk by observing a strong compliance culture rooted in customer-centric corporate values. FBNUK aims to put the customers at the heart of all decision making. The control environment is geared towards identifying, assessing and remediating areas where actions may have created detriment. The first line of defence places emphasis on compliance with Conduct Rules and, in particular on treating the customer fairly.

Brexit risk

In the event of a 'No-Deal' scenario, which remains the default if no agreement is reached, FBNUK may be impacted in the following areas:

GBP/USD rate impact on capital - in the event of a hard- Brexit, market expectations are for GBP to depreciate against the USD, which will adversely impact FBNUK's capital base. The Bank will continue to monitor rate and act accordingly in ensuring compliance with regulatory capital requirements.

Considerations for EU staff working at FBNUK - the Bank currently has a small number of EU nationals as part of its workforce who may be impacted post Brexit if they fail to apply for settled status. Our HR department is liaising with the individuals and their managers to mitigate any loss of key staff.

Raising retail funding from Europe - in view of the Bank's well-diversified deposit base and the non-strategic nature and size of deposits sourced from the EU, the cessation of these retail deposit products when the passporting right is withdrawn post-Brexit will not have a material impact on the Bank.

Libor transition

The Bank has set up an IBOR Committee to effectively manage the discontinuation of and transition from LIBOR in the Bank's operations. The committee has developed an enterprise wide IBOR transition program and is currently in the process of conducting a comprehensive impact assessment and developing an outreach and communication strategy. The committee provides regular updates to Executive and Board committees.

Financial risk of climate change

The Bank is committed to playing its role in the sustainability drive and has commenced an assessment of how climate change will impact its business model and how its activities may impact the environment. The Bank will identify and assess its exposure to risk from climate change and embed appropriate governance and risk management processes, including putting in place policies and procedures to mitigate as well as reinforce its response to the emerging risk of climate change. This strategic approach is forward looking and grounded in the long-term financial interest of the Bank.

6 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 contract derivatives.

7 Remuneration

For the year ended 2019, 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 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 Head of Human Resources attend 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 and ratified the 2019 Code Staff list.

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. In the year ended 2019, the Bank achieved a profit and therefore bonus funding was available and has been distributed according to rules approved by BREC.

In 2019, 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. 27 staff at the end of 2019 were identified as Code Staff/Material Risk Takers and this included 2 Executive Directors, 6 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 2019.

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	1,489
Support, Risk and Control	3,792

Total	5,281
	====