FCMB Bank (UK) Limited

PILLAR 3 DISCLOSURES

FOR THE YEAR ENDED 31 DECEMBER 2022

Contents

1. Introduction

1.1 Business Profile

FCMB Bank (UK) Limited (the "Bank") is a limited banking company incorporated and registered in the United Kingdom with company registration number 6621225. The registered address is 81 Gracechurch Street, London, EC3V 0AU. The Bank is authorised by the Prudential Regulation Authority (PRA), and regulated by the Financial Conduct Authority (FCA) and the PRA (Financial Services Register number: 502704). It is a wholly owned subsidiary of First City Monument Bank Ltd (FCMB), which is regulated by the Central Bank of Nigeria and a member of the FCMB Group PLC, a leading financial services group based in Nigeria.

The Bank is authorised to accept deposits from wholesale and retail customers and the details of its Part IV permissions are available at the URL below:

https://register.fca.org.uk/s/firm?id=001b000000MgGThAAN

The principal activities of the Bank include deposit-taking, trade finance, commercial lending, buy to let mortgages and treasury operations. The target customer base is drawn from the Institutional Trade Finance market in Sub-Saharan Africa, particularly Nigeria and internationally, the retail and corporate clients mostly of First City Monument Bank Ltd ("FCMB" or "Parent Bank") and in the UK, many of whom have long established and successful relationships with FCMB and have a need to extend their dealings to London. Over the last ten years it has also developed a client base from other Nigerian banks and other corporate clients.

2.1 Basis of Disclosure

The Pillar 3 disclosures are unaudited and have been prepared by the Bank to meet the requirements of Capital Requirements Directive ("CRD") and to provide information in line with Articles 431 to 455 of Capital Requirements Regulations ("CRR") and the associated disclosure section of the PRA Rulebook to the extent that this is not disclosed in the Audited Annual Report and Accounts (ARA) of the Bank.

These disclosures are based on and derived from the same accounting and financial systems that are used in preparing the ARA of the Bank. These disclosures are unaudited however the information has been internally reviewed and validated by the management, and formally presented to the Board for approval. These disclosures are provided in addition to the ARA, and the information is provided where it is regarded as material. Given the size and simple business model of the Bank, it is our intention to continue to disclose the information on an annual basis.

The Pillar 3 Disclosure is published on the Bank's website at: www.fcmbuk.com/about-us

The following table maps the CRR requirements to the location for the relevant disclosure:

CRR	Pillar 3 Disclosure	Pillar 3 Section
431	Disclosure requirements and policies	1
432	Non-material, proprietary or confidential information	1
433	Frequency and scope of disclosures	1
435	Disclosure of risk management objectives and policies including the Board declaration on the adequacy of the risk management arrangements	2
437	Disclosure of own funds	3
438	Disclosure of own funds requirements and risk-weighted exposure amounts	3
447	Disclosure of key metrics	4
448	Disclosure of exposures to interest rate risk on positions not held in the trading book	5
449a	Disclosure of environmental, social and governance risks (ESG risks)	5
450	Disclosure of remuneration policy	6
451	Disclosure of the leverage ratio	4
451a	Disclosure of liquidity requirements	4
453	Disclosure of the use of credit risk mitigation techniques	5

2. Governance and Risk Management

2.1 Risk Management Approach

The Bank has a proactive approach to risk management and endeavours to develop and maintain a healthy business portfolio within the defined risk appetite and regulatory framework. The risk management framework is designed to identify key risks, measure, mitigate and monitor them effectively to achieve an appropriate trade-off between risks and returns and thus enhance shareholder value, all while protecting customers in line with Consumer Duty. In the process, an integrated and coordinated approach is followed to inculcate a risk culture with the active involvement of the risk owners and other stakeholders including the Board.

The ultimate responsibility for risk management at FCMB UK rests with the Board of Directors. The day-to-day responsibility is cascaded down through delegation of responsibilities to the:

1. Board Risk and Compliance Committee and Board Credit Committee;
2. EXCO, RCC, ALCO, MCC and other executive level committees; and
3. Documented job profiles of individuals.

A top down and bottom-up approach is followed in the risk governance structure of the Bank. For example, the decisions of the Board are disseminated via the executive committees through to the business units. The minutes of various executive level committees and other risk information also flow back to the Board and Board committees on a monthly basis.

Based on its strategic business and operational objectives, the Bank is exposed to a wide range of risks such as credit, liquidity, market, operational, strategic, conduct and regulatory risks. The Board considers that effective and prudent risk management is critical to the achievement and sustainability of the Bank's strategic business objectives. The Bank's Board is satisfied that the risk management systems and processes that are in place are adequate, given the size and complexity of the Bank.

The Bank's risk management policies and practices are integrated and structured to identify, measure, monitor, anticipate and develop suitable mitigants to risks that may affect the fulfilment of the Bank's objectives.

2.2 Governance Structure

The Bank has an established corporate governance structure as detailed in a Board approved Corporate Governance Manual (CGM). Decision making responsibility at the Bank rests ultimately with the Board of Directors. The Bank's risk appetite is set by the Board of Directors (the "Board"), who also approve the risk management framework, policies, limits, tolerance, and other measures of risk appetite. The Board has delegated responsibility for developing, implementing, and updating these policies, control systems and limits to the executive committees and senior management team. The Bank operates a "Three Lines of Defence" model as part of its governance structure, and the third line of defence is outsourced to a specialist third-party provider.

The Board, supported by various committees, provide appropriate support to assess the implications of the economic performance of the target markets, socio-political developments, and changes in the regulatory environment in order to set the strategic direction of the business and risk management framework. The Bank remains alert and anticipates events so that corrective actions are taken in a timely manner.

2.2.1 Board Composition

The Memorandum and Articles of Association of the Bank specify that the number of Directors shall not be less than two and does not stipulate a maximum limit. The Board composition at 31 December 2022 comprised of ten directors of which three are independent non-executives (INEDs); three are non-executives (NEDs) representing the parent (one of which is an alternate director), one NED and three executive directors (EDs). The number of directorships held by the Bank's Board directors at 31 December 2022 including FCMB UK was:

Director Name	Role	Directorships
Frank le Roex	NED and Chairman	1
Colin Fraser	ED and Chief Executive Officer	4
Balchandra Achary	ED and Deputy Chief Executive Officer	3
Derren Sanders	ED and Chief Financial Officer & Chief Operating Officer	1
Ladipupo Balogun	NED	4
Gerald Ikem	NED (alternate)	1
Roger Ellender	NED	5
Amy Kirk	INED	4
Richard Jones	INED	3
Charles N. Rouse	INED	1

Since 31 December 2022, Charles N. Rouse has retired, and has been replaced by Susannah Aliker as an INED, and Oluwatoyin Olaiya has been appointed as an alternate to Roger Ellender.

The Bank believes in the benefits of a diverse Board and the directors have a mix of relevant skills and banking experience and backgrounds. The Board is responsible for control and governance of the Bank and each director also has specific responsibilities detailed in job specifications and contained in the Corporate Governance Manual (CGM). The executive directors are responsible for the day-to-day management of the Bank alongside their individual responsibilities. Recruitment onto the Board combines an assessment of technical capability, competency, skills and cultural fit and is managed by the Remuneration and People Committee, with subsequent ratification from the Board.

2.2.2 Board Responsibilities

The responsibilities of the Board are to:

- Act in accordance with the Bank's memorandum and articles of association and exercise powers for the purposes for which they are conferred.
- Set strategy, objectives, monitor its implementation and performance periodically.
- Set the 'risk appetite' and approve the risk management strategy and framework.
- Review and approve annual budgets and 3-year business plans with overall strategy.
- Monitor performance on a regular basis and review the strategic objectives agreed with management.
- Ensure the integrity of the Bank's accounting and financial reporting systems, including the independent audit.
- Ensure that appropriate systems are in place for monitoring risk, financial control, proper conduct, and compliance with relevant regulations.
- Select, compensate, monitor, and oversee succession planning, and when necessary, replace key executives.
- Perform all statutory roles as required by law.

- Establish Board Committees to make recommendations and take decisions on behalf of the Board on matters that may arise outside the normal meeting schedule of the full Board.
- Ratify duly approved recommendations and decisions of the Board Committees.

2.2.3 Board Committees

To assist the Board in carrying out its functions and to provide independent oversight of the internal control and risk management framework, some responsibilities are delegated to various Board committees such as the Audit Committee (BAC), Risk and Compliance Committee (BRCC), Board Credit Committee (BCC) and Remuneration and People Committee (REMCO). Each of the Committees is chaired by an experienced Chair and members are NEDs only. The Board is kept up to date on the activities of the committees through reports from the Committee Chair at each Board meeting. An annual Board effectiveness evaluation is carried out internally by the Bank and externally periodically. The Committees have Terms of References, are accountable to the Board and do not relieve the Board of any of its responsibilities.

Committee	Summary of responsibilities	Frequency
Board Audit Committee	• Review the relationship with the external auditors, including matters related to their independence and the scope of their audit; to make recommendations on the auditors' appointment and remuneration; to discuss any matters arising from the audit and recommendations made by the auditor. • Review and reassess on an annual basis, the responsibilities, functions and pre-approval policy for audit and non-audit services. • Review and approve the annual internal audit programme. Periodically review the findings of Internal Audit and management responses and progress in implementing recommendations made by the internal audit. • Review the form and content of the Bank's statutory accounts and other published financial information including the accounting, provisional policies and disclosures. • Review the Bank's whistleblowing policy and framework.	Quarterly and Ad-Hoc
Board Risk and Compliance Committee	• Review the Risk Appetite Statement of the Bank and recommend for its approval by the Board. • Review the manner in which management ensures and monitors the adequacy, extent and effectiveness of the internal control and risk management framework. • Ensure compliance with established risk management policies through periodic review of reports prepared internally and externally by the internal auditor. • Examine the manner in which executive management ensures and monitors the adequacy and effectiveness of the process for the identification, assessment, mitigation, monitoring and management of all material and key risks.	Quarterly and Ad-Hoc

Committee	Summary of responsibilities	Frequency
	• Review ICAAP, ILAAP, Credit Policy, Recovery Plan, Resolution Pack, Solvent Wind Down Plan, and other key regulatory documents of the Bank and recommend for approval of the Board. • Review and approve policies of the Bank and report such approval to the Board. • Review various reports from the EXCO, Risk & Compliance Committee, Credit Committee, ALCO, OPCO and the Chief Risk and Compliance Officer/MLRO. • Review compliance with statutory requirements • Review operational resilience including IT management and cyber-security against the strategy and policies. • Monitor the Bank's ethical standards, its procedures for ensuring compliance with regulatory and financial reporting requirements and its relationship with the relevant regulatory authorities. • Review the findings of any internal investigations of any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations. • Review on a regular basis current and pending litigation affecting the Bank. • Consider regulatory and other developments	
Board Remuneration and People Committee	• Set a performance-based remuneration with reference to corporate goals and objectives and recommend to the Board a remuneration framework for approval (Remuneration Policy); • Recommend Directors' remunerations and fees to the Board; • Determine and recommend to the Board human resources policies of the Bank, particularly those governing the terms and conditions of employment, remuneration and other benefits; • Set policies on redundancy and recommend to the Board. The Committee must also: • Ensure that no Director or any of their associates is involved in deciding their own remuneration; • Ensure that all remuneration policies are in line with guidance issued by the PRA/FCA; • Ensure that compensation payable in connection with termination of appointment or removal for misconduct is determined in accordance with relevant contractual terms and that any compensation payment is otherwise fair, reasonable, appropriate and not excessive.	Quarterly and Ad-Hoc

Committee	Summary of responsibilities	Frequency
Board Credit Committee	• To work with the Board Risk and Compliance Committee in connection with the Board's oversight of the risk management processes as they relate to Credit Management and Loan Review. • Approve recommended credit limits and take lending decisions as per the delegated authority structure. • Periodically review the Bank's Credit Policy and recommend to the Board for approval. • Approve Credit Policy exceptions and monitor their implementation. • To articulate the Bank's credit risk acceptance criteria and tolerances with respect to credit risk and oversee management and compliance with the Credit Policy. • Approve country and sovereign limits and monitor implementation. • Approve credit risk and return preferences and the target risk portfolio. • Approve and monitor implementation of the internal rating methodology that the Bank uses to measure credit risk. • Approve new credit products and variations in existing products. • Review and approve the Expected Credit Loss (ECL) calculation methodology and periodic calculations. • Review the credit portfolio reports on a periodic basis. • Review credit events and assess their impact on the credit portfolio. Where relevant, develop an action plan, and provide recommendations and progress reports to the Board. • Review and recommend write-offs and settlements to the Board for approval. • Review stressed assets and the steps taken to ensure recovery of non-performing and doubtful loans. • Any matter relating to the lending activities of the Bank that require Board approval.	Quarterly and Ad-Hoc

2.2.4 Board Meetings

The Board meetings are scheduled a minimum four times in a year to enable the Directors to regularly review corporate strategy, the operations, and the results of the business and to discharge their duties within a framework of prudent and effective controls.

At times, discussions also take place outside formal Board meetings, and it is always ensured that the Board meetings are genuine and have open discussions with the Chair leading the way.

2.2.5 Management Committees

The Board has delegated the day-to-day management and business of the Bank to the CEO and Executive Directors, and to the following management level committees:

Committee	Summary of responsibilities	Frequency
Executive Committee (EXCO)	• To establish, implement and review the business strategies in line with the Board's direction and where necessary make recommendations for amendment to the Board for approval; • Deal with the day-to-day running of the business and any related issues as they arise; • To discuss the overall performance, balance sheet and profit & loss account, and the trend of important financial ratios, and the overall levels of risk undertaken by it; • To monitor and assess the performance of all divisions of FCMB UK and ensure that it is in line with the Board's approved strategy; • To report FCMB UK's business performance and other important issues to the Board; • Monitor and react to the external environment including competitor activity and performance, market trends and regulatory developments; • Subject to Board authority and prior approval approve new lines of business, new products, trading and investments and to amend these products within the delegated authorities set by the Board; • Formulate overall IT strategy for FCMB UK, establish priorities and monitor adherence of third-party providers to Service Level Agreements; • Approve IT and other operational budgets and capital expenditure projects in line with product development strategies within the agreed budget set by the Board; • Consider human resource issues as necessary; and • Any other matters as and when considered necessary.	Monthly and Ad-Hoc
Risk & Compliance Committee (RCC)	• Identify significant risks to the Bank; • Formulate the Bank's risk appetite, recommend its adoption to the BRCC and full Board and periodically monitor to ensure that business profiles and plans are consistent with it; • Review and recommend to the Board a risk management framework consistent with the firm's business strategies and Board approved risk appetite statement;	Monthly and Ad-Hoc

Committee	Summary of responsibilities	Frequency
	• Ensure that business growth plans are properly supported by effective risk infrastructure including review and recommend all risk management policies to the BRCC and Board for approval; • To identify and assess the main compliance risks facing the Bank and the formulate operational plans to manage them; • Receive and consider periodic reports on compliance monitoring and ensure that important compliance issues are reported to the Board, are coordinated and communicated throughout the Bank and that processes are in place to ensure that new and changed legal and regulatory requirements are reflected in procedures and staff training at all appropriate levels/for all appropriate roles; • Following Board approval to receive the annual compliance monitoring plan and review and its adequacy and effectiveness and also periodic monitoring reports ensuring ongoing reporting to the Board, including overdue actions reports; • Compliance with various audit reports and regulatory correspondence/queries • To discuss any other matters of relevance/concern.	
Asset and Liquidity Committee (ALCO)	• Establish the strategies, organisation, method of analysis and system support for the effective management of the assets and liabilities of FCMB UK; • Review and recommend to the Board the Bank's ILAAP and associated liquidity policies for approval; • Recommend limits for liquidity and market risk within the banks overall risk appetite and ensure its implementation; • Monitor the proportion of loans and fixed income securities in assets and their corresponding income and establish strategies on the loans and securities portfolios; • Review and monitor the maturity and re-pricing mismatches • To approve interest rates on assets and liabilities products; • Oversee market exposures for foreign exchange to ensure that limits are maintained; • Monitor compliance with treasury limits and approve counterparties for treasury operations; • Monitor interest rate exposures and consider the results of interest rate stress tests;	Monthly and Ad-Hoc

<table>
<tr><th>Committee</th><th>Summary of responsibilities</th><th>Frequency</th></tr>
<tr><td></td><td>Review the funding and liquidity profile, the bank's ability to borrow and lend in the inter- bank market and define the strategies on the deposit base.</td><td></td></tr>
<tr><td>Management Credit Committee</td><td>Ensuring management of credit risk strategy and credit policy approved by the Bank and periodically review its effectiveness;
Agree and recommend to the Board / Board Risk and Compliance Committee (BRCC) credit, country and concentration risk policies, and underwriting guidelines within the Bank's overall risk appetite;
Evaluate and recommend to the Board / BRCC, the detailed definitions of risk and return preferences and the target risk portfolio;
Approve periodic Expected Credit Loss (ECL) and recommend to BRCC where necessary,
Approve credit limits and take lending decisions within the limits delegated by the Board and support any further individual delegated limits;
Approve exceptions in credit proposals in line with Board delegated authority and recommend other exceptions to the Board for approval;
Approve new credit products, subject to Board/BRCC approval, and associated documented processes/procedures;
Review and approve exceptions/overrides to internal rating scores that the Bank uses to measure credit risk;
Review credit risk reports on a periodic basis;
Review arrears, provisions and steps taken to ensure repayment of loans;
Review credit events and assess their impact on the credit portfolio. Where relevant, develop an action plan, provide recommendations and progress reports to the Board.</td><td>Monthly and Ad-Hoc</td></tr>
<tr><td>Operations Committee (OPCO)</td><td>Review and monitor all customer service delivery channels including onboarding;
To ensure that the Bank's IT strategy is aligned with the strategic goals, regulatory requirements and Board approved policies;
Consider and recommend or approve IT capital and operational budgets in line with business requirements and cost and benefit analysis proposed for each major new IT development initiatives;
Approve IT projects in line with business requirements and end-user specifications;</td><td>Monthly and Ad-Hoc</td></tr>
</table>

Committee	Summary of responsibilities	Frequency
	• Track status of IT development projects in regard to their priorities, timelines and implementation issues; • Approve all third-party vendors and service providers and monitor their financial conditions; • Monitor IT service levels, service improvements and data protection/security matters, including operational resilience and cyber security; • Consider and recommend to EXCO for consideration and submission to the Board for approval all major operational projects including premises and facilities management; • Report to the EXCO on the status of major IT and Operations projects or issues.	

2.2.6 Informal Committees

FCMB UK initiates and operates certain informal Committees or steering committees composed of high-level executives, subject matter experts, or stakeholders from time to time for operational reasons. These provide strategic oversight and guidance to one or more current projects. Where appropriate, Terms of Reference (TOR) are developed for such committees to determine their scope of their activities and reporting. Currently, the Bank has:

- **Rova Steering Committee (Rova SteerCo) –** To provide strategic oversight towards developing the Bank's digital and borderless banking prospects 'Rova' which has been initiated by the FCMB Group. It consists of members of the parent, Group, FCMB UK Board, the Chief Digital Officer and other staff. It meets on a monthly basis.
- **Rova Integration Committee –** This is an informal committee consisting of FCMB UK EXCO members and the 'Rova' implementation team and oversees the integration of the activities with the BAU of the Bank as the activities for the beta and actual launch of the mobile app-based product is progressing.
- **Performance Management Committee (PMC) –** The performance management committee is an informal forum to provide and discuss the weekly review of the Bank's financial position, capital usage, liquidity availability, cost of funds and pipeline transactions.
- **Lighthouse –** Lighthouse is an informal working group that aims to create robust new revenue initiatives as well as challenge / innovate the existing procedures and processes within the Bank.
- **Customer & Product Committee –** This committee will take over from the Consumer Duty implementation project. It was set up to manage bringing new products to market, changes to existing products, product reviews and product removal. It is focused on ensuring products are being designed, monitored, and reviewed with the customer in mind and are aligned to Consumer Duty regulation.
- **Climate Change Risk and ESG Committee –** This committee supports the Bank's initiatives to integrate environmental, social, and governance principles into its operating framework reflecting the Bank's commitment to its customers, employees, shareholders, and suppliers and overall the communities in which it operates. It has a Diversity, Equity, and Inclusion (DE&I) sub-committee with the DE&I champion as a member.

2.3 Three Lines of Defence

The Bank has adopted the three lines of defence model to achieve an effective governance and oversight of the risk management framework.

First Line of Defence

The front line employees are primarily responsible for identifying and managing risks in their respective business areas. The Board and Senior Management approved policies and procedures assist them in active risk management and periodic reporting on risks. The risk framework enables the management to make best use of early warning indicators to identify, evaluate and respond quickly by initiating remedial actions.

Specific responsibilities of the First Line include:

- Ownership of the risks in the respective business segment or area of operations.
- Embedding risk management framework, policies and sound risk management practices into standard operating procedures.
- Efficient management of available and allocated economic and regulatory capital to generate acceptable returns.
- Assist in generating liquidity to mitigate funding and liquidity risk through deposit mobilisation and accessing other funding avenues, as needed.
- Comply with the terms of the Funds Transfer Pricing (FTP) and Risk Adjusted Return on Capital (RAROC) methodology when embedded for efficient management of risk and capital allocation.
- Carry out initial climate risk assessment when onboarding clients or during periodic review of existing clients.
- Engage with clients to understand carbon intensities and their business plans for mitigating climate risk.
- Understand, assess and consider uncertainties and developments around timing and channels of climate risk.
- Adhering to policies and procedures in day-to-day operational activities.
- Reporting on ongoing risk identification, assessment, control, mitigation and monitoring.
- Ensuring that processes and controls are operated on an ongoing and consistent basis to manage risks effectively.
- Attending risk training and workshops to contribute in risk identification.

The Finance function is responsible for capital management, performance analysis, regulatory reporting, FTP and RAROC methodology (when implemented), and providing analytical support to Management Risk and other functions for scenario modelling and stress testing.

The Operations and IT functions provide operational support to the front office including back-office support to Treasury.

Second Line of Defence

The second line of defence consisting of the Risk, Compliance, Data Protection and Financial Crime functions are responsible for developing policies, setting direction, introducing best practices, guiding implementation and monitoring their proper execution.

The Risk function, including Credit, is responsible for facilitating the development, implementation and embedding of processes whereby management identifies, assesses, monitors, controls and mitigates the risks in the business. It monitors and oversees all risk exposures. It is also responsible to approve risk request from the first line.

The Compliance function is charged on a continuing basis to develop, enhance and actively encourage high standards of compliance within FCMB UK. Its main roles are to assist in the development of appropriate policies and procedures; provide compliance advice as required for the business; and monitor compliance by the business with the agreed policies and procedures and applicable laws and regulations as well as horizon scanning and planning for upcoming developments which may impact the Bank, regulatory and other.

The Risk and Compliance functions provide oversight over business processes and risks, and provide assurance to the Board along with the outsourced audit function.

The second line is responsible for:

- Developing, maintaining and monitoring implementation of risk management framework, policies, systems, processes and tools
- Ensuring that risk management framework, policies, systems, processes and tools are reviewed and updated periodically and effectively communicated to the First Line
- Establish early warning system for potential or actual breaches of limits and risk appetite
- Influencing and challenging decisions that give rise to material risk exposure and grant credit and other process related approvals
- Set-up and own central risk frameworks
- Develop the tools for identifying and assessing climate risks and develop scenarios and undertake stress testing
- Support first line activity to understand, assess and consider emerging uncertainties
- Deliver training in risk identification, management and mitigation, with an emphasis on emerging risks e.g., climate change
- Reporting to the governing body via the CRO on all risk management matters including risk mitigation actions as and where appropriate.

<u>Third Line of Defence</u>

The Bank does not have an in-house 'internal audit function' and has outsourced the Internal Audit function to Grant Thornton. It provides independent and objective assurance on the operations of FCMB UK to the Audit Committee of the Board on the internal controls, risk management and governance processes. The Bank follows the guidance under SYSC on the internal audit functions and the day-to-day relationship with the outsourced internal audit is managed by the Deputy CEO. The outsourced internal audit function has direct access to the Chair of the Board Audit Committee and presents its reports to the Committee besides attending the Board Audit Committee meetings, as well as various other committee meetings.

Additionally, the Group Internal Audit function carries out an annual audit and provides another layer of assurance to the Board and senior management.

The third line is mandated to:

- Provide independent assurance to the Board;
- Independently assess the design and operational effectiveness of the Bank's internal controls, risk management and governance systems and processes;
- Assess the quality of risk MIS to the Board and Senior Management;
- Suggest improvements and corrective actions wherever considered necessary; and
- Track implementation of all internal audit recommendations and external audit reports and report to the Board.
- Make suggestions to the Board and BAC of an appropriate rolling program of Internal Audit reviews.

2.4 Assurance

For the year 2022, the Bank's external auditors were Mazars LLP who audited and signed off the Annual Report and Financial Statements. They provided an opinion as to the truth and fairness of the Bank's financial statements and provided feedback directly to the Audit Committee and the Board regarding the effectiveness of the Bank's systems and controls.

2.5 Integrated Planning Process

The Bank has in place an integrated planning process which is refreshed annually. This includes:

1. **Budget** – This is approved by EXCO & the Board
2. **3 Year Financial Plan** – This is approved by EXCO & the Board
3. **Internal Capital Adequacy Assessment Process ("ICAAP")** – Based on the Board approved 3 Year Financial Plan. Further detail included within Section 3.1
4. **Individual Liquidity Adequacy Assessment Process ("ILAAP")** – Based on the Board approved 3 Year Financial Plan. Further detail included within Section 4.5
5. **Recovery Plan ("RP")** – The Board is the ultimate owner of the RP. As part of the approval process, the plan is reviewed and challenged by the Board at least annually, following ICAAP and ILAAP approvals. If there are any changes to the Bank's business model, strategy, environment or activities, an interim review is carried out and any resultant changes are incorporated into the recovery plan and approved by the Board. The RP is also reviewed, challenged and approved by the BRCC which is chaired by an independent NED, thereby ensuring the integrity of the corporate and risk governance oversight process. Senior management are responsible for overall day to day management of the Bank's risks including capital and liquidity. The assigned management team retain responsibility for the day-to-day monitoring of risk limits, early warning indicators ("EWI" alerts) and limit breaches. In the event of a crisis, the Bank will activate its Crisis Recovery Committee (CRC), chaired by the CEO and comprising other EXCO members, to evaluate the action steps required to contain a crisis event on the perceived basis of the nature, severity, and duration of the situation. Planning for Recovery is owned by an Executive Director (Deputy CEO) who is supported by other senior managers.
6. **Resolution Pack** – The Resolution Pack details aspects of the Bank business that are required for the PRA in the event that the Bank goes into resolution.
7. **Solvent Wind Down Plan ("SWDP")** – The Board is the ultimate owner of the SWDP and as part of the approval process, the policy is reviewed and challenged by the Board at least annually. The SWDP records the plan the Bank will follow in a solvent wind down situation.
8. **Pillar 3 Disclosures** – These disclosures are provided in addition to the Audited Annual Report and Accounts.

3. Capital Resources

3.1 Internal Capital Adequacy Assessment Process (ICAAP)

The Bank manages its capital through an ICAAP, and the Individual Capital Guidance (ICG) stipulated by the Prudential Regulation Authority (PRA). The ICAAP is refreshed and approved by the Board periodically, at least annually, in order to confirm that it remains valid in the light of changes in the business plan, market conditions or circumstances specific to FCMB UK's activities. The capital adequacy is monitored regularly based on the business profile.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. Stress tests are carried out periodically, and the Bank's capital position and business pipeline is reviewed on a weekly basis at the Performance Management Committee (PMC). No material changes have been made to the objectives, policies, and processes from the previous years. However, they are under constant review by management.

3.2 Total Available Capital

The following disclosures are in accordance with the requirements of the Capital Requirements Directive and as submitted to the PRA and do not reflect any adjustments to the financial statements which are not considered to be material.

$'000	31/12/2022	31/12/2021
Share capital	48,900	48,900
Retained earnings	(3,674)	(5,310)
AFS reserves	(3,499)	(101)
Intangible assets	(649)	(285)
Other Capital Adjustments	(2,368)	(289)
Tier 2 capital	9,600	5,000
Total regulatory capital (CAR)	**48,310**	**47,915**
Required capital including buffer	41,193	43,048
Surplus Capital	7,117	4,867
Risk weighted assets	214,632	225,003
Tier 1 capital ratio	17%	17%
Total capital ratio	20%	19%

Tier 1 capital is comprised of 48,900,000 issued and fully paid at $1 each share and retained earnings.
Tier 2 capital is comprised of 10-year fixed rate subordinated notes.

3.3 Minimum Capital Requirements

$'000	31/12/2022	31/12/2021
(8% of Own funds requirement)		
Credit Risk	17,170	18,000
Central Governments and Central Banks	1,724	2,239
Corporate	3,101	2,890
Personal and Business Banking	508	609
Financial Institutions	11,064	11,688
Other items	772	574
Market Risk	283	524
Operational Risk	1,558	1,337
Total Pillar 1 Capital	19,011	19,861

4. Key Metrics

$'000	31/12/2022	31/12/2021
Own Funds:		
Common Equity Tier 1 (CET1) Capital	40,321	42,915
Total Capital	48,310	47,915
Risk-Weighted exposure amount		
Total Risk-Weighted exposure amount (TREA)	237,643	248,258
Combined buffer requirement (as a % of TREA)		
Capital Conservation buffer	2.50%	2.50%
Overall capital requirement	17.34%	17.34%
Leverage Ratio		
Total exposure measure	543,896	424,021
Leverage Ratio %	7.41%	10.12%
Liquidity Coverage Ratio (LCR) *		
Total High Quality Liquid Assets	194,898	127,551
Cash Outflows	102,251	103,557
Cash Inflows	57,524	57,856
Total Net Cash Flows	44,727	45,701
Liquidity Coverage Ratio %	513%	371%
Net Stable Funding Ratio (NSFR) *		
Total Available Stable Funding	225,966	191,843
Total Required Stable Funding	131,535	93,529
Net Stable Funding Ratio %	179%	206%

* Per CRR Article 447, each LCR component has been calculated as the 12-month average, and for NSFR components the average of the last four quarters. Hence, the LCR % is the average of the previous 12 reported LCRs, rather than the average HQLA / the average net outflow.

5. Risk Appetite

5.1 Risk Appetite

The overarching risk appetite remains embedded within the Bank's strategy and is to avoid losses in all aspects, whilst recognising that losses are an inevitable consequence of doing business albeit it is managed and monitored within pre-defined risk appetite and tolerance limits. To this end the Bank continues the desire for sustained diversified growth through the provision of services and efficient deployment of funds in products and geographies that it understands. Ultimately, the Bank's aim is to deliver good customer outcomes with healthy returns commensurate with the risk and reward dynamics.

The Bank operates under a Risk Management Framework ("RMF") which is reviewed and approved annual by the Board. Tolerances and EWI, as well as actions when breaches occur or are expected are contained in a Risk Appetite Statement ("RAS") which is also reviewed annually by the Board and forms a key basis of medium and long-term planning.

5.2 Credit Risk

Credit risk is the risk of loss as a result of any counterparties failing to fulfill their contractual obligations. The Bank follows the 'Standardised Approach' to credit risk management as prescribed in the Capital Resources Requirements and Capital Requirement Directive IV. Credit risk is managed through credit approval processes; the credit approving authority structure; setting and monitoring of prudential exposures and country/counterparty limits; portfolio management and risk-based pricing.

The Bank has a strong record with regard to credit quality with no realised credit losses at 31 December 2022, however the ECL in 2022 increased materially due to the markets it operates in. During 2022 economies across the world saw deteriorating credit conditions, with high inflation and rapidly increasing refinancing costs, which effectively locked some sovereigns out of the debt capital markets. Through this period of heightened uncertainty, the Bank has introduced additional dynamic monitoring in those markets most impacted and tightened its credit risk appetite where appropriate.

Provisions are made in line with the requirements of IFRS9. Management considers those provisions provide adequate cover for the Bank's credit risk. The Bank has developed a model for the calculation of its Expected Credit Loss with the assistance of external consultants. It has been customised to match the Bank's business profile, whilst drawing on both internal and external sources of data, such as probabilities of default, loss given default ratios and macro-economic forecasts. For the forward-looking element of the calculation, the portfolio is split between Nigeria, other emerging markets and the rest of the world. These three categories each has its own set of macro-indicators that applies best to the respective region. The model is reviewed at least annually to ensure it continues to perform satisfactorily and statistical integrity is maintained. The model and its outputs are maintained by the Credit Department, with oversight from the Management, the Board Credit Committee, and the Board. The model is also critically examined by the external auditors.

5.2.1 Exposures by Portfolio

The Bank monitors the performance of all credit exposures. It classifies an exposure as past due whenever a due payment of interest or principal is overdue. The Credit Department is responsible for monitoring exposures. If it has a concern as to whether an exposure may be at risk of default this is referred to the Management Credit Committee and Board Credit Committee. Exposures are classified as impaired if there is a reasonable probability of default, in a manner consistent with IFRS9.

The exposure by the class for the year end was as follows:

$'000	31/12/2022	31/12/2021
Credit Risk		
Central Governments & Central Banks	23,171	45,786
Corporate	42,152	29,972
Financial Institutions	200,782	186,222
Retail	14,061	17,346
Short term claims on institutions	7,118	5,979
Other items	5,448	Nil
Maximum Exposure to Credit Risk	**292,732**	**285,305**

5.2.2 Geographical Distribution

The maximum exposure to credit risk by geographical regions:

$'000	31/12/2022	31/12/2021
Sub-Saharan Africa	204,469	212,489
Rest of World	27,215	29,195
United Kingdom	39,306	41,764
United States of America	21,743	1,857
Maximum Exposure to Credit Risk	**292,732**	**285,305**

5.2.3 Internal & External Ratings

The Bank uses an internal risk scoring model mapped to the ECAI rating scale. These ratings are applied to all exposures. The ratings are mapped as follows:

Credit Quality $'000	Internal Rating	Moody's Rating	31/12/2022	31/12/2021
Very Low Risk & Low Risk	1 to 9	Aaa to Baa3	41,644	23,582
Medium Risk & Acceptable Risk	10-16	Ba1 to Caa1	246,493	261,723
High Risk	17-19	Caa2 to C	4,595	Nil
Default	20	Nil	Nil	Nil
Maximum Exposure to Credit Risk			**292,732**	**285,305**

5.2.4 Credit Risk Mitigation

The Bank uses credit risk mitigation (CRM) in terms of the cash collateral available against Letters of Credit, Group and other counterparty deposits, risk participations and eligible credit insurance for calculation of capital requirements. All CRM is supported by legal documentation and a legal opinion where required.

5.3 Market Risk

Market risk arises from fluctuations in capital values of traded assets, interest rates, exchange rates and/or market prices of commodities. The Bank follows the standardised method for calculation of Pillar 1 capital.

The Bank does not currently maintain a trading book. It holds a bond portfolio for liquidity and profit purposes which exposes it to related interest rate, credit, and foreign exchange risks. The bonds are marked to market (MTM) on a periodic basis determined by the term and maturity. The MTM on the bond portfolio is circulated to Performance Management Committee (PMC) members daily, and reviewed weekly at the PMC, including the impact on the Bank's capital.

The operating currency of the Bank is US Dollars. It faces forex risks as a significant part of its liabilities are in Sterling and the assets are in US Dollars, as well as some in Euros. The capital of the Bank is in US Dollars. This exposes the Bank to currency risks in terms of mismatches and volatility in exchange rates. The Bank uses currency hedging to manage the risk both in the treasury book and non-treasury (OpEx) book, which result from revenue being primarily in US Dollar operating expenses GB Pounds.

5.4 Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events arising from day-to-day operating activities. Fraud, data compromise, IT disruption, cyber-attack, and conduct breaches are examples of operational risk that the Bank is exposed to. The operational risk requirement has been calculated using the Basic Indicator Approach (BIA). The operational risk is managed and mitigated in various ways including:

- Policies and Procedures
- Operational Resilience planning
- Cybersecurity Strategy
- Recruitment processes
- Monitoring of losses and near misses
- Business Continuity Plans: review, testing and monitoring
- Third-Party Vendor Risk Management and Procurement policies
- Regulatory monitoring

The Bank has only made one material write-off in its 10-year history, being $200k in 2020. This related to an operational risk event as a result of an alleged fraud.

5.5 Liquidity Risk

5.5.1 Definition

Liquidity risk is the risk of not maintaining adequate liquid resources to meet the Bank's obligations as and when they fall due, at all times. As noted in section 2.2.3, day to day oversight of liquidity risk and its monitoring is delegated to ALCO.

5.5.2 Rationale and Objectives

- The Bank is required to comply with the Overall Liquidity Adequacy Rule ("OLAR") under which it is expected to maintain at all times adequate liquid resources both in quality and quantity to ensure that there is no significant risk that its liabilities cannot be met when they fall due.
- Additionally, the Bank must comply with the specific LCR and NSFR requirements under CRD V.
- The Bank recognises the short-term nature of its liquidity profile and has set targets and strategies to attract more long term, stable deposits from retail depositors. The Bank will also increase its use of retail deposits through the digital banking initiative 'Rova' in due course.
- The Bank's liquidity plan and requirements are set out in the ILAAP document which is refreshed annually.
- The Bank utilises deposit aggregator platforms to obtain long term deposit to facilitate longer lending opportunities. The maximum size of the deposits is subject to the deposit insurance limit set by FSCS, and the tenor can range from 3 months to 5 years. The Bank has taken steps to diversify this funding source.
- The Bank recognises the importance of a stable diversified funding base, particularly in times of stress. To this end the Bank has set deposit concentration limits to mitigate an over-reliance on one particular source of funding. The Bank utilises 3rd parties to mobilise funding such as Deposit Aggregators i.e., Raisin, Flagstone and, in future its bespoke platform Rova, which produce granular, stable, longer-tenor deposits at competitive and cost-effective rates. Such deposits are monitored and managed to avoid maturity clusters – a limit of monthly maturities of <25% of total liabilities per 3rd party/deposit aggregator. Maximum funding acquired via 3rd parties to be capped at 50% of total liabilities.
- The Bank has taken cognisance of the risks enumerated in the "Dear CEO Letter on Deposit Aggregators" as the Bank utilises deposit aggregator platforms to raise deposits. It believes this risk is manageable as the platforms are origination channels and not counterparties. The actual individual deposit counterparties are large in number with small tickets that are protected by FSCS in case of deposits raised through Raisin. However, the deposits raised through Flagstone includes deposits from individuals, charities and corporates which are subject to FSCS protection as per their eligibility. The platforms provide good tenors of deposits that the Bank can manage on a portfolio basis at competitive rates which makes the aggregator 'book' the most stable source of funding available to the Bank.
- Over time the Bank intends to add additional platforms to the mix including using Rova as a fixed tenor deposit aggregator. In the initial stages of its operation, Rova is not projecting to mobilise substantial deposits. However, as it gets embedded and matures the Bank will reconfigure its deposit mobilisation strategy to ensure a proper balance between the platforms.
- While wholesale funding can be expensive and unreliable, particularly in times of stress, and short-term the deposit aggregator funds, fixed for up to 3 years are a reliable source of liabilities and make a strong contribution to managing the Net Stable Funding Ratio.

5.6 Interest Rate Risk

5.6.1 Definition

- Interest Rate Risk in the Banking Book ("IRRBB") relates to present and future risks to a bank's capital and earnings arising from fluctuations in market interest rates.
- The Interest Rate Risk in the Banking Book basically arises due to mismatches in the re-pricing schedules of assets and liabilities.
- IRRBB is typically quantified in two distinct ways.
  - *Economic Value of Equity measures* - An Economic Value of Equity ("EVE") approach evaluates the change in the net present value of all cash flows originating from banking book assets, liabilities, and off-balance sheet items resulting from a change in interest rates and assuming a run-off balance sheet.
  - *Earnings-based measures* - An earnings-based approach evaluates the change in net interest income over a particular time horizon as a result of a movement in interest rates and based on certain balance sheet assumptions (e.g., run-off balance sheet, constant balance sheet, dynamic balance sheet).
- In order to arrive at the impact, the assets and liabilities are placed in buckets according to their re-pricing time and a net gap calculated. The values are then discounted using rates given for the forward yield curve to calculate economic value at risk.

5.6.2 Rationale and Objectives

- As part of its obligations under the overall Pillar 2 rule, the Bank must carry out an evaluation of its exposure to the interest rate risk arising from its non-trading activities, including an evaluation of its exposure to risk arising from potential changes in interest rates that affect either or both of the following:
  (1) the economic value of the firm's non-trading activities.
  (2) the earnings in respect of the firm's non-trading activities.
- The PRA expects that the Bank must regularly carry out an evaluation in respect of the following 6 interest rate shock scenarios to all material currencies.
  scenario 0: current interest rates.
  scenario 1: parallel shock up.
  scenario 2: parallel shock down.
  scenario 3: steepener shock (short rates down and long rates up).
  scenario 4: flattener shock (short rates up and long rates down).
  scenario 5: short rates shock up; and
  scenario 6: short rates shock down.
- For the purposes above the Bank has to determine which currencies are material currencies using the following tests:
  (1) each currency that has non-trading book assets in that currency more than 5% of total non-trading book assets shall be a material currency.
  (2) where the sum of non-trading book assets in material currencies as identified under (1) does not exceed 90% of total non-trading book assets, a firm must select additional currencies to be deemed material currencies such that the sum of non-trading book assets in material currencies as identified under (1) and (2) is at least 90% of total non-trading book assets.
  (3) each currency that has non-trading book liabilities in that currency more than 5% of total non-trading book liabilities shall be a material currency; and
  (4) where the sum of non-trading book liabilities in material currencies as identified under (3) does not exceed 90% of total non-trading book liabilities, a firm must select

additional currencies to be deemed material currencies such that the sum of non-trading book liabilities in material currencies as identified under (3) and (4) is at least 90% of total non-trading book liabilities.

- The Bank must immediately notify the PRA if any evaluation under the rule indicates that, as a result of the application of the interest rate scenarios as above the EVE would decline by more than 15% of the sum of its common equity tier one capital and its additional tier one capital.
- The Bank must carry out the evaluation as frequently as necessary for it to be reasonably satisfied that it has at all times a sufficient understanding of the degree to which it is exposed to the risks and the nature of that exposure. In any case it must carry out those evaluations no less frequently than once a year.
- The Bank does not actively pursue interest rate positions in any of its business lines and the majority of its exposures have floating rates or maturities of less than 90 days.
- As the Bank attracts longer maturity retail deposits at fixed rates, it will accept increased interest rate risks, but this risk is not expected to be high.
- The Bank is actively engaged on automating the generation of interest Rate Risk MI and developing the scope of monitoring to ensure all relevant parties have adequate and appropriate MI.
- Deposit risk will also be partially offset by longer dated TF forfaiting transactions and retail Buy to Let assets.

5.6.3 Impact

The impact of the six shocks from an EVE basis is as follows:

$'000	31/12/2022	31/12/2021
EVE		
Parallel Up	2,079	(1,087)
Parallel Down	(988)	434
Steepener	4	1,320
Flattener	783	(1,594)
Short Rates Up	1,485	(1,851)
Short Rates Down	(553)	1,127
Maximum	**2,079**	**1,320**

5.7 Currency Risk

Currency risk is the risk of a mismatch in the balance sheet created by the operation of a multi-currency balance sheet by the Bank. Currency risk, also referred to as foreign-exchange risk or exchange-rate risk, is related to changes in currency values. The currency risk generally occurs because of the following three types of exposures:

- Transaction exposure arising due to transactions taking place in foreign currency e.g., time difference between entitled and physical receipt of foreign currency resulting in an unexpected gain or loss.
- Translation exposure arising from conversion from a local currency to a reporting currency which impact the financial performance differently due to foreign exchange movements.
- Economic exposure caused by the effect of unexpected and unavoidable currency fluctuations in future cash flows and market value. This is long term in nature.

5.8 Cyber Security and Information Security Risk

Cyber Security's core function is to protect the IT equipment, processes, data, and communications infrastructure of the Bank (including any services that are accessed) from theft, loss of control, or damage by external parties. It also prevents unauthorised access to the vast amount data and information stored on devices, remotely and in the cloud, whether in respect of the Bank's operations or personal / specific to customers. Cyber Security has become an increasing threat to all businesses, and particularly those operating in Financial Service, who have become targets for ransom demands through denial-of-service attacks and those targeting information and data. The Bank undertakes periodic reviews of all of its IT security aspects and updates its IT platforms as soon as the Bank, its software / hardware providers or its advisers become aware of known vulnerabilities. Further, the Bank has in place a Board approved Cyber Security Policy Framework and a Cyber Security Strategy to be implemented over a sustained period, and has developed significant traction to date in the way it is being implemented. The goals of this strategy include:

- Strengthen cyber capabilities to enable secure, stable, and efficient banking operations, protecting our reputation and assets, with comfort obtained through strong governance and regular reviews and testing.
- Collaborate with key third party vendors and partners to promote resilience and reduce the likelihood and severity of cyber security breaches.
- Educate and promote leading cyber security standards across all Bank staff and the wider industry.
- The Bank wishes to remain operationally resilient always and stay ever alert to cybersecurity risk recognising that preventive measure minimises such risk.

The Bank's Cyber Security Strategy built on feedback received from the PRA from its C-Quest and C-Best Thematic review documents, as well as expertise from both FCMB Group and external consultants.

In support of the Bank's Cyber Security posture, a series of Information Security policies, procedures and related staff guidance have been enacted.

5.9 Financial Risks of Climate Change and ESG

The Bank has taken note of the expectations of the PRA in terms of managing climate change risks and initiated steps to address this in a proportionate manner based on the size and exposures. Broadly, the following action points are targeted:

5.9.1 Governance:

1. The Bank has updated its Risk Appetite Statement, having considered physical and transition risks, and then set short (<5years), medium (by 2030) and long term (by 2050) targets for the business to mitigate related risks.
2. The Board of the Bank has identified and allocated the responsibility to the Executive Director and DCEO who is a SMF holder.
3. The Bank is mindful to ensure adequate resources, as and when necessary, and in the course of 2021 and 2022 worked to develop adequate skills and expertise in the relevant personnel to manage the financial risks arising from climate change. A Climate Change Working Group, chaired by the SMF, has been formed to oversee this process.
4. The Bank has created an Environmental, Social and Governance "ESG" Policy, in which it has set out the principles under which it will run its business.

5.9.2 Risk Management

1. The Bank has incorporated the financial risks from climate change on a proportionate basis into existing financial risk management practices.
2. The Bank has included climate change risk in the Credit Policy and Process and will expand on this as the Bank's strategy evolves.
3. The Bank seeks to identify, measure, monitor, manage and report on such exposures as part of the Risk Management Framework.
4. The Bank will include any material exposures relating to the financial risks from climate change in the Internal Capital Adequacy Assessment Process (ICAAP).
5. The Bank will seek to mitigates its risk where possible. It has developed, and is in the process of rolling out, new products that encourage energy efficiency in housing funded in its buy-to-let customers. At December 2022, the Bank had a portfolio of syndicated loans totalling $16.7m with a wide range of ESG covenants that reward compliance with lower interest rates. In addition to these the Bank has a portfolio of loans totalling $12.5m which it considers to be direct social benefit to the communities where the funds are invested, such as through healthcare provision.

5.9.3 Scenario Analysis

The Bank carries out periodic scenario analysis of the countries where it has maximum credit exposures and assesses the impact of climate change on the business. This includes both threats and opportunities created by physical and transitional events and changing business patterns.

5.9.4 Disclosure

The Bank will make adequate and proportionate disclosures in the audited annual financial statements reflecting its evolving understanding of the financial risks from climate change. It is also making the necessary preparations for regulatory reporting requirements as they shall apply to it.

5.10 Financial Crime Risk

The Bank acknowledges both the regulatory focus and importance in protecting the Bank and the UK financial system from financial crime.

The Bank takes a number of steps to manage this risk. The Bank has in place policies and procedures for the management of anti-money laundering, anti-bribery and corruption, fraud and sanctions risk. These are reviewed annually and approved by Board. Additionally, a Financial Crime Risk Assessment (FCRA) has been developed and is also approved by Board.

The Bank collates management information on financial crime risk. The reports are placed before the Risk and Compliance Committee and the Board Risk and Compliance Committee.

As part of the FCRA, the business model of the Bank is reviewed regularly to ensure that financial crime controls are keeping pace with business developments.

5.11 Conduct Risk

The Bank acknowledges the critical importance of customers to its business (wholesale and retail) and aims to operate in a balanced manner ensuring fair treatment of customers. New banking services are developed and approved by the EXCO based in the spirit of Treating Customers Fairly (TCF).

The Bank has in place a policy with provisions for conflicts of interest and insider trading to ensure that customer interests are safeguarded and remain paramount in our dealings with them.

The Bank collates management information on TCF on a six-monthly basis and also reviews complaints as part of a complaints handling policy. The reports are placed before the Risk and Compliance Committee and the Board Risk and Compliance Committee.

The business model of the Bank is reviewed regularly in view of the evolving market trends and business strategies readjusted to address margins while taking care to ensure that the customer is not adversely affected.

5.12 Other Material Risks

Other material risks considered includes:

- Pandemic Risk
- Business Risk
- Financial Resilience
- Concentration Risk
- Regulatory Risk
- Group Risk
- Legal Risk
- Reputational Risks
- Strategic Risk
- People Risk
- Systems and Controls
- Earnings Risk
- Operational Resilience
- Business Continuity
- Various other risks such as geo-political and macro-economic risks.

6. Remuneration Policy

As required by the UK Remuneration Code guidelines, the Bank has a remuneration policy in place. It is classified as a proportionality level 3 firm and as such has adopted a proportional approach, dis-applying certain provisions where appropriate.

6.1 Remuneration and People Committee

The bank has an established Remuneration and People Committee (REMCO) with an agreed term of reference. It consists of non-executive directors as members and the executive directors attend the meetings as invitees. The committee takes remuneration decisions for the members of the Board (including Executive Directors) and for other members of staff such decisions are taken by the Executive Directors. The Chair of REMCO is an INED and is also a member of the Board Audit Committee (BAC) and Board Risk and Compliance Committee (BRCC). The Chair has been approved as SMF12. The Board is briefed on the proceedings in the committee meetings. The Remuneration and People Committee is ultimately responsible for the Remuneration Policy Statement. The HR function has been entrusted with the responsibility in developing and implementing the bank's remuneration policies and practices in consultation with the Executive Directors. The information is shared with the Board including the members of the Board Risk and Compliance Committee by way of a brief from the Chair of the REMCO. The Chair of BRCC is also an invitee to the REMCO meetings along with the Chair of the BAC. The committee has not appointed remuneration consultants for advice.

During 2022, the REMCO met four times.

6.2 Variable Remuneration

The Bank has in place a discretionary variable pay policy for the benefit of its employees, which classify as 'variable remuneration' as defined in the Code. Based on adequate profitability being achieved for the period, the REMCO considers and makes recommendations to the Board on a variable pay pool.

The overall quantum and allocation of variable pay are based on a combination of:

- The Bank's profitability against the business plan for the period;
- An appropriate distribution of profits between retaining capital for growth, distribution to shareholders and employees, taking into consideration the needs of the Bank as determined by senior management, the REMCO and the Board;
- An individual's performance and contribution to the Bank, as well as an individual's behaviours (derived from their performance rating).

The Bank has a Clawback and Malus Policy agreement in place with employees eligible for variable pay.

6.3 Other Remuneration information

Quantitative Disclosures:

$'000	2022	2021
Total Remuneration	6,092	5,405
Average Headcount	56	52
Fixed remuneration	5,354	4,985
Variable remuneration	738	420
Deferred cash award	Nil	Nil

As above, in 2022 the ratio of fixed to variable remuneration was 88:12 (88% fixed and 12% variable). In 2021 the ratio of fixed to variable remuneration was 92:8 (92% fixed and 8% variable).

The Bank is required to submit an annual High Earners Return to the PRA to advise them of staff whose remuneration is over €1m. The Bank does not have any staff who qualify as High Earners under the definition of "High Earners" and therefore a nil return was submitted for 2022.

7. Regulatory Projects and Change Initiatives

7.1 Operational Resilience

The Bank continues to develop its Operational Resilience program in line with regulatory expectations, working with external consultants. The Bank had identified its important business services ("IBS") (including those that related to its Digital Borderless Banking division), mapped these services, reviewed vulnerabilities, established relevant tolerances and stress tested several scenarios. As a result, the Bank was able to finalise its Self-Assessment of its Operational Resilience state in March 2022. This has subsequently been shared with regulators.

The Bank continues to review its Operational Resilience stance, with further refinement to its approach to IBS, planning for further scenario-based stress tests and ensuring that vulnerabilities are integrated into planning for business continuity and mitigations sought. In addition, all process changes are reviewed for their impact on Operational Resilience.

7.2 Cyber Resilience

The Bank has in place a Board approved Cyber Security Policy Framework and a Cyber Security Strategy to be implemented over a sustained period. More detail on this is contained in Section 5.8.

7.3 Regulatory Reporting Automation

The Bank has commenced a Regulatory Reporting Automation project and has engaged a third-party provider. The scope of this project is to automate the full suite of regulatory returns including; Financial Services Compensation Scheme (FSCS), tax reporting, COREP, FINREP, PRA, BoE & FCA reporting. This process is ongoing with expected completion in 2023.

7.4 LIBOR Transition

The Bank has completed its LIBOR Transition programme in order to achieve an orderly transition from LIBOR to Alternative Reference Rates (ARR) as at 30 June 2023.

7.5 Climate Change

The Bank has taken note of the expectations of the PRA in terms of managing climate change risks. The Bank's approach and this is covered in Section 5.9.

7.6 Financial Resilience

In a Dear CEO Letter dated 12th January 2022 the PRA updated international banks active in the UK on the priorities for 2022. These priorities complement the supervisory feedback in the Periodic Summary Meeting (PSM) of the firms. Financial Resilience has again been highlighted as a major priority for PRA in its 2023 Dear CEO Letter, and it has been embedded in the Bank's strategy and planning.

Summary of Financial Resilience themes:

1. Sustainability and resilience of the business model - as central banks taper huge stimulus programmes and interest rates are rising
2. Capital - PRA plans to ensure that firms are adequately capitalised
3. Liquidity – firms have sufficient liquidity for the risks they are planning to take (including diversification of funding sources)
4. Improvement in counterparty risk management
5. Managing concentration risks and diversification of asset exposures
6. Close monitoring of credit risk and traded risk
7. Challenge posed by structural changes in the marketplace through digitalisation
8. Risk management and governance and frameworks – ICAAP, ILAAP, RRP etc.
9. Risk culture
10. Incentive structure – alignment of remuneration with risk management
11. Consistent adoption of IFRS 9
12. Regulatory reporting and data collection
13. PRA wishes to ensure this through core supervision, delivering workplans following periodic meetings, technical risk reviews, and maintaining minimum requirements etc.

7.7 Funds Transfer Pricing

The Bank recognises the value a Funds Transfer Pricing (FTP) system can bring in terms of managing the balance sheet and enabling it to accurately measure and manage the profitability of many business decisions. The Bank has in place a Board approved FTP policy, methodology, and model. The FTP framework will be formally implemented in H2 2023.

7.8 Consumer Duty

Consumer Duty (CD) is a major FCA initiative, effective July 2023. The Bank has appointed an INED as its Champion on CD. A Board-approved Action Plan is in place and CD is now in implementation through a Working Group which reports to an operational Consumer Duty SteerCo. The Board approved Action Plan was completed during July 2023 and it has been embedded into business-as-usual daily activity. Some of the changes that have been made within the business as a result of the work on CD include:

- New product governance routines and associated product documentation such as the target market and product suitability assessments.
- Outcomes monitoring including the review of a conduct dashboard reviewed by the CD SteerCo and reported through RCC.
- Inclusion of customer outcomes in year-end appraisals.

7.9 Diversity, Equity, and Inclusion (DE&I)

The Bank has a dedicated DEI champion and has set up a DE&I committee which reports into the Climate Change Risk and ESG Committee.

7.10 Conduct and Culture (Tone from the Top)

The Bank has undertaken a comprehensive culture review and is embedding Tone from the Top in a number of ways, including monthly townhalls led by the CEO, as well as input from other Board members, as well as a regular newsletter from the CEO.

7.11 Model Risk Management

Model Risk Management is a new regulatory imperative by PRA per CP6 / 22. The Bank's management have started this project, including identifying its key models, and are likely to enlist the support of external consultants for this project.