FBN Bank (UK) Limited

Pillar 3 Disclosures

As at 31st December 2021

Version 1.0

Issue Date: **March 2022**

Prepared by: **Regulatory Reporting Team**

Revision History

Report Date	Issue Date	Vsn	Description	**Author(s)**
31 Dec 2020	August 2021	1.0	Reviewed by CFO	Head of Regulatory Reporting
31 Dec 2021	March 2022	1.0	Reviewed by CFO	Head of Regulatory Reporting

Document Control

Issued under the authority of the Chief Executive Officer to the following:

Board/Management Body	**Recipients**
The Board	All Directors
Executive Management Committee (EMC)	All Members
Internal Audit	Head of Internal Audit

Contents

Glossary

ALCO	Asset and Liability Committee.
Asset Encumbrance	A claim against an asset by another party. An encumbrance usually impacts the transferability of the asset and can restrict its free use until the encumbrance is removed.
Bank	FBN Bank (UK) Limited
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 setting disclosure requirements for assessment of the capital adequacy of banks.
Basel III	Basel III is an international regulatory accord that introduced a set of reforms designed to improve regulation, supervision and risk management within the banking sector.
Basel Committee for Banking Supervision (BCBS)	The BCBS is the primary international standard for prudential regulation of banks. The committee runs a forum for regular cooperation on banking supervisory matters. The BCBS consists of 45 members, including bank supervisors and central banks from 28 jurisdictions.
Capital Conservation Buffer (CCB)	A capital buffer designed to ensure that banks are able to build up capital buffers outside periods of stress which can then be drawn upon if 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 this 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, and which reflects Basel III rules on capital measurement and capital standards.
Combined Buffer	The aggregate of the Capital Conservation Buffer and the Counter-Cyclical Buffer.
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 may 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's 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	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 the risk that theoretical exchange rate movements could have on a balance sheet valued in sterling, being the Bank's base currency for reporting its financial performance.
Derivatives	Financial instruments whose value is based on the performance of one or more underlying assets.
EBA	The European Banking Authority, a regulatory agency of the European Union.
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
External credit assessment institutions (ECAIs)	These include external credit rating agencies such as Standard & Poor's, Moody's and Fitch.
FirstBank	First Bank of Nigeria Ltd, FBN Bank UK's parent.
FBNBank UK	FBN Bank (UK) Limited.
FCA	The Financial Conduct Authority, which is the regulatory authority responsible for consumer protection and markets that has, inter alia, taken over responsibility from the Financial Services Authority for supervising the conduct of business by the financial services industry in the UK.

FX	Foreign exchange.
Funding Risk	The risk that an institution does not have sufficiently stable and diverse sources of funding.
ICG	Individual Capital Guidance, being the 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 interest rate yield curve.
Internal Capital Adequacy Assessment Process (ICAAP)	An 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, being the loss resulting from a credit exposure default after taking account of expected recoveries (e.g. the value of collateral) into account.
Leverage Ratio	Tier 1 capital divided by the exposure measure.
Liquidity Risk	The risk that an institution has insufficient cash resources to meet its obligations as they fall due or can do so only at excessive cost.
Market Risk	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 set at 8%.

Non-Deliverable Forward (NDF)	A non-deliverable forward (NDF) is an FX exchange contract, where two parties agree to, on a date in the future, exchange currencies for the prevailing spot rate
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	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
PD	Probability of Default, being the likelihood that a credit obligor will default.
PFE	Potential Future Exposure, calculated by multiplying notional amounts or underlying reference asset values as applicable by percentages in tables in the CRR and according to principles in the 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	A Periodic Summary Meeting is an annual meeting with a bank at which the PRA discusses its supervisory work conducted over the previous year, agrees the key issues and the associated supervisory work plan for the coming year, and sets out a medium-to-long-term supervisory strategy. The Bank's latest PSM letter is dated 27th July 2020.
PRA	The Prudential Regulatory Authority, which is 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 the 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)	The value of an exposure calculated by assigning a degree of risk expressed as a percentage (risk weight) 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.
SREP	The Supervisory Review and Evaluation Process sets out the factors that the PRA takes into consideration in assessing a firm's ICAAP, including the setting of firm-specific capital requirements and the PRA buffer. The Bank's latest Capital-SREP was dated 21st August 2020.
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 the capital requirements in respect of Market Risk and Operational Risk.
Stress-testing	The term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how these should be taken into account in the capital resources which are required to be held.
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 ("FBNBank UK" or "the Bank") is a subsidiary of First Bank of Nigeria Limited (“FirstBank”). FBNBank UK 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 and European Bank.

The Bank is an ultimate subsidiary of FBN Holdings Plc, a publicly listed entity on the Nigerian Stock Exchange. FBNBank UK’s immediate majority shareholder is FirstBank. FirstBank has had a long history in the West Africa region, since its establishment as The Bank of British West Africa over a century ago and the first banking institution in Nigeria. FBNBank UK is authorised by the Prudential Regulation Authority (“PRA”) and is regulated by both the Financial Conduct Authority (“FCA”) and the PRA. The Bank was incorporated in England and Wales in 2002 as a Limited Company under the Companies Act 1986. Prior to that it had operated since 1982 as a Branch of its parent. The Bank operates from the City of London with representative offices in Paris and Lagos.

These disclosures have been prepared to provide information on the calculation of capital requirements and on the management of risks faced by the Bank in accordance with the rules and guidance laid out in the Capital Requirements Regulation (Part Eight), CRR delegated acts and guidelines, and the PRA rulebook and guidance, unless otherwise stated, and should be read in conjunction with the Bank’s 2021 Annual Report and Financial Statements.

1.2 Basis and Scope of Disclosures

Disclosure forms part of the Three Pillars of the Basel Accords issued by the Basel Committee on Banking Supervision (BCBS). The Basel Accords have been enacted through the Capital Requirements Regulation (“CRR”) as updated by the PRA CCR and the Capital Requirements Directive (“CRD”) adopted into UK law, to which FBNBank UK is subject.

The pillars of the Basel Accords are:

- Pillar 1 – Enhanced Minimum Capital and Liquidity Requirements
- Pillar 2 – Enhanced Supervisory Review Process for Firm-wide Risk Management and Capital Planning
- Pillar 3 – Enhanced Risk Disclosure and Market Discipline.

The Pillar 3 Disclosure requirements are documented in the CRR and CRD, which first came into effect on 1 January 2014, and in a number of other EU regulations and guidelines. In the UK, the CRR and other regulations have been incorporated into UK law.

With effect from 1 January 2022, the PRA introduced a single source of disclosure requirements under the PRA Capital Requirements Regulation. These UK standards are being closely aligned with the global BCBS standards and the European CRR standards.

The Bank is required to make certain disclosures to the market on an individual basis to encourage market transparency and discipline. The aim is to allow market participants to assess key information on the Bank’s capital, risk exposures and risk assessment process.

The Bank continues to develop the transparency and quality of its disclosures to ensure they are as clear and informative as possible and has provided disclosures in line with its classification as an ‘Other’ Institution (neither large, nor small and non-complex) and non-listed status.

1.3 Frequency and Location

The Bank’s Pillar 3 report is prepared annually in accordance with the PRA CRR and may differ from similar information in the Bank’s Annual Report and Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS). All figures are at 31 December 2021, unless otherwise stated. The Pillar 3 report is published on the Bank’s website: www.fbnbank.co.uk

1.4 Verification and Supervision

The disclosures have been subject to internal verification and review 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 Operating Environment

Having contracted by 3.1% the previous year, the world economy grew by an estimated 5.9% in 2021 according to the International Monetary Fund (“IMF”). China and the US were the first large economies to recover their output losses due to COVID. The recovery has been distinctly uneven: rapid in the advanced economies and larger emerging markets, yet tentative in sub-Saharan Africa (“SSA”) and low-income economies generally. The principal determining factors have been the extent of vaccination and of the resources that respective governments have been able to deploy. The offering in advanced economies has moved to the booster jab whereas the majority of people in SSA wait for a first vaccination.

Monetary policy in advanced economies began to turn in the fourth quarter, with the Bank of England being the first of the leading central banks to announce a rate increase in December. The US Federal Reserve is likely to be the next to follow while tightening by the European Central Bank and the Bank of Japan appears rather further away. The monetary authorities in several large emerging markets, such as Brazil, Poland and Russia, have also started to raise rates.

The Bank maintained its remote working arrangements throughout 2021, consistent with prudent risk management adapted for the increased risks from the pandemic. It adjusted very well to what was then ‘the new normal’. As circumstances change, hopefully for the better, we will revise these arrangements in line with the best interests of our staff and customers.

The Bank continues to strengthen its operational resilience to meet the requirements set by the PRA for introduction by end-March 2022.

The PRA also issued climate-related supervisory expectations for regulated firms in 2019 and called for their adoption as far as practicable by end-2021. We met this deadline.

Another Bank of England requirement was the replacement of Interbank Offered Rates (such as LIBOR) by risk-free rates by end-2021. Under the new system, the rates are constructed on the basis of overnight deposits with banks. The Bank successfully made the required transition.

It is more than one year since the Bank closed its Paris branch and appointed a representative in France. With this new arrangement, the Bank has been able to enhance its brand across Africa, notably in francophone countries, and is confident that additional benefits will accrue.

The Bank determined that its key sensitivity to current and future performance was in relation to expected credit losses (“ECLs”) on customer lending. As a result, the Bank considered the impact on its asset portfolio from stress on such macroeconomic variables as global output contraction, a drop in oil prices, zero to negative interest rates, and a sharp fall in the UK residential property index with the GBP-USD exchange rate remaining constant. The Bank estimated the potential impact on ECLs under various stress scenarios, assuming a several rating notch downgrade on the Bank’s asset portfolio to account for stress on macroeconomic variables and its resulting impact on credit and counterparty risk. Under these stress scenarios expected credit loss provisions would increase; this has been taken into account in the Bank’s going concern assessment in its Annual Report and Financial Statements. The results from this ‘going concern’ assessment demonstrated that in the base case to mid-severity stress scenarios, no regulatory capital ratios were breached; while in the most severe scenario, the Bank would be able to take appropriate management action to reduce balance sheet growth by reducing lending, which in turn would reduce capital requirements.

The volume of world trade in goods and services increased by an estimated 9.3% last year and is forecast by the IMF to grow a further 6.0% in 2022. The rebound from the pandemic also explains the forecast 4.4% GDP growth this year, which the IMF divides between 3.9% for advanced economies and 4.8% for emerging markets and developing economies (EMDEs). Pent-up demand is the driver of this continuing recovery: alongside the better publicised supply constraints, it also underpins the rising inflationary pressures across all jurisdictions. These forecasts for world trade and growth were made before the invasion of Ukraine by Russia in February and will have to be lowered.

Whether or not these pressures are ‘transitory’, central banks, as we have noted, have started to move to a tightening bias. The UK was one of the earliest movers; its hike in December 2021 was followed by a further increase in March 2022 which is expected to be followed by further increases. The removal of COVID-related restrictions will be likely to unleash household spending globally that was necessarily deferred due to the pandemic though this may be constrained by consumer inflation exceeding earnings in 2022.

As Nigeria’s GDP contraction in 2020 was shallower than in most EMDEs, so for structural reasons it’s has recovery been constrained in comparison. We view 2022 with confidence, based upon the Federal Government’s ambitious spending plans, the firmness of the oil price, the pick-up in banks’ loan books and better prospects for domestic household spending. It should be noted that elections are due in the first quarter of 2023.

3 Risk Management Governance

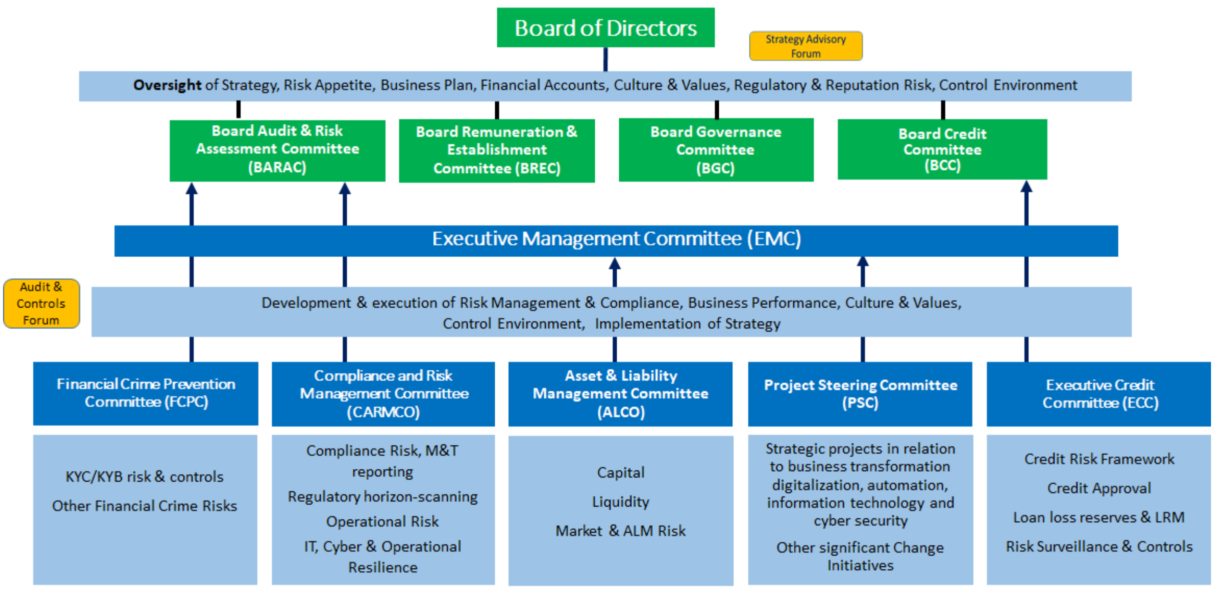
The Board of Directors of the Bank is responsible for determining the applicable framework for risk management and control, approval of policies and governance terms of reference. The Board is ultimately responsible for the management of the Bank – including its Representative offices in France and Nigeria – and for establishing and monitoring the effectiveness of its corporate governance framework. The Board, the membership of which includes three Independent Non-Executive Directors (with the appointment of Ms Mkpon Akpan from 1st April 2022), three Non-Executive Directors and two Executive Directors, is also responsible for determining the Bank's strategic direction and Risk Appetite.

The Board meets at least once every quarter and usually six times a year, as the need arises.

Day-to-day management responsibilities are delegated by the Board to the Bank's Executive Management Committee, which comprises the Chief Executive Officer, Executive Director Business Development ("EDBD"), Chief Financial Officer ("CFO"), Chief Operating Officer ("COO"), Chief Risk Officer ("CRO"), Head of Compliance and Money Laundering Reporting Officer ("MLRO"). It is advised by the General Counsel and the Head of Human Resources, who attend its formal meetings Members of the executive management committee also attend when areas they are accountable for are deliberated at the Board. The CRO and COO also have an obligation to escalate matters of concern and items above their authority level to the Board.

To fulfil its responsibilities, the Board is supported by four 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 is approved by either the Executive Management Committee and/or the Board, as appropriate.

Diagram 1 - Corporate Governance Arrangements



3.1 Governance Committees

The main roles and responsibilities of the committees shown in the above diagram are as described in the table below:

Constitution and Responsibilities of Board and Management Committees			
Committee	**Voting Members**	**Responsibilities**	**Frequency of Meetings**
Board Audit & Risk Assessment Committee (BARAC)	Independent Non-Exec Director (Chair) 1 Independent Non-Exec. Director 1 Non-Executive Director	BARAC is a standing Board Committee set up to assist the Board in discharging responsibilities relating to the Bank's risk management, accounting policies, internal control systems and procedures, financial reporting, and to liaise with the Bank's regulators and internal and external auditors.	Quarterly
Board Credit Committee (BCC)	Non-Executive Director (Chair) 2 Independent Non-Exec. Directors	BCC is a standing Board Committee whose objective is to assist the Board in discharging its responsibilities relating to the periodic consideration and approval of credit applications and other related credit risk policies, ensuring consistency with guidelines and established limits. It makes credit decisions within its delegated level of authority.	Quarterly
Board Remuneration & Establishment Committee (BREC)	Non-Executive Director (Chair) 1 Non-Executive Director 1 Non-Executive Director	BREC is a standing Board Committee whose objective is to assist the Board in discharging its responsibilities in respect of remuneration, capital expenditure, infrastructure and HR requirements, and to ensure the availability of resources consistent with current scope and future growth projections.	Quarterly
Board Governance Committee (BGC)	Non-Executive Director (Chair) 1 Independent Non-Executive Director 1 Non-Executive Director	BGC is a standing Board Committee whose objective is to assist the Board in discharging its responsibilities relating to the nomination of executive directors and non-executive directors to the Board, and to enhance the Bank's governance through a continuing assessment of the Bank's approach to corporate governance.	Quarterly

Executive Management Committees

Executive Management Committee (EMC)	CEO (Chair) EDBD CFO CRO COO Head of Compliance & MLRO	EMC is accountable for implementing 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.	Monthly
Asset & Liability Committee (ALCO)	CEO (Chair) CFO EDBD CRO Head of Finance Head of Treasury	ALCO has overall responsibility for managing the Bank's balance sheet within the defined risk/return preferences set by the Board. It provides the Bank with the ability to continuously assess current asset and liability management direction and balance sheet structure.	Monthly

Constitution and Responsibilities of Board and Management Committees			
Committee	**Voting Members**	**Responsibilities**	**Frequency of Meetings**
Compliance and Risk Management Committee (CARMCO)	CRO (Co-Chair) Head of Compliance (Co-Chairs, CEO COO EDBD Head of Financial Crime Risk (Deputy MLRO) Head of Operational Risk Head of Governance & Internal Controls;	CARMCO has general risk and control responsibilities across all risk domains excluding credit, market, liquidity and capital risk-related issues. Duties include to protect the Bank from reputational damage, financial loss or regulatory penalties by ensuring appropriate conduct by all employees with the interests of the client and market integrity; and to maintain robust financial crime prevention arrangements, in particular relating to money laundering, terrorist financing, bribery and corruption, sanctions violations.	Monthly
Executive Credit Committee (ECC)	CEO (Chair) CRO CFO EDBD Head of Credit Analysis Head of Credit Monitoring & Control	ECC reviews sanctions or declines credit applications within its level of authority. Makes recommendations to the BCC and the Board.	Weekly or as necessary
Project Steering Committee (PSC)	COO Director of Strategy Head of BTO Head of Operational Risk Head of IT Head of Finance Head of Operations	PSC has responsibility for bringing to fruition strategic projects in relation to business transformation digitalization, automation, information technology and cyber security, and other significant change initiatives.	Monthly
Financial Crime Prevention Committee (FCPC)	EDBD (Chair) CEO Head of Compliance & MLRO or designate Head of Financial Crime Risk (Deputy MLRO)	FCPC is an ad-hoc committee set up to provide a dedicated governance forum for the assessment of Financial Crime risks while ensuring the quality of the assessment process and effectiveness of controls to mitigate risks.	Fortnightly or as necessary

3.2 Board of Directors

The Board of Directors of the Bank has the ultimate responsibility for ensuring that the Bank's capital and liquidity adequacy.

The Board of the Bank incorporates a wide range of experience and diversity to ensure that the appropriate level of expertise and knowledge is applied to the Bank's management. The Board has a key function of oversight and of challenging the Bank's executive management, to ensure effective decision-making and ensure that the best interests of all stakeholders are met.

The Board is composed of the Non-Executive Chairman, three Non-Executive Directors, the Chief Executive Officer, the Chief Financial Officer and the Executive Director Business Development.

Name	Role	No of Directorships
Oye Hassan-Oduluke, MFR	Chairman, Non-Executive Director	7
Samuel Oladipupo Aiyere	Chief Executive Officer	3
Dr Adesola Kazeem Adeduntan	Non-Executive Director	6
Olalekan Adelekan	Executive Director Business Development	1
Jeremy Patrick Stewart Crawford CB	Independent Non-Executive Director	5
David Tunde Davis	Executive Director, Chief Financial Officer	3
Dr Oyindasola Oluremi Oni	Non-Executive Director	4
Geoffrey Scott Russell	Independent Non-Executive Director	4

3.3 Other Governance Tools

Three Lines of Defence Model

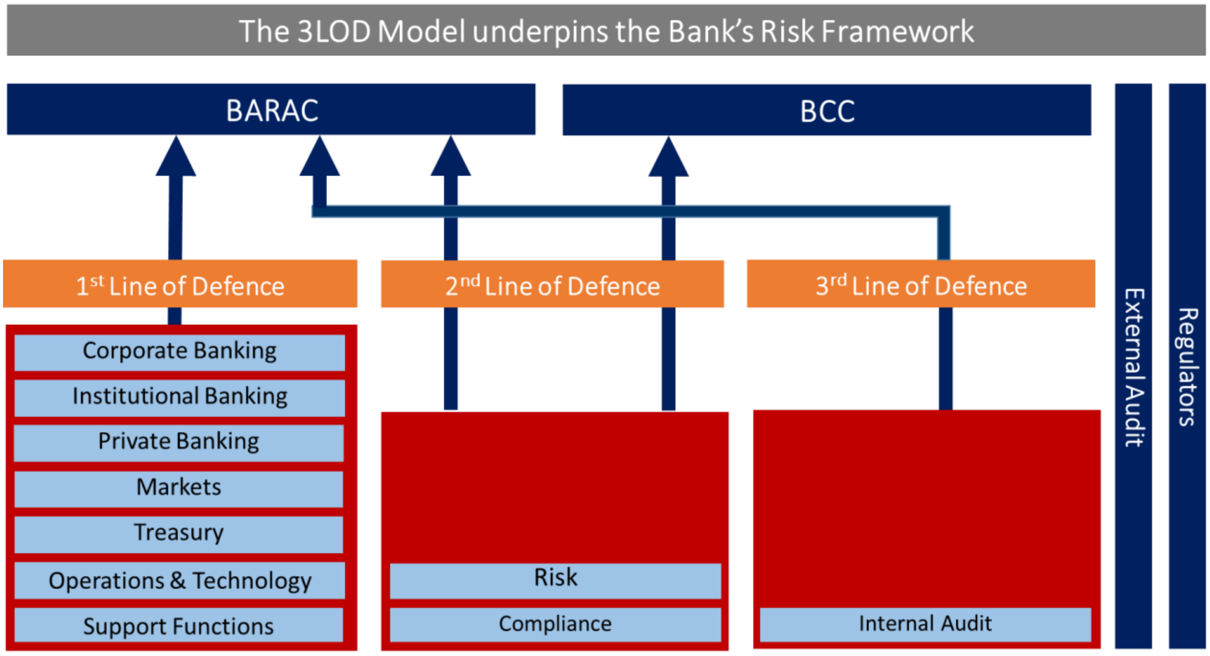
FBNBank UK recognises and promotes the importance of internal controls in accordance with the practices of the 'three lines of defence' model including the business unit, oversight unit and audit units. These three units work together as follows:

a) Business/functional unit (first line of defence): The business unit has ownership, and accountability for risks and controls and is responsible for identifying and managing risk. There is an internal separation of duties between operators and supervisors;

b) Oversight unit (second line of defence): The Chief Risk Officer (CRO), the Head of Compliance and the Anti-Money Laundering Reporting Officer, supported by their staff, advise, monitor and test the activities of the business units and assess and report on whether the business units comply with relevant laws, regulations and the Bank's policies and procedures; and

c) Audit unit (third line of defence): The internal audit function (in conjunction with BARAC) is 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



4 Risk 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 future prospects.

The Board determines the overall risk strategy for the Bank. The Bank's risk appetite is set out in its Risk Appetite Statement (RAS). This articulates the nature and extent of the material risks that the Bank is prepared to accept in order to meet its strategic objectives, business plan and regulatory obligations. These parameters are applied in setting the strategic plan, business plan and budgets.

The main risks arising from FBNBank UK's financial instruments are credit risk, market risk and liquidity risk. Market risk includes interest rate risk and foreign currency risk. Apart from these risks, the Bank is also exposed to such other risks as legal risk, regulatory risk, conduct risk, Libor transition risk, and financial risk from climate change.

Management reviews and agrees policies for managing each of these risks. These are summarised below.

4.1 Credit Risk

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

Credit risk comprises counterparty risk, settlement risk and concentration risk.

The dominant business lines for FBNBank UK are trade finance-related, within which transactions tend to be short-term and routine and market-standard in nature, with inherent structural and documentary protections. The credit environment remained volatile over the greater part of the year, with most of the Bank's clients having been adversely impacted by various market developments, including the continuing impact of COVID-19, low oil prices and the scarcity of FX, in our key SSA markets.

The Bank reviews its risk appetite annually, or more frequently if changing environments trigger a review. Our focus remains on delivering a prudent and effective response to the challenges arising, including strengthening credit processes and enhancing credit monitoring, whilst adhering to regulatory directives.

The Bank continues to place emphasis on strengthening its credit risk architecture and framework to enhance its ability to respond upon the detection of early warning signals, and its surveillance. In this regard the Bank successfully migrated to the Moody's CreditLens Platform

Credit Risk Management

As Credit Risk is the largest risk faced by the Bank, the effectiveness of its credit risk function is paramount.

FBNBank UK's Credit Committees are responsible for the control and management of credit risk. At Board level this includes the review of policies and portfolio management; whilst at Executive Credit Committee the focus is on approving credit recommendations or making recommendations to the Board, and the delivery and enhancement of the credit risk management framework.

The credit risk management framework is designed to ensure that adequate systems, procedures and policies are in place, and establishes lending authority levels, sets the risk appetite and the monitoring of performance against it. This includes portfolio risk management, risk modelling and a stress testing framework. Both second and third lines of defence assess the effectiveness of the related controls and processes.

In addition, the ECC has the following primary responsibilities:

1. To ensure consistency and alignment in credit risk management, including strict adherence to credit risk policies and procedures, risk acceptance criteria, and single obligor limits, deploying "best practice" risk management tools and risk reporting.
2. To consider, approve or decline all such new credit risk proposals within its delegated authority, ensuring that 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.
3. To consider, approve or decline all annual reviews of existing transactions and/or excess positions, within its delegated authority.
4. To review the overall credit risk portfolio of the Bank, actual positions versus limits, and risk acceptance statements.

5. To review the performance of exposures that are exposed to Credit Risk on a monthly basis. The Bank reports late payments, accounts in arrears and non-performing loans regularly, assessing the appropriate stage classification for impairment and impairment provisions under IFRS 9. The Bank also assesses the appropriate remedial management and/or recovery strategy.

Credit Risk Assessment

The exposure to Credit Risk is managed by undertaking an analysis of the ability of borrowers to meet their obligations using an internal credit rating system. The Bank has implemented an approved system in order to guide risk assessments where the borrower does not have an external rating.

Not only the counterparties are assessed but also the markets and the countries in which counterparties conduct business. 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 instances where not only the borrowers but also related entities have obtained facilities, the total exposure on a group basis is considered in determining credit risk and single obligor exposure. Internal single obligor limits on a single and group customer basis are also set. The Bank also uses credit risk mitigation to reduce the credit risk of exposures.

Performance

At 31st December 2021, the Bank's maximum exposure to credit risk was £2,869m, of which £24.1m was deemed to be in default. These amounts include all financial assets, undrawn irrevocable loans and trade commitments, and derivatives.

The following table shows the value of exposures at the end of the year and the average exposure during the year. The balance sheet increased by 13.8%, predominantly driven by growth in the corporate book which includes institutional exposures from non-equivalent regimes.

Table 1: Total and average net amount of exposures

	Exposure Class	Net value of exposures at the end of 2021 £000	Average net exposures over 2021 £000
16	Central governments or central banks	1,064,170	1,056,707
19	Multilateral development banks	450,493	426,609
21	Institutions	68,683	77,769
22	Corporates	1,147,082	998,019
23	Of which: SMEs	17,744	20,124
24	Retail	2,250	2,264
26	Secured by real estate property	101,948	96,922
27	Of which: SMEs	3,688	2,890
28	Exposures in default	24,078	26,173
34	Other Exposures	10,725	11,295
35	**Total standardised approach**	**2,869,429**	**2,695,759**
36	**Total**	**2,869,429**	**2,695,759**

* The exposure value is gross exposure (before netting of provisions).
* The exposure value includes counterparty credit risk.

The average net exposure over 2021 is a simple average of the exposures at the end of 2021 and 2020.

Table 2: Geographical breakdown of exposures

		UK £000s	Africa £000s	Europe £000s	North America £000s	Other £000s
7	Central governments or central banks	173,806	171,175	-	719,188	-
8	Regional governments or local authoriti	-	-	-	-	-
9	Public sector entities	-	-	-	-	-
10	Multilateral development banks	-	156,147	-	-	294,347
11	International organisations	-	-	-	-	-
12	Institutions	5,834	5,173	8,271	20,616	12,765
13	Corporates	28,078	974,882	-	-	143,076
14	Retail	280	1,969	-	-	-
15	Secured by real estate property	24,110	69,101	519	418	7,800
16	Exposures in default	-	1,872	19,694	-	2,511
22	Other Exposures	10,725				
23	**Total standardised approach**	242,833	1,380,321	28,485	740,222	460,499
24	**Total**	242,833	1,380,321	28,485	740,222	460,499

*This table includes off-balance exposures but excludes derivatives. Multilateral development banks are reported by location of their head office.

FBNBank UK continues to provide banking services to existing and new customers with business interests spanning Africa, Europe and the rest of the world.

Table 3: Concentration of exposures by industry or counterparty types

	£000's	Sovereigns, Multilateral development banks, Financial Institutions	Agriculture, forestry and fishing	Mining and Quarrying	Manufacturing	wholesale and retail trade	Transport and storage	Information and communication	Real estate activities	Other	Total
7	Central governments or central banks	1,025,586									1,025,586
10	Multilateral development banks	450,493									450,493
12	Institutions	52,658									52,658
13	Corporates	607,238	16,957	96,638	102,457	35,560	14,899	41,827	2,086		917,661
14	Retail									2,250	2,250
15	Secured by real estate property								96,314		96,314
16	Exposures in default				19,694				4,384		24,078
22	Other Exposures									10,724	10,724
23	**Total standardised approach**	**2,135,975**	**16,957**	**96,638**	**122,151**	**35,560**	**14,899**	**41,827**	**102,784**	**12,974**	**2,579,765**
24	**Total**	**2,135,975**	**16,957**	**96,638**	**122,151**	**35,560**	**14,899**	**41,827**	**102,784**	**12,974**	**2,579,765**

The above sector and geographical analyses include cash at bank and in hand, loans and advances to banks and to customers, and financial investments measured at amortised costs and fair value through the profit or loss.

The Bank extends credit facilities to high quality rated and unrated counterparties. A large percentage of the Bank's total financial assets was to high quality financial institutions, the majority of which had ratings of between A and AAA.

Total trade-related exposure was £229m (2020: £150m) against which the Bank held cash collateral of £75m (2020: £135m). In addition, FBNBank UK had collateral of £560m (2020: £457m) in respect of other credit exposures.

Table 4: UK CR1A Maturity of exposures

The table below shows the residual maturity breakdown of the Bank's exposure classes at 31st December 2021.

	Exposure class	Net Exposure Value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
		£'000	£'000	£'000	£'000	£'000	£'000
1	Loans and advances	218,786	759,305	144,926	84,135	12,910	1,220,061
2	Debt securities		971,114	373,394	4,470		1,348,979
24	**Total**	**218,786**	**1,730,419**	**518,320**	**88,605**	**12,910**	**2,569,040**

* Exposures are not reported net of provisons and exclude the 'other'7 exposure class.

4.2 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.

The objective of our management of Market Risk is to maintain market risk exposures within acceptable parameters, whilst optimising the return on risk. Market Risk stems from the Bank's loan portfolio, securities holding, bond trading positions in the trading book and foreign exchange risk positions in the whole balance sheet. The Bank does not own or trade any equity products and does not take positions in commodity markets. Foreign exchange currency risk is covered below.

The Bank has a small trading book portfolio referred to as 'the Markets business' which operates within the 'small trading book' definition (exposure should be less than 5% of total assets and €20m as at 31st December 2021, although the regulatory limit increased to £44m from 1st January 2022. It includes Eurobond trading (market-making in Nigerian, Angolan and Ghanaian Eurobonds for mainly Nigerian institutional clients), investments in Nigerian treasury/open market operation bills (carry trades) where FBNBank UK invests in NGN-denominated T-Bills (which the position hedged). The Bank also undertakes execution of Non-Deliverable Forwards (NDFs) for FBN Group companies and offshore counterparties. The risk on positions relating to these products is covered under standardised credit risk, counterparty and credit valuation adjustments.

Market Risk comprises four types of risk: interest rate risk, foreign currency risk, equity position risk and commodity position risk. FBNBank UK's exposure to Market Risk is primarily to foreign currency risk and interest rate risk. Interest Rate Risk in the Banking Book is described in the succeeding section.

4.3 Interest Rate Risk in the Banking Book

Interest rate risk in the banking book is the risk of an adverse impact to earnings or capital due to changes in market interest rates. It arises in FBNBank UK due to its holding of a combination of fixed and variable rate assets and liabilities arising during the normal course of business.

The Bank has a low-risk appetite for IRRBB. The Bank monitors IRRBB by applying the two 200 basis point shocks as well as evaluating the impact of IRRBB under the six shock scenarios to assess the changes in the economic value of equity on a monthly basis, as recommended by its regulators.

These scenarios are regularly reviewed at the monthly ALCO committee, against the Bank's risk appetite metrics which are set to ensure that Bank plans to remain well within the regulatory threshold of a 15% decline economic value of Tier 1 capital. The Bank uses natural hedges, careful management of the re-pricing profile of assets and liabilities on the balance sheet, as well as the hedging of income to manage earnings volatility as a result of foreign exchange rate risk.

Interest Rate Sensitivity Analysis

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 200 basis points based on the Bank of England yield curves 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 5 - Interest Rate Sensitivity 200bp Parallel Shift

Sensitivity of projected net interest income to parallel interest rate shock for a one-year forecasting period	200 bp increase £000	200 bp decrease £000
31st December 2021	5,746	(5,532)

Foreign Currency Risk

Foreign currency risk 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 FBNBank UK to match the currencies of its assets and liabilities as far as practicable. It is also the policy of FBNBank UK to adhere to the limits laid down by the Board in respect of its "overall net open position". The tables below give details of the FBNBANK UK's net foreign currency exposures at 31st December 2021, as a basis for 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 FBNBank UK's financial assets and financial liabilities at the reporting dates presented, net of FX derivatives. The Bank is exposed to daily currency rate movements; this exposure 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 in each currency.

Under the regulatory capital requirements for Market Risk, the Bank is required to calculate its foreign exchange financial position risk in order to ensure capital is set aside for exchange rate movements.

The GBP/US$ rate

GBP weakened against US$ towards the end of the year. This had the impact of increasing RWAs and thus reducing the capital ratios. The Bank, however, actively manages its capital to ensure it remains above the regulatory requirements while creating the capacity to hold further assets. Exchange rates are constantly monitored by the Finance and Treasury functions and relayed to the business to manage exposures.

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 for capital purposes; hence is not exposed to equity risk in its capital requirements. The Bank does from time to time, for credit risk management purposes, use shares as security for loans.

Debt Securities' Position Risk

The 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 it 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 its customer; however, in all such cases the Bank assesses how the customer mitigates this risk.

4.4 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, compliance risk or reputational risk. There is an interconnection, however, between Operational Risk and other risks as these can materialise as a consequence of Operational Risk.

Major sources of Operational Risk include, but are not limited to, the outsourcing of activities; dependence on key suppliers; IT and information security; internal and external fraud; implementation of strategic change; non-compliance with regulations; process errors (e.g., in relation to the effectiveness of documentation, anti-money laundering/financial crime, or credit risk management); pandemics; external threats such as the loss of a critical site or cyber-attacks; and people.

Although overall responsibility for the management of the operational risk management framework 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 the application of appropriately-designed policies, 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 a risk event.

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 its last three years' gross operating income.

4.5 Liquidity and Funding Risk

Liquidity Risk is the risk of the Bank not being able to meet its payment obligations as and when they fall due. This may be caused by the Bank's inability to liquidate assets, to obtain funding to meet its liquidity needs, or by contractual mismatches between the timings on inflows and outflows.

The Bank manages its exposure to Liquidity Risk by ensuring that it holds a buffer of high-quality liquid assets that will enable it to meet its obligations as they fall due under normal and stressed conditions. The Bank also monitors the ratio of its longer dated assets to its capital and its longer-term funding in order to mitigate the risks deriving from maturity transformation.

Liquidity Risk is assessed periodically though the Individual Liquidity Adequacy Assessment Process ("ILAAP") carried out under the rules of the PRA. The ILAAP is analogous to 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 terms of the Individual Liquidity Guidance ("ILG") received from the PRA following its risk assessment and liquidity review.

The ILAAP assesses the minimum amount of liquidity FBNBank UK should hold and is used to inform the Board; it was last updated in March 2021. The ILAAP sets out the Liquidity Risk appetite and policies, and appropriate controls to enable compliance with this appetite. Liquidity Risk is managed by ALCO which oversees day to day Liquidity Risk management by the Bank's Treasury function. The Bank also runs liquidity stress testing on a weekly basis, which is circulated to the Senior Management Team.

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 measures by the Board and by the PRA are not breached. The policy of the Bank is to match the cash flows by maturity and currency 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 Key Metrics table in section 5. The liquidity buffer includes High Quality Liquid Assets ("HQLA") held to cover Pillar 2 risks. Banks are required to maintain a minimum LCR of 100% at all times, and FBNBank UK ensures that it has an LCR that exceeds this.

4.6 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 mismanagement 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 required.

Regulatory risk

FBNBank UK assesses regulatory risk by considering existing rules as well as 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 a failure to comply with current laws, policies and procedures. The second line of defence provide regular checks and challenge to ensure business units remain compliant. The Bank considers regulatory risk in relation to the impact of new requirements on the Bank's ability to retain its banking licence and to operate across borders. FBNBank UK mitigates any potential detriment by taking a proactive approach to regulatory change, so that the Bank's readiness to operate is in line with emerging regulatory expectations. This is demonstrated by the introduction of horizon-scanning as part of business-as-usual practice across the Bank.

Conduct risk

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

Libor transition

The Bank's LIBOR working group has continued to manage the transition from LIBOR to alternative risk-free rates. The Bank has successfully transitioned to these rates; this involved system changes, changes to financial reporting, and appropriate communications and negotiations with customers. The working group continues to provide regular updates to Executive and Board committees.

Financial risk of climate change

The Bank has a process to capture the financial risks arising from climate change as part of its risk management processes to ensure the sustainability of its strategic objectives in the long term.

The Bank has implemented a robust risk management framework which will enable the Bank to identify, manage, monitor and report the impact of climate risk change on its activities in the short, medium and long term. This has involved setting a risk appetite and ensuring adequate governance structures to manage this risk whilst undertaking a continuous cycle of scenario analysis for ongoing measurement and outcomes. This will be disclosed in future Pillar 3 Disclosures in greater detail as legislation and regulatory guidance are developed.

5 Capital Adequacy and Key Metrics

5.1 Capital Management

FBNBank UK endeavours to maintain sufficient capital resources to support its current business and growth aspirations. Its 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 the level that the Board considers necessary. This assessment is a combination of sound judgement and compliance with regulatory requirements. In assessing the adequacy of its capital, the Bank considers its Risk Appetite, the material risks to which the Bank is exposed and appropriate management strategies for each of the material risks, including whether capital itself is an appropriate mitigant.

In addition to capital adequacy reporting to the 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 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 takes into account all material risks in order to establish additional Pillar 2A capital resource requirements over the medium-term in light 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 the 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.

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

Liquidity stress tests are performed annually as part of the ILAAP process and on a monthly basis. Capital adequacy stress tests are performed yearly as part of the ICAAP process (and will be reviewed monthly from Q2 2022 or more frequently should the need arise). In addition, periodic ad-hoc stress tests are performed as required by EMC or ALCO.

The 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.

5.2 Key Metrics

The Key Metrics table is a new table created under CRR2. It encompasses the capital ratio, leverage ratios, the liquidity coverage ratio (based on 12-month average) and the net stable funding ratio ("NSFR"). The NSFR rules have changed from 1st January 2022 and data for the previous periods is not available on an equivalent basis.

Table 6 – KM - Key Metrics

	Available own funds (amounts)	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
1	Common Equity Tier 1 (CET1) capital: Instruments and reserves	211,035	183,485	167,034	162,108	166,846
2	Common Equity Tier 1 (CET1) capital	201,907	181,579	172,577	194,956	163,962
3	Total capital (TC = T1 + T2)	241,216	216,165	205,132	234,851	211,323
	Risk-Weighted exposure amounts					
4	Total risk-weighted exposure amounts	1,135,077	898,917	885,249	1,057,318	933,755
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	17.79%	20.20%	19.49%	18.44%	17.56%
6	Tier 1 ratio (%)	17.79%	20.20%	19.49%	18.44%	17.56%
7	Total capital ratio (%)	21.25%	24.05%	23.17%	22.21%	22.63%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
UK 7a	Additional CET1 SREP requirements (%)	4.39%	5.54%	5.03%	5.03%	5.03%
UK 7c	Additional T2 SREP requirements (%)	1.46%	1.85%	1.68%	1.34%	1.34%
UK 7d	Total SREP own funds requirements (%)	13.85%	15.39%	14.71%	11.41%	11.41%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8	of which: capital conservation buffer	2.50%	2.50%	2.50%	1.88%	1.25%
9	Institution specific countercyclical capital buffer (%)	0.00%	0.00%	0.06%	0.11%	0.00%
11	Combined buffer requirement (%)	2.50%	2.50%	2.56%	1.98%	1.25%
UK 11a	Overall capital requirements (%)	16.35%	17.89%	17.27%	16.36%	15.62%
12	CET1 available after meeting the total SREP own funds requirements (%)	15,875	23,886	21,797	41,061	28,052
	Leverage					
13	Leverage ratio total exposure measure	2,749,530	2,444,955	2,809,165	3,123,592	2,812,776
14	Leverage ratio	6.83%	6.75%	4.98%	6.24%	5.83%
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)					
UK 14a	Additional CET1 leverage ratio requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
UK 14b	Additional AT1 leverage ratio requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
UK 14c	Additional T2 leverage ratio requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
UK 14d	Total SREP leverage ratio requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
UK 14e	Applicable leverage buffer	0.00%	0.00%	0.00%	0.00%	0.00%
UK 14f	Overall leverage ratio requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	1,198,742	1,334,462			
UK 16a	Cash outflows - Total weighted value	788,438	846,608			
UK 16b	Cash inflows - Total weighted value	295,280	318,660			
16	Total net cash outflows (adjusted value)	493,157	527,948			
17	Liquidity coverage ratio (%)	243.08%	252.76%			
	Net Stable Funding Ratio*					
15	Total high-quality liquid assets (HQLA) (Weighted value -average)					
UK 16a	Cash outflows - Total weighted value					
UK 16b	Cash inflows - Total weighted value					

* The new NSFR rules arising from CRR2 commenced from 1/1/2022/2021 and hence are not available from previous periods on a comparable basis

Reconciliation of Statutory and Regulatory Capital

£'000	2021	2020	2019	2018	2017
Equity as per statement of financial position	211,035	183,485	167,034	162,108	166,846
Regulatory adjustments					
Less intangible assets	(2,022)	(2,749)	(3,191)	(1,510)	(1,596)
Less deferred tax	(25,165)	(24,454)	(21,996)		
IFRS 9 Transitional Adjustment	18,088	25,324	30,750	34,368	
PVA adjustment	(30)	(27)	(20)	(10)	(1,288)
Total regulatory capital	201,906.9	181,579.0	172,577.3	194,956.3	163,962.4

The key metrics are discussed in the succeeding sections.

5.3 Capital Resources

The total capital available at 31st December 2021 was £241.3m including Tier 2 capital. This comprised share capital, retained profits, Tier 2 capital and Tier 1 regulatory adjustments as included above in the reconciliation of statutory and regulatory capital.

Capital Resources

The First Bank of Nigeria Limited (FirstBank) holds 182,000,000 (2019: 182,000,000) or 91% (2019: 91%) of the ordinary shares issued. The remaining issued shares are held by ARC Fin LLP.

Tier 2 capital comprises a US$60 million subordinated loan due to FirstBank, repayable on 20th March 2029 at an interest rate of 9.00% per annum. The Tier 2 amount included in the table above has been restricted to 25% of the Bank's total capital requirement in line with regulatory requirements.

IFRS 9 Transitional Adjustment Disclosures

IFRS 9 Financial Instruments became effective for annual periods beginning on or after 1st January 2018 and are 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 and create a capital add-back which reduces as the impact is scaled down over the 5 years. Hence, the values reported throughout this document are on a transitional basis. RWAs are normally calculated on exposure net of provisions. As the provisions have been utilised in the capital add-back, they are not netted off the exposures in the RWA calculation to avoid a double-count.

Table 7 – IFRS 9 Transitional Adjustments Disclosure

	Individual Reporting £m	Yr Ending 31/12/2021	Yr Ending 31/12/2020
Available Capital Amounts			
1	Common Equity Tier 1 (CET1) capital	201,907	181,579
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	183,819	156,255
3	Tier 1 capital	201,907	181,579
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	183,819	156,255
5	Total capital	241,216	216,165
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	223,128	190,841
Risk-weighted assets (amounts)			
7	Total risk-weighted assets	1,135,077	898,917
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied*	1,135,077	898,917
Capital ratios			
9	CET1 Capital (as a percentage of risk exposure amount)	17.79%	20.20%
10	CET1 Capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.19%	17.38%
11	Tier 1 capital (as a percentage of risk exposure amount	17.79%	20.20%
12	Tier 1 capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.19%	17.38%
13	Total capital (as a percentage of risk exposure amount)	21.25%	24.05%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19.66%	21.23%
Leverage Ratio			
15	Leverage ratio total exposure measure	2,749,530	2,444,955
16	Leverage ratio	6.83%	7.35%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6.22%	6.26%

* See narrative above with regard to treatment of provisions in relation to RWAs

5.4 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.

a) **Pillar 1** sets out the minimum capital requirement that firms are required to meet in respect of the aggregate for Credit Risk, Market Risk, Operational Risk and Settlement Risk

b) 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 against factors external to the firm (e.g. economic cycle effects). To comply, institutions are required to develop adequate arrangements, strategies, processes and mechanisms, in order to maintain sound management and coverage of their risks, including maintenance of the prescribed capital under stress scenarios.

Pillar 2 capital is sub-divided into two parts:

a) Pillar 2A– Risks which are not fully met under the Pillar 1 capital requirements such as concentration risk and interest rate risk in the banking book.

b) Pillar 2B – Comprised of the PRA Buffer and if applicable a risk management and governance scalar (RM&G Scalar). The PRA Buffer covers losses that may arise under a severe stress scenario, whilst the PRA may set an RM&G scalar if a bank's risk management and governance processes have weaknesses.

In accordance with Pillar 2 of the Basel III requirements, FBNBank UK has undertaken a self-assessment of its internal capital requirements (for both Pillar 2A and Pillar 2B) as part of the ICAAP assessment. The amount of additional capital required is also assessed by the PRA during its Supervisory Review and Evaluation Process ("SREP").

c) **Pillar 3** - Under Pillar 3 of the Basel III requirements, the Bank is required to make certain disclosures on an individual 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 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.

Pillar I

Pillar 1 requirements incorporate Credit Risk, Operational Risk, Market Risk and Settlement Risk. The RWAs and the minimum capital requirements are shown below.

The table below shows the scope of assets under regulatory reporting.

Table 8 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements

	Category	Total	Subject to the credit risk framework	Subject to the CCR framework
		£000s	£000s	£000s
1	Assets carrying value amount under the scope of regulatory consolidation	2,579,765	2,579,765	
4	Off-balance-sheet amounts	272,594	272,594	
9	Potential future exposure (PFE) for derivatives	17,070		17,070
10	Exposure amounts considered for regulatory purposes	2,869,429	272,594	17,070

Risk Weighted Assets

Under Pillar 1, the Bank is required to maintain a minimum level of regulatory capital to cover different types of risk mentioned above.

Table 9 – UK OV1 – Overview of RWAs

		RWAs		Minimum capital requirements
		2021	2020	2021
		£'000	£'000	£'000
1	Credit risk (excluding CCR)	956,822	763,085	76,546
2	Of which the standardised approach	956,822	763,085	76,546
6	CCR	8,718	10,015	697
	Of which mark to market	8,718	10,015	697
UK 8b	Of which CVA	1,312	1,406	105
15	Settlement risk	10	-	
20	Market risk	59,238	13,503	4,739
21	Of which the standardised approach	59,238	13,503	4,739
22	Large exposures			
23	Operational risk	110,914	110,909	8,873
24	Of which basic indicator approach	110,914	110,909	8,873
29	Total	1,137,015	898,917	90,960

The following sections describe the methodologies and approaches used to calculate the RWAs.

Standardised Approach for Credit risk

Regulatory capital requirements are calculated by multiplying the value of the Bank's exposure after netting off collateral and other credit mitigating factors by an appropriate risk weight. The minimum capital requirement for Credit Risk is 8% of RWAs.

The Bank's minimum capital requirements are calculated by applying credit risk weightings to the risk weighted assets. The credit risk weightings are determined by the "Standardised Approach" as set out in the CRR.

For the exposure classes list below, the Bank is required to use External Credit Assessment Institutions ("ECAIs") to assign exposures to credit quality steps:

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

The Bank uses Fitch, Moody's and Standard & Poor as its nominated ECAIs for all standardised counterparty credit risk exposure classes which use external ratings.

For other types of exposures, the risk weights, both on and off-balance sheet, are prescribed in the CRR. In addition, credit conversion factors (CCFs) are applied to off-balance sheet exposures prior to the application of the risk weights. The CCFs are also prescribed by the CRR.

Credit Risk Mitigation ("CRM")

The Bank uses various techniques to reduce the credit risk on its lending. These include both funded and unfunded guarantees, e.g. the receipt of collateral in respect of the facility advanced;

the structuring of transactions to bring the underlying commodity effectively under the control of the Bank; sell down, i.e. sharing the risk by sale to a third party; and property collateral. The Bank does not have any exposure to credit derivatives.

The table below shows the use of CRM, broken down by loans and debt securities.

Table 10: UK CR3 - CRM techniques – Overview

	Category All values in £000s	Exposures unsecured – Carrying amount £000s	Exposures secured – Carrying amount £000s	Of which		
				Exposures secured by collateral £000s	Exposures secured by financial guarantees £000s	Exposures secured by credit derivatives £000s
1	Total loans	700,424	409,571	306,815	808	
2	Total debt securities	1,469,770	-	-	-	
3	**Total exposures**	**2,170,194**	**409,571**	**306,815**	**808**	
4	Of which defaulted	24,078	-	-	-	

* This table only includes on balance sheet exposures including other exposures.

FBNBank UK does not have any exposures to credit derivatives.

Counterparty Credit Risk

The Bank uses the mark-to-market approach to assess counterparty credit risk capital requirements for foreign currency spots contracts, forwards contracts and swaps. Under Pillar 1, the capital requirement is based on 8% of their calculated future credit exposure. As at 31st December 2021, the Bank had £17.07m of exposure in this category.

Operational Risk

The Bank uses the regulatory 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, averaged over the three previous financial years.

Market Risk

Market risk is calculated for foreign currency position risk using the regulatory standardised approach and calculated as 8% of the net open currency position.

Table 11 - Market risk under the standardised approach

Exposure Class	RWAs	Capital
Foreign exchange risk	59,238	4,739

Credit Valuation Adjustment (CVA)

CVA covers the risk of potential mark-to-market losses associated with deterioration in the creditworthiness of counterparties to non-cleared derivatives, e.g. swaps, forwards and non-deliverable forwards.

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 Bank has already delivered a security or cash value in accordance with the same agreement. The RWAs for Settlement Risk as at 31st December 2021 were £0.01m.

Pillar 2A

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. 0% risk-weighted sovereigns, concentration risk and Interest Rate Risk in the Banking Book). The PRA, therefore, assesses credit risk as part of its Pillar 2 review of the Bank's capital adequacy during the SREP process and the Bank is required to hold a 'bank specific add-on' for Pillar 2A. The total Pillar 1 and Pillar 2A capital required is termed the Total Capital Requirement ("TCR"). The Bank is expected to meet its TCR (being the regulatory minimum) under all conditions. This is included in the Key Metrics table.

PRA Buffer

The PRA also sets a PRA buffer. The PRA buffer (also referred to as Pillar 2B) is an amount of capital firms should maintain in addition to their TCR and the Combined Buffer. The PRA buffer absorbs losses that may arise under a severe stress scenario, while avoiding duplication with the combined buffers.

Capital Conservation Buffer

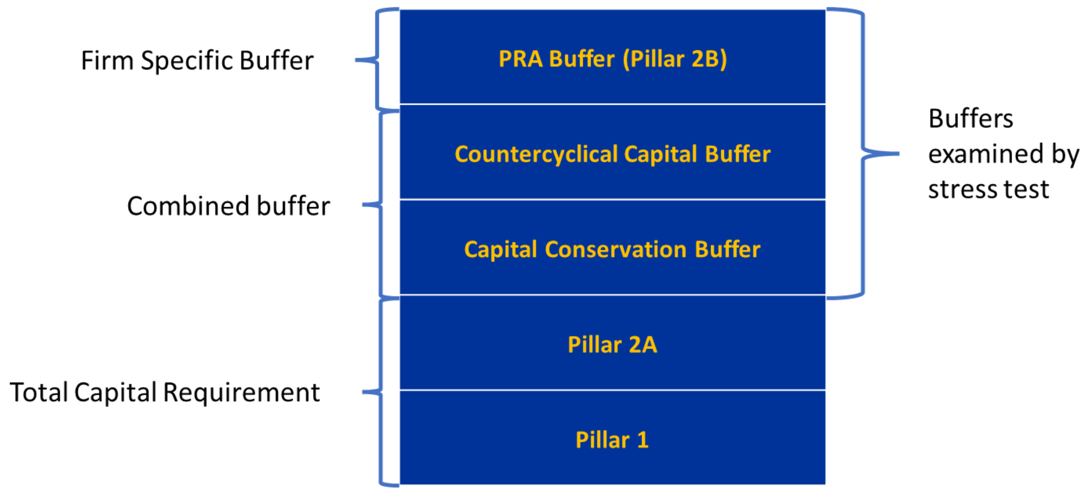
Under CRDIV, a Capital Conservation Buffer is required, which is designed to absorb losses during periods of economic stress. At 31st December 2021, the Capital Conservation Buffer is 2.5%.

Countercyclical Capital Buffer Disclosures

Financial institutions are required to hold additional capital to prevent the build-up of systemic risk during periods of high credit growth as a disincentive to excessive growth and to create additional loss absorption capability. The overall rate is weighted by the country of the exposure. Most of the Bank's exposures are not UK or Europe-based, and these do not receive a weighting. The Financial Policy Committee at the Bank of England sets the applicable rate for credit exposures in the UK. On 11th March 2020, the buffer was reduced from 1% down 0% to support banks during the COVID pandemic. This resulted in an overall 0% requirement for December 2021 and a 0% requirement in 2020. The UK rate is expected to be increased during the next two years as the economy emerges from the impact of the pandemic.

PRA Buffer and Combined Buffers

These buffers may be used either immediately or in future to withstand the impact of a severe but plausible stress.



The Bank has to follow regulations in determining how to meet the capital requirements from its capital resources. At least 75% of the TCR must be met from Common Equity Tier 1 ("CET1") capital.

The CET 1 minimum capital requirement and the Combined Buffer should be maintained from the Bank's Tier 1 capital resources.

Minimum Requirement for Own Funds and Eligible Liabilities ("MREL")

Under the Bank Recovery and Resolution Directive (BRRD), the Bank of England, as resolution authority, has set also set a minimum capital requirement to meet the requirement for MREL. The requirement for FBNBank UK is to hold sufficient MREL equal to the related capital requirements (comprising Pillar 1 and Pillar 2A). For MREL purposes the CET1 capital should be used first for the buffers, and second for Pillar 1 and Pillar 2A capital.

5.5 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 might damage the broader financial system.

The Bank had a leverage ratio of 6.83% at 31st December 2021, which is disclosed on an IFRS 9 transitional basis. The Leverage Ratio has remained relatively stable throughout the year, with no significant movements. The PRA expects firms not in scope of the leverage ratio minimum capital requirement and buffers to manage their leverage risk to ensure that the ratio is well above 3.25%. The Bank has set its risk appetite to ensure that the minimum leverage requirements are adhered to at all times.

The Bank also considers leverage levels in its business plans and stress-testing to prevent excess leverage.

Leverage information is disclosed in the Key Metrics table above.

6 Credit Risk & Impairment

The performance of loan assets is monitored monthly. Late payments and arrears cases are reported in detail and reviewed on a regular basis, and detailed reports are reviewed monthly by the Executive Credit Committee (ECC).

Impairment provision

The IFRS 9 framework requires the Bank to record impairment provisions for Expected Credit Losses ("ECL") for all loans and debt financial assets not held at fair value through profit or loss ("FVTPL"), together with loan commitments and financial guarantee contracts. Impairment provisions are based on lifetime ECLs for defaulted or non-performing loans and on 12 month ECLs for performing (stage 1 and stage 2) loans.

The governance around the ECL model in FBNBank UK is controlled by impairment methodology and accounting policies. The approach used defines the likely events that could lead to a significant increase in Credit Risk, the definition of default, the modification and derecognition of exposures, and the period over which to estimate the 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.

The Bank incorporates forward-looking information in its ECL model to account for changes in macro-economic conditions and forecasts through consideration of three discrete scenarios (Upturn, Base and Downturn).

IFRS staging definitions

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

Definition of default

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

1. the facility is 90 days past due; 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).

The Bank assesses its impairment provision using IFRS 9; and provision levels are reviewed monthly to ensure that the coverage is sufficient to cover expected credit losses and economic deterioration. The segmentation of the portfolio for modelling purposes is based on FBNBank UK's current exposure profile and portfolio characteristics. A range of scenarios are used to assess the appropriate level of impairment provision. The range of macro-economic assumptions driving the models reflect the characteristics of the Bank's portfolios and include Nigerian Banking Sector NPLs (Non-Performing Loans), the mortgage arrears stock of the UK, movements in the oil prices, interest rates (Libor), HPI (UK) and GDP (UK and World).

The following table shows the allowances for impaired exposures by financial statement categories at 31st December 2021.

Table 12 – Credit quality of exposures by exposure class and instrument

	Exposures class	Net Exposure Value		Specific credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (A+b-c)
		Defaulted exposures (a)	Non-defaulted exposures (b)				
		£000s	£000s	£000s	£000s	£000s	£000s
16	Central governments or central banks		173,845	322		146	173,523
19	Multilateral development banks		450,493	34			450,459
20	International organisations		0				0
21	Institutions		52,658	1		1,315	52,657
22	Corporates	22,205	895,455	6,283	370,943	-6,543	889,172
24	Retail		2,250	39		0	2,211
26	Secured by real estate property	1,872	72,530	473		300	72,057
28	Exposures in default	24,078		9,228		1,197	14,850
34	Other Exposures		10,724	0			10,724
35	**Total standardised approach**	**24,078**	**1,657,956**	**16,381**	**370,943**	**-3,585**	**1,665,653**
36	**Total**	**24,078**	**1,657,956**	**16,381**	**370,943**	**-3,585**	**1,665,653**

* In calculating RWAs, provisions are not netted off the exposures, due to IFRS 9 transitional requirements.

* Post write off recoveries are netted off write offs.

* The table includes on balance sheet credit risk exposures only.

The Bank continues to refine its approach to managing its exposure to Credit Risk.

Table 13 – UK CQ3 - Credit quality of performing and non-performing exposures by past due days

	Exposure class	Gross carrying amount/nominal value								
		Performing Exposures			Non-performing exposures					
	Amounts are in £000s		Not past due or past due ≤ 30 days	Not past due > 30 days ≤ 90 days		Unlikely to pay that are not past or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Of which defaulted
1	**Loans and Advances**	**1,195,983**	**1,179,473**	**16,511**	**24,078**	**-**	**376**	**138**	**1,358**	**24,078**
2	Central banks	173,845	173,845							
3	General governments									
4	Credit institutions	52,658	52,658							
5	Other financial corporations									
6	Non-financial corporation	896,950	881,265	15,685	22,205	-	-	-	-	22,205
7	Of Which SMEs									
8	Households	72,530	71,704	826	1,872	-	376	138	1,358	1,872
9	**Debt securities**	**1,348,979**								
10	Central banks	851,741	851,741							
11	General governments									
12	Credit institutions	-								
13	Other financial corporations	450,493	450,493							
14	Non-financial corporation	46,744								
15	**Off Balance Sheet Exposures**	**272,594**								
16	Central banks	38,584								
17	General governments									
18	Credit institutions	-								
19	Other financial corporations	-								
20	Non-financial corporation	228,376								
21	Households	5,634								
22	**Total**	**2,817,557**	**1,179,473**	**16,511**	**24,078**	**-**	**376**	**138**	**1,358**	**24,078**

* This table excludes other items and counterparty credit risk

The Bank has not disclosed the table 'Collateral obtained by taking possession and execution processes' as it had no repossessions to report during 2021, however the Bank has received post write off recoveries of £0.749m during the year.

The Bank grants forbearance where the customer is facing financial difficulties or is about to face financial difficulties. Forbearance is defined as a concessionary arrangement, either through a change to the terms and conditions of the loan, or through a refinancing of the loan, to achieve the best outcome for both the customer and the Bank.

Table 14 – UK CQ1 - Credit quality of forborne exposures

	Exposure class All values in £000s	Gross carrying amount / nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing Forborne	Non-Performing Forborne			On performing forborne exposures	On non performing forborne exposures		Of which collateral and financial guarantees received on NPEs
				Of which defaulted	Of which impaired				
1	**Loans and Advances**	**50**	**19,694**	**19,694**	**-**	**5**	**8,793**	**-**	**-**
2	Central banks								
3	General governments								
4	Credit institutions								
5	Other financial corporations								
6	Non-financial corporation		19,694	19,694			8,793		
7	Households	50				5			
8	Debt securities								
9	Loan commitments given								
10	**Total**	**50**	**19,694**	**19,694**	**-**	**5**	**8,793**	**-**	**-**

7 Asset Encumbrance

An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. It enables creditors holding those claims to benefit from the economic value of the assets should the institution fail to meet its obligations.

The Bank's activities result in certain assets being provided as collateral. The £12.9m of encumbrance on £2.6bn of exposures, is therefore, limited to the variation margin on forward contract derivatives and a deposit covering credit card balances.

8 Remuneration

The Bank sees its investment in its people as paramount. The Bank recognises and acknowledges the contribution of its people to the achievement of its overall corporate goals and objectives. It is focused on maintaining a culture of doing the right thing every day for our customers, shareholders and the communities in which it does business. It does this by seeking to live up to its corporate values of integrity, collaboration, accountability, respect and ethical behaviour, and an approach that rewards performance against a balanced range of factors.

For the year-ended 31st December 2021, the current remuneration guidance for the Bank is based on the PRA Rulebook, the PRA Supervisory Statement – SS2/17 on Remuneration as updated in December 2021, SYSC 19D and the FCA statement on dual-regulated firms. As a Small CRR Firm with less than £4bn of assets, the Bank is classified as a Proportionality Level 3 firm and has followed the PRA's guidance on materiality and proportionality. Disclosures are required in line with Article 450 of the CRR as interpreted by PS22/21: Reporting and disclosure templates and instructions. This statement sets out the disclosures required as they apply to FBNBank UK.

The Board Remuneration and Establishment Committee ("BREC") is responsible for the implementation of the Remuneration Code (as set out by the FCA and PRA) and the periodic review of the Bank's adherence to it.

Governance of all matters related to remuneration within the Bank lies with BREC for the employees, the Executive and the Directors of the Board. BREC comprises three Non-Executive Directors. The Chief Executive Officer and the Head of Human Resources attend by invitation. The Non-Executive Directors are regarded as being independent of the Bank and possess the necessary skills to exercise the appropriate judgement.

BREC regularly reviews the Bank's remuneration policies to ensure compliance with the Remuneration Code. Additionally, it has confirmed the rules for use within the Bank for the identification of Code Staff and ratified the 2021 Code Staff list.

The Bank has in place a discretionary bonus plan for the benefit of its employees. This plan is reviewed and updated annually with the key principles of reinforcing our values and appropriate employee behaviour to help manage risk, reinforce a strong performance culture and encourage individual accountability as part of a 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 Material Risk Takers, the Bank has gone one step further, although not required to do so under the Remuneration Code; hence in 2021 an element of deferral was introduced in 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 31st December 2021, the Bank achieved a profit and therefore bonus funding was available and will be distributed in April 2022 according to rules approved by BREC. Guaranteed bonuses are not offered as part of the Bank's current discretionary bonus arrangements.

For 2021, the Board also approved discretionary 'Long Term Incentive Plans' for senior employees of the Bank on a basis that complies with the Remuneration Code. BREC has determined that these should vest after three years, subject to performance conditions being met.

The Remuneration Code requires that banks identify relevant senior and key roles and designate them as "Code Staff/Material Risk Takers". 34 staff at 31st December 2021 were identified as Code Staff/Material Risk Takers. This included 3 Executive Directors, 3 of the 5 Non-Executive Directors, members of the Executive Management Committee and those individuals who were either in FCA Investment advisory roles or roles identified as appropriate under the PRA and FCA guidelines for Material Risk Takers. 40% of the bonus awarded was deferred to future years and is subject to malus and clawback.

Remuneration for staff in control functions is independent from that of staff in the business units and is also reviewed by BREC.

FBNBank UK does not have any staff whose remuneration is more than €1m and qualify as high earners. Table UK REM4 is therefore not disclosed. The Bank is required to report the High Earners return for 2021 and will report the COR015 (remuneration benchmarking return) for 2022.

FBNBank UK is monitoring closely any future developments in regulatory changes and will respond accordingly to ensure compliance with regulation and best practice.

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

Table 15: Remuneration for Material Risk Takers

The disclosure items below relate to awards relating to the year 2021 but not necessarily paid in the year.

	Business	Support	Total
No. of Material Risk Takers during the year	9	32	41
Year Ending 31/12/2021	**£000s**	**£000s**	**£000s**
Total fixed remuneration	1,266	4,253	5,520
Variable remuneration (cash)	178	609	787
Remuneration deferred to future years	59	259	318
Deferred remuneration from previous years	32	55	87
Long term incentive plan deferred to future years	100	311	411
Long term incentive plan payments relating to prior years	119	265	385
Discretionary pension contributions (ER)	0	0	0
Total	**1,754**	**5,752**	**7,508**
Variable remuneration as a % of total remuneration	**44.5%**	**41.9%**	**42.5%**

The Bank does not make discretionary pension payments and therefore does not benefit from the derogation for small CRR firms and small third country CRR firms.

Table 16: Retention Awards to Staff

This table shows retention awards to Material Risk Takers whose professional activities have a material impact on the Bank's risk profile.

Category	£000
Retention awards deferred to future years	156
No. of beneficiaries	6
Retention awards deferred from previous years	118
No. of beneficiaries	3