The Access Bank UK Limited

Pillar 3 Disclosures

31 December 2018

1. INTRODUCTION AND OVERVIEW

The Access Bank UK Limited ("the Bank") is an authorised institution under the Financial Services and Markets Act 2000 and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority (PRA and FCA). The Bank was authorised by the FSA in August 2008 and commenced its operations in October 2008. The Bank is a wholly owned subsidiary of Access Bank Plc ("Parent"), a Nigerian Stock Exchange listed company. The Bank was granted a variation of its original permissions to enable it to establish its Asset Management Division which subsequently launched its global Private Banking operation. The Private Bank offers bespoke and tailored investment and wealth management solutions for both personal and corporate clients and institutions. In December 2014 the Bank was granted a further variation to enable it to offer Regulated Mortgages to customers on a non-advised basis. Provision of such mortgages commenced in 2015.

In 2015 the Bank was approved by the Dubai Financial Services Authority and the Dubai International Financial Centre to open an office in Dubai to facilitate trade between the United Arab Emirates and Sub-Saharan Africa. With effect from October 2016 the Bank was granted the status of a PIB Category 4 Branch.

The Bank has an experienced and dedicated team focussed on providing customers with the highest levels of service and expertise. We have a strong culture of learning and development and are proud to be the first Nigerian Bank based in the UK to have been accredited by the UK Commission for Employment and Skills and were awarded the National Gold Standard by Investors in People in June 2017.

1.1 Business profile

The Bank was established to provide customers in Sub-Saharan Africa and Dubai with a broad range of business and personal banking services. These include;

- Trade Finance - Export and Import letters of credit, Standby letters of credit, Payment Guarantees and Discounting
- Correspondent Banking – trade finance including confirmation of letters of credit and post negotiation lending, and escrow deposits.
- Treasury services - Foreign Exchange Services, Term Deposits, and Bespoke Treasury Services.
- Corporate Banking – Multi-currency Business Current Accounts, On-Line banking, Notice Deposit Accounts, Lending services, Fixed Maturity Deposits, Trade Finance, and Treasury services.
- Personal Banking – Multi-currency Personal Current Accounts, On-line banking, Savings Accounts, Notice Deposit Accounts, Fixed Term Bonds and Lending services.
- Asset Management and Private Banking – A Global Investment and Wealth Management offering for individuals encompassing Discretionary Managed and Execution Only Investment Portfolios, Bespoke Portfolios, Fixed Maturity Deposits, Private Bank Current Accounts, and Lending Services.

We are committed to offering customers a highly personal experience, based on relationship managed services. We take pride in building a long-lasting relationship with our customers and tailoring our products and services to meet their banking needs. Our commitment to customers and our ongoing quest for excellence is at the very heart of our philosophy. This is complemented by a range of products and services which are competitive and offer good value for money. Our dedicated team of Relationship Managers work to ensure that our customers can take full advantage of the range of banking services that we provide.

1.2 Background

The European Union ("EU") Capital Requirements Directive came into effect on 1 January 2007. This introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II Framework.

With effect from 1 January 2014 the European Union implemented the requirements of the Basel III regulatory framework through the Capital Requirements Regulation and Directive, together commonly known as the CRD.

The Basel III Framework is structured around three pillars:

- Pillar 1 - sets the minimum capital requirements that firms are required to meet for credit, market and operational risk;

- Pillar 2 – the capital requirements under Pillar 2 are split into Pillar 2A and Pillar 2B. Pillar 2A requires that each bank undertakes an "Individual Capital Adequacy Assessment Process ("ICAAP") to assess its own risk profile, and to determine the level of additional capital required over and above the Pillar 1 requirements, to cover risks either not covered, or not fully covered, by the Pillar 1 requirements (e.g. credit concentration risk). Under Pillar 2B the Bank is required to maintain a Capital Planning Buffer ("CPB") which is designed to enable the Bank to absorb losses and/or cover increased capital requirements in adverse circumstances that are external to the firm (e.g. external stresses and impact of the business cycle). In addition, the amount of any additional capital requirement is assessed by the PRA during its Supervisory Review and Evaluation Process ("SREP"), which is used to determine the overall capital resources required by a bank.

- Pillar 3 – aims to promote market discipline by enhancing the level of disclosure made by banks to their stakeholders, allowing them to assess a bank's key risk exposures and the adequacy of a bank's risk management process to mitigate these risks.

With effect from 1 January 2016 a number of changes came into effect with respect to the capital requirements framework:

- The CPB was replaced by the PRA Buffer;

- The Capital Conservation Buffer ("CCB") came into effect. The purpose of this buffer is to enable firms to absorb losses in stressed periods. A CCB of 2.5% will be required to be maintained above the regulatory minimum capital requirement, with this requirement being phased-in in accordance with the transition timetable set out in the CRD; and

- The Countercyclical Buffer ("CCyB") came into effect. This buffer required firms to build up capital when aggregate growth in credit is judged to be associated with a build-up of system-wide risk. The buffer can be drawn down to absorb losses during periods of stress. Responsibility for setting the CCyB rate rests with the individual members of the European Union and in the UK the Financial Policy Committee ("FPC") is responsible for setting the CCyB rate that applies to UK exposures. In December 2015 the FPC signalled its intention to set the UK CCyB rate in the region of 1% in a standard risk environment and that this would be implemented gradually, with an initial rate for 2016 set at 0%. On 29th March 2016 the FPC announced that it was increasing the UK CCyB rate from 0% to 0.5% of risk-weighted assets with effect from 29 March 2017. Subsequently on 5th July 2016 the FPC noted that with immediate effect the UK CCyB would be set at 0.0%. At its meeting on 21 June 2017 the FPC decided that the rate would revert to the original rate of 0.5% with effect from June 2018, and at their meeting in November 2017 increased the rate to 1% (effective November 2018).

With respect to Pillar 1, the Bank has adopted the Standardised Approach to credit risk, and the Basic Indicator Approach to operational risk from authorisation (12th August 2008).

1.3 Basis of Disclosures

The Pillar 3 disclosures have been prepared by the Bank in accordance with the CRD requirements, and provide the disclosure information as required by Part Eight of the Capital Requirements Regulations, to the extent that this information is not already disclosed in the Bank's Annual Report and Accounts, which are also published on the Bank's corporate website. Unless otherwise stated, all figures are as at 31 December 2018, which is the Bank's financial period-end.

1.4 Location and Verification

The report is available on the Bank's corporate website: www.theaccessbankukltd.co.uk

These disclosures are derived from the same financial systems that are used to prepare the Bank's Annual Report and Accounts, and have been subject to internal review and validation by senior management and the Bank's Executive Committee, and consistency checks and reconciliations are performed with the Annual Report and Accounts and regulatory returns. They have not been subjected to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Bank's Annual Report and Accounts.

1.5 Disclosure Policy

It is the Bank's policy to disclose the information as required by CRD on an annual basis.

In determining this policy, the Bank considered whether more frequent disclosures would be appropriate for the Bank, but concluded that this was not the case. In reaching this decision the Bank:

- Assessed the criteria set out in Article 433 of the CRD which would indicate a requirement for more frequent disclosure, and concluded that given that the relative size and complexity of the Bank within the UK Market, and the fact that it does not operate in a number of different countries, more frequent disclosure was not required under Article 433; and
- Assessed the Bank against the three indicators set out in the Guidelines issued by the EBA in September 2014, which were adopted in October 2015, and concluded that these were not met, and therefore more frequent publication was not required under these Guidelines.

The Bank may omit information it deems immaterial. The Bank will regard information as material if its omission or misstatement could change or influence the decision of a user relying on the information for the purpose of making economic decisions.

In addition, if the required information is deemed to be proprietary or confidential, then the Bank may take the decision to exclude it from the disclosure. The Bank defines proprietary information as that which, if shared, would undermine its competitive position. The Bank defines information as confidential where there are obligations binding it to confidentiality with customers, suppliers or counterparties.

In preparing these disclosures for the year ended 31 December 2018, the Bank has not excluded any information on the grounds of confidentiality.

1.6 Scope of Application

These disclosures relate only to The Access Bank UK Limited, which has no trading subsidiaries, and therefore does not report on a consolidated basis. As such there are no significant differences between the total assets and liabilities used for financial reporting and those used for regulatory reporting, and therefore the Bank has not completed template LI1 showing such reconciliation. There is one significant classification difference with regards to the Bank's exposures to banks in certain non-EU countries. As a result of an Implementing Decision from the EBA, the Bank is required to treat exposures to banks in countries where the regulatory regime is not deemed to be equivalent as corporate exposures for regulatory reporting, whilst in the financial statements they are disclosed as loans to Banks. For consistency we have disclosed these exposures as corporate exposures in this Pillar 3 reporting. As at 31st December 2018 the total such exposures after credit mitigation were £330mm (2017 - £155mm).

1.7 Key Ratios

The following table summarises the key ratios for the Bank.

	2018	2017
	%	%
Total Capital Ratio	23.44%	23.45%
Leverage ratio	9.85%	10.52%
Liquidity Coverage Ratio	576.25%	390.06%

It should be noted that the above ratios are calculated after taking into account the audited profits for the respective years.

2. RISK MANAGEMENT OBJECTIVES AND POLICIES

2.1 Strategies and Risk Management Processes – Risk Appetite

Risk appetite is a top down articulation of the quantum of risk that the Board of the Bank is prepared to accept in relation to the Bank's business strategy. This Risk Appetite is articulated by the Bank in the Risk Appetite Statement, and the Liquidity Risk Appetite and Funding Risk Appetite Statement, both of which are reviewed and approved annually by the Board. The Bank's Risk Appetite forms one of the central tenets of the Bank's strategic plans.

In line with the approach of the Bank's Parent, the Board has defined the Bank's Risk Appetite as moderate, which means that the Bank is willing to accept a lower level of potential losses or exposure, relative to other banks in our peer group. It means the Bank will selectively accept risks.

The Bank's exposures and other risk are monitored on an ongoing basis for adherence to this policy.

2.2 Oversight and Governance

The Bank's governance and oversight structure is overseen by a Board of Directors consisting of six directors made up of the CEO / MD, the Finance Director and four non–executive directors (NEDs"), two of which are Independent NEDs. In line with best practice, and to provide adequate oversight for executive management, the number of non-executive directors is, and will be, more than the number of executive directors.

The Board has the ultimate responsibility for the management of the Bank, and for establishing, and monitoring the effectiveness of, the corporate governance structure of the Bank. As such it is responsible for setting the Bank's strategy, from which the Bank's Five-Year Plan is developed, as well as the detailed annual budgets, both of which are reviewed and approved by the Board.

The Board has the primary responsibility for setting the Bank's risk management strategies, and for ensuring that an effective risk management structure is in place to support these strategies. It approves the Bank's Internal Capital Adequacy Assessment Process and Individual Liquidity Adequacy Assessment Process, at least annually, which assess the risks to which the Bank is exposed and ensure that the Bank has sufficient capital and liquidity in place to support the business activities and risk exposures.

The Board meets as a minimum on a quarterly basis, or more frequently should the need arise, and is assisted by three Committees which also meet quarterly as follows:

- Board Risk and Audit Committee;
- Board Credit Committee; and
- Board Remuneration Committee.

Board recruitment is undertaken by agreed members of the Board, and approved by the Chairman, on behalf of the Bank's sole shareholder. When a recruitment need is identified, the Bank will review the knowledge, skills and expertise of the existing Board members, and ensure that the knowledge skills and expertise of any new Board member is complimentary to that of the existing members and meets any skills gaps that might have arisen. During the process the knowledge, expertise and skills of any prospective candidate will be assessed, through a process of interview, the taking of references, and a search of public information.

The Bank's HR Policy sets out our stance on diversity, and this is equally applicable to Board members or other members of staff. The company is committed to equal opportunities and inclusion in the workplace. This means that all job applicants and employees will receive equal treatment and the same degree of attention, courtesy and consideration, regardless of their sex, age, marital status, sexual orientation, colour, race, nationality, ethnic or national origins, or disability.

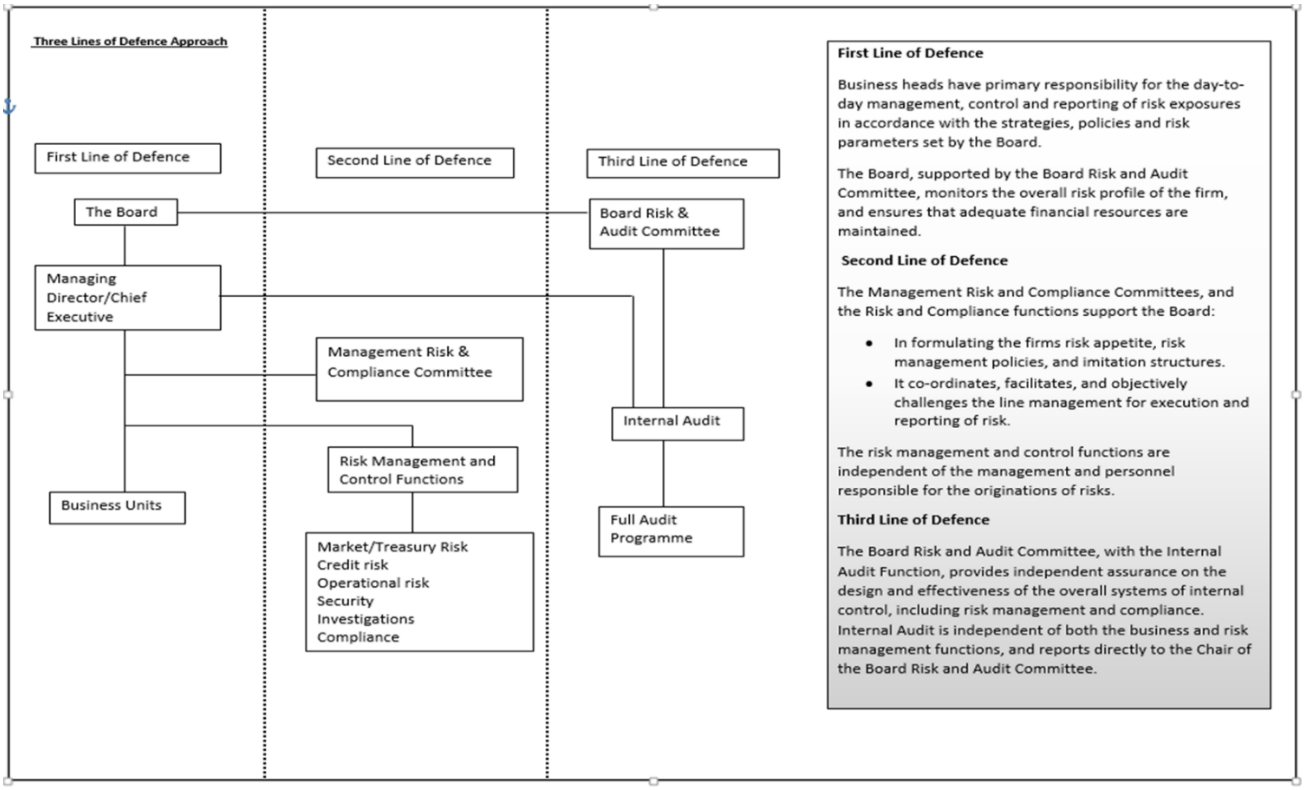
Below is a table that sets out how many directorships are held by the Bank's Board members, including those in the Access Group. Directorships within the same group are counted as a single directorship, and non-executive directorships in non-commercial organisations have been excluded.

Summary of Directorships held by Board members as at 31 December 2018		
Director Name	**Role**	**Directorships**
Mr Herbert Wigwe	Non-Executive Director	4
Mr Roosevelt Ogbonna	Non-Executive Director	3
Mr Stephen Clark	Independent Non-Executive Director	4
Mr Timothy Wade	Independent Non-Executive Director	5
Mr Jamie Simmonds	Chief Executive Officer/Managing Director	1
Mr Sean McLaughlin	Finance Director	1

The Bank's CEO/MD, who reports to the Board, is responsible for the implementation of the policies and procedures set by the Board and manages the Bank through an Executive Management Committee ("Exco"), which is tasked with overseeing all aspects of the Bank. A number of separate committees report to Exco as detailed in section 2.4 below. Each of these management committees is established under leading corporate governance principles, with clear terms of reference and minutes, to promote clarity and transparency of operations.

2.3 Risk Management Objectives and Policies

The Board understands that the organisation and its customers and staff are subject to risks. In order to manage the risks, the Board has adopted a strategy of a "Three Lines of Defence Approach" to mitigate these risks and establish its internal framework. This approach is set out below:



First Line of Defence

The First Line of defence is the framework for policies and procedures which the Board has put in place, covering all the Bank's operations. Policies are well developed covering all operational areas. In addition, risk management policies have been prepared which address:

- Liquidity risk management;
- Credit risk management;
- Concentration risk management;
- Operational risk management;
- Provisioning policy; and
- Trading book risk management.

Through the management framework which the CEO/MD has established the Bank ensures that procedures and detailed operational manuals are developed for all operational areas of the Bank. These operational procedures embed measures which are designed to counteract the threat of unmanaged risks occurring in the business.

A Management Reporting Information System ("MIS") has been developed in the Bank to provide transparency to Management and the Board on the operations of each department of the Bank. This is used to identify, monitor, and address the threats posed to the Bank.

Second Line of Defence

The Bank's Second Line of Defence is the Risk Management measures which the management team have established for the Bank and the Bank's Compliance framework. The Risk and Compliance Division establishes appropriate systems for the Bank in proportion to its scale, nature and complexity.

The Board has ensured that the management of the Bank have established appropriate risk management and compliance arrangements for the Bank. The Bank maintains an Operational Risk Register, and Key Risk Indicators, which are used by the Risk Department to monitor all the operational risks faced by the Bank.

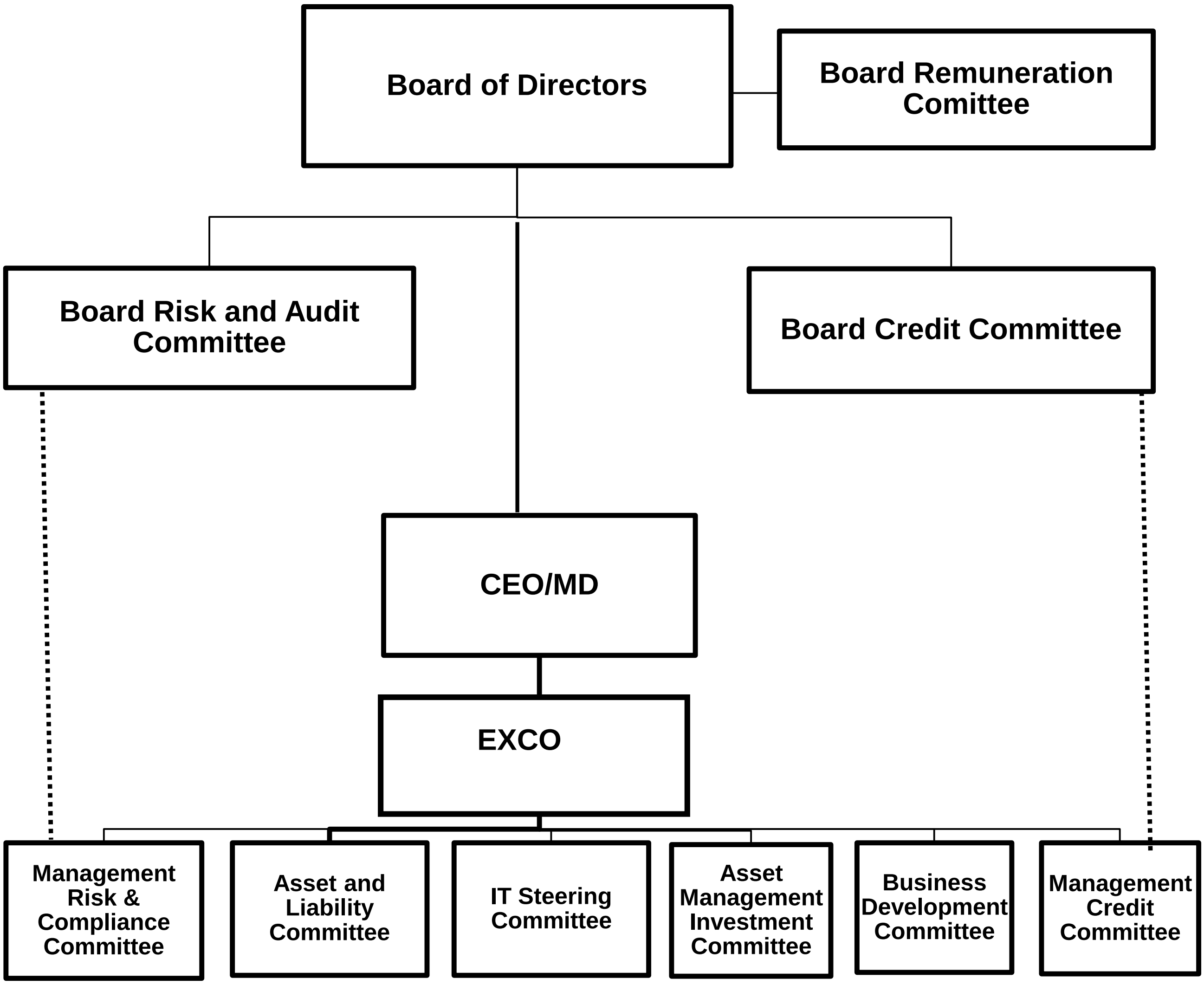
The Bank has established effective systems and controls for compliance with regulatory requirements and for countering the risk that the firm might be used for financial crime – such as fraud or dishonesty, money laundering or insider dealing.

Third Line of defence

The Bank's Third Line of Defence is the review of all the Bank's operations and Risk Management operations by the Board Risk and Audit Committee, the Internal Audit function, and, where appropriate, External Audit. The Board has appointed Mr Stephen Clark to be the Independent Non-Executive Director with responsibility for being Chairman of the Board Risk and Audit Committee of the Bank. Separately, the Bank has appointed Grant Thornton LLP to be the internal auditors for the Bank on an outsourced basis. PricewaterhouseCoopers LLP are the Bank's external auditors having been appointed in 2013.

2.4 Risk Management Governance Structure

The Bank's risk management governance structure is made up of a number of committees. The reporting lines of these committees, and an outline of their responsibilities is summarised below:



Board Risk and Audit Committee – Chaired by Stephen Clark, one of the Bank's independent NEDs, the Committee provides independent assurance on the design and effectiveness of the overall systems of internal control, including risk management and compliance. The Committee receives reports from the Bank's external auditors and reviews the Bank's statutory accounts. Internal audit is independent of both the business and risk management functions, and reports to the Board through the Chairman of the Risk and Audit Committee.

Board Credit Committee – Chaired by David Charters, who was appointed to the Board on 15th March 2019, one of the Bank's independent NEDs, the Committee is responsible for all credit related risks at the Bank and approves the Bank's credit risk appetite and portfolio strategy. The Committee serves as a link between the Board of Directors and Senior Management as regards Credit Policy management. The Committee approves credit facility requests in line with the Board delegated limit and recommends credit facility requests above this limit to the Board. The Committee receives detailed management information covering all advances granted by the Bank and reviews the credit risk taken by the Bank on a regular basis (n.b. during 2018 this Committee was chaired by Tim Wade, one of the Bank's independent NEDs, who resigned from the Board on 15th March 2019, having served the maximum tenor allowed under good governance arrangements).

Board Remuneration Committee ("Remco") – Chaired by David Charters, one of the Bank's independent NEDs, the Committee is responsible for determining and agreeing with the Board the framework for the remuneration of the CEO/MD, the Finance Director, and other members of Exco team, including any performance related pay provisions, and pension arrangements. In addition, the Committee is responsible for reviewing the ongoing appropriateness of the Bank's remuneration policy and overseeing any major changes to the employee benefits structures within the Bank (n.b. during 2018 this Committee was chaired by Tim Wade).

Executive Management Committee ("Exco") – is responsible for the daily management of the Bank so that it complies with the Bank's overarching Risk Appetite as set by the Board, and ensures the soundness and profitability of the Bank, and compliance with all regulatory requirements. Any new products developed by the Bank's Strategic Business Units are presented to Exco for consideration and approval. In doing so Exco ensures that appropriate governance and oversight arrangements for such new products and services offered by the Bank are implemented. Additionally, the Committee ensures that the conduct of the Bank produces good customer outcomes (including treating customers fairly) that do not cause detriment to the Bank or its customers due to inappropriate execution of business activities.

To enable it to carry out its responsibilities, it has formed the following executive management committees:

- **Management Risk and Compliance Committee -** is responsible for the risk and compliance infrastructure of the Bank, the monitoring programme supporting the infrastructure, and the Bank's systems and controls governing new product development and issues relating to Conduct Risk and Treating Customers Fairly. The Committee has primary responsibility for managing the Bank's relationship and communication with the PRA, FCA and other regulatory bodies. In respect of the Dubai Branch it oversees the Risk and Compliance department's liaison and cooperation with the Dubai regulatory authorities (DFSA and EPRS) and other regulatory bodies. It is also responsible for the maintenance of the Bank's operational risk monitoring framework and ensures that the Bank is compliant with the Senior Managers Regime.
- **Asset and Liability Committee** – is responsible for deriving the most appropriate strategy for the Bank relating to the mix of assets and liabilities given its expectations of the future of, and the potential consequences of, interest rate movements, liquidity constraints, foreign exchange exposure and capital adequacy. The Committee is also responsible for establishing and monitoring appropriate systems and controls for the investment of assets and the management of liabilities, and for monitoring of asset, liability and liquidity performance. The Committee sets appropriate interest rates for the Bank's available range of deposit and investment products, and is responsible for monitoring the expected impact on the Bank from the discontinuance of LIBOR at the end of 2021. The Committee is also responsible for the review and oversight of the Bank's ICAAP, ILAAP, Recovery Plan and Resolution Pack.
- **Management Credit Committee -** assesses and determines, within the limitations of its delegated authority from the Board, the appropriateness of credit applications being considered by the Bank. The Committee is also responsible for the credit structures and management arrangements of the Bank, and for reviewing the management information produced by the Bank's Credit Risk Department.
- **IT Steering Committee** – is responsible for the IT resources and systems and controls which are necessary in their application to ensure that the Bank operates effectively and efficiently.

It is also responsible for the prevention of effective cyber-attacks through the deployment of up to date controls and procedures.

- **Asset Management Investment Committee** – is responsible for the strategic and tactical direction of the Investment policies of the AMD and the assets it manages, including the establishment and monitoring of appropriate investment policies and benchmarks, the approval of the introduction of new products relating to AMD, and the monitoring of investment performance.
- **Business Development Committee –** is responsible for reviewing the performance of the Bank's five Strategic Business Units ("SBUs"), and for overseeing the delivery of targets for each SBU.

Risk and Compliance Department – supports both the Management Committees and Board Committees in respect of their delegated responsibilities in respect of risk governance. It has responsibility for monitoring the quality of the Bank's business activities and ensuring that the Bank remains in full compliance with both the UK and Dubai regulatory regimes, and the Bank's internal rules and regulations, and that risks, including credit, market and operational are managed within Board assigned limits.

As at 31 December 2018 the Risk and Compliance Director was the Bank's appointed Senior Manager for the Compliance Oversight Function SMF16, and reports directly to the to the Chair of the Board Risk and Audit Committee, with a dotted line to the CEO/MD. It is his responsibility to ensure that all staff are aware of their legal and regulatory responsibilities.

Regulatory returns are prepared in the Finance Department and reviewed by the Finance Director prior to submission where they relate to Financial Reporting, and prepared in the Compliance Department, and reviewed by the Risk and Compliance Director where they relate to Client Money and Mortgage activity.

The Bank operates a comprehensive anti-money laundering policy, with all staff receiving training on a regular basis, to ensure that that they are fully conversant with the Bank's responsibilities in this area.

2.5 Adequacy of the Bank's Risk Management Arrangements

The Bank's Exco and Board are content that the risk management systems that are in place in the Bank are adequate given the size and complexity of the Bank's operations and its risk profile.

The Bank outsources its internal audit function to Grant Thornton to ensure it receives the depth and variety of subject matter expertise in this important third line of defence. Grant Thornton undertake a risk based internal audit programme which includes a review of the Bank's Corporate Governance Framework as well as the Risk Management Framework. All reports issued in 2018 were satisfactory.

3. CAPITAL RESOURCES

3.1 Total Available Capital

The Bank's capital base as at 31 December 2018 consists solely of Tier 1 Capital. The Bank complied with the capital requirements as set out by the PRA throughout the year. The Bank's available capital as at 31 December 2018, after the audit of the profit for the year, and a reconciliation to shareholders funds as shown in the Bank's Annual Report and Accounts is shown in the table below:

Capital Resources	31 December 2018 £'000	31 December 2017 £'000
Common Equity Tier 1		
Share capital	138,000	122,000
Retained earnings	59,748	34,003
Accumulated other comprehensive income	(171)	(74)
Total equity per annual report	**197,577**	**155,929**
Regulatory capital adjustments		
Additional valuation adjustment	(310)	-
Intangible assets	(970)	(676)
Unrealized gains	(14)	(99)
IFRS 9 transitional adjustments	301	-
Total tier 1 capital	196,584	155,154
Total own funds	**196,584**	**155,154**

As can be seen from the above table the Bank's Prudential Valuation Adjustment (PVA) is not material, and therefore the Bank has decided to omit table PV1, which is designed to provide the make-up of the PVA. Similarly, the Bank considers the transitional adjustment on the implementation of IFRS9 to not be material, and therefore the Bank has not prepared the template showing the above calculations without the transitional adjustment. As noted above the Tier 1 Capital Ratio with the adjustment is 23.44%, and without the adjustment the ratio would be 23.40%.

3.2 Tier 1 Capital

The Bank's Tier 1 capital consists solely of perpetual ordinary shares, from which the Bank has deducted Intangible assets as required by Article 36 of the CRD; Unrealised gains as required by Article 35 of the CRD; the Prudent valuation adjustment, and added back the IFRS9 Transitional adjustment (being 95% of the impact of the introduction of IFRS9).

These figures have been audited by the Bank's external auditors PricewaterhouseCoopers LLP.

On 2nd May 2018 the Bank issued a further 16,000,000 £1 ordinary shares to Access Bank Plc at par.

The Bank was not required to make any adjustments in respect of the prudential filters in Articles 32 to 34 of the CRD (Securitised Assets; Cash Flow Hedges; Additional Value Adjustments) and did not have any temporary waivers under Article 79 of the CRD. There were no deductions required under Articles 56 and 66, or disclosures under Articles 47, 48 and 56 of the CRD.

There were no restrictions on the calculation of own funds.

As noted in the Statutory Accounts, following a review of the Bank’s operations the Board of the bank approved that the functional currency of the Bank would be changed from Pounds Sterling to US Dollar. The Board therefore approved that the nominal value of the Bank’s ordinary shares be redenominated from £1 to $1.26, this being the rate prevailing at the close of business on 2 January 2019.

3.3 Tier 2 and Tier 3 Capital

The Bank currently has no Tier 2 Capital, and no deductions were required according to Article 66 of the CRD.

The Bank currently has no Tier 3 Capital.

4. CAPITAL ADEQUACY

4.1 Capital Management

The Bank's Capital Resource Requirement is determined in accordance with the rules stipulated in the prudential guidelines set by the PRA.

The Bank has adopted the Basic Indicator Approach for Operational Risk and the Standardized Approach to Credit Risk and Market Risk for the calculation of its Pillar 1 capital requirements.

The overall responsibility for capital management resides with the Board of the Bank. The responsibility for exercising oversight has been delegated to the CEO/MD, who in turn has delegated responsibility for the management and monitoring of the individual risks to the Finance, and Risk and Compliance Departments. The purpose of this management and monitoring is to ensure that market, credit and operational risk in the Bank is kept within the guidelines set by the Board.

A capital planning and management framework is in place to facilitate a top-down approach to the management of the Bank's capital. The Bank holds capital at a level that the Board considers sufficient, with this assessment based on a combination of current minimum regulatory requirements, and as assessment of future capital requirements by the Board.

The Bank's regulatory capital requirements are reported quarterly to the Board.

4.2 Internal Capital Adequacy Assessment Process

The Bank undertakes an Internal Capital Adequacy Assessment Process ("ICAAP") which is an internal assessment of the Bank's risk profile, and its capital needs, as a minimum on an annual basis, or more frequently as the need arises. This internal assessment makes use of the Bank's regulatory capital calculator and is based on the Bank's five-year strategic plan. The ICAAP is formally presented to the Board for approval and regularly reviewed.

The ICAAP document includes an analysis of the risks inherent in the business, sets out the risk control and management approach, as well as the mitigants that the Bank uses in respect of the risks that it takes on by considering the existing and planned financial, risk and business position; setting out risk appetite, business plan and strategy for the next period; identifying the risks associated with the business plan; highlighting additional capital or management actions that would need to be put in place in respect of each risk; where relevant, perform stress tests that consider the effect of these risks on the business plan; and consider the outputs of the stress tests and identify whether additional capital need be held in respect of each risk or whether a different mitigating management action is more appropriate.

The Bank's ICAAP determines the Bank's capital requirement over a three-year horizon. The PRA, under its supervisory approach, is responsible for setting the Individual Capital Guidance ("ICG") for the Bank.

The PRA requested for the Bank's ICAAP in 2016, and the Bank duly submitted its ICAAP to the PRA for their review, and a revised ICG was agreed with the PRA in January 2017.

4.3 Minimum Capital Requirement – Pillar 1

The Bank's Pillar I minimum capital requirements which covers credit risk, market risk and operational risk and its capital adequacy position is shown in the table below:

Pillar 1 capital requirement	31 December 2018 £'000	31 December 2017 £'000
Credit Risk	61,354	42,784
Market Risk	-	-
Operational Risk	5,709	4,045
Credit Valuation Adjustment	30	42
Total Pillar 1 Requirement	67,093	46,871

Credit Risk

The table below details the Bank's minimum capital requirement for credit risk under the standardised approach, which is expressed as 8% of the risk weighted exposure amounts, for each of the applicable risk exposures as at 31 December 2018.

Exposure Class	8% Own Funds Capital Requirements £'000	Risk Weighted Assets £'000	Risk Weighted Assets Density
Central Government or Central Banks	965	12,065	2%
Institutions	2,597	32,457	21%
Corporates	54,688	683,602	118%
Retail	247	3,093	75%
Secured by Mortgages on Immovable Property	2,302	28,772	35%
Equity Claim	89	1,111	100%
Exposure at Default	91	1,139	100%
Fixed and Other Assets	375	4,692	100%
	61,354	**766,931**	**47%**

Market Risk

The Bank does not have a trading book and therefore does not hold securities to actively trade in its own right.

The Bank holds a portfolio of Available for Sale Investments, consisting solely of Government Securities held for the purpose of meeting and exceeding the Bank's Liquidity Buffer Requirements as set by the PRA. These holdings are not actively traded, and any risk arising is dealt with as credit risk.

Therefore, the only market risk that the Bank incurs which gives rise to a regulatory capital requirement is in respect of foreign exchange, for which the Bank's Board has approved a small open position limit. As at 31st December 2018 there was a negligible open position and therefore no market risk requirement arose as the level of risk was below the de minimis threshold included in the CRR.

Operational Risk

The operational risk requirement is calculated on a Basic Indicator Approach, which amounted to £5,709,000 for the year to 31 December 2018.

4.4 Pillar 2 requirements and CRD IV 2 buffers

Pillar 2A and Total Capital Requirement

Pillar 2 describes the supervisory review process and the assessment of additional capital resources required to cover specific risks faced by firms that have not been covered by the minimum regulatory requirements as set out in Pillar 1.

From 1 January 2018, the Bank is required to disclose its Total Capital Requirement, which consists of the Pillar 1 requirement of 8%, and the Pillar 2A requirement, which has been set for the Bank by the PRA under its Individual capital Guidance, of 5.71%. This gives the Bank a Total Capital Requirement of 13.71%.

CRD IV Buffers

Under the CRD IV, and the PRA implementation thereof, two new buffers were implemented which have an impact on the Bank as follows:

- The Capital Conservation Buffer ("CCB") commenced in 2016, when under the transitional provisions a bank was required to hold a buffer of 0.625% of the bank's total risk exposures. The CCB requirement increases in equal increments to 2.5% in 2019, and at the same time the PRA Buffer is reduced by a similar amount until it is extinguished;
- The Counter Cyclical Buffer ("CCyB") – Whilst this also commenced in 2016, the applicable level is to be determined by local regulatory authorities. The applicable CCyB for the Bank is calculated as the average of CCyB rates set by local Financial Policy Committees, weighted based on the exposures of the Bank.

Counter Cyclical Buffer

The Basel III CCyB is calculated as the weighted average of the buffers in effect in jurisdictions to which banks have credit exposures.

The Financial Policy Committee ("FPC") of the Bank of England set the CCyB rate for the United Kingdom f at 1% with effect from November 2018.

With respect to the CCyB, the Bank for International Settlements website details the following countries as having set either current or pending CCyB rates (excluding those that have set a rate of 0%):

- France (0.25% from 1/7/2019)
- Hong Kong (1.875% - 2.50% from 1/1/2019)
- Norway (2.00%)
- Sweden (2.00% - 2.50% from 19/9/2019) and

The tables below show the Bank's geographical distribution of credit exposures relevant to the calculation of the countercyclical buffer, in line with CRR Article 440 (N.B. this excludes exposures to Central Governments, Multilateral Development Banks, and Institutions):

	General Credit Exposure		Own Funds Requirements		Own Funds Requirements Weight	Countercyclical Capital Buffer Rate
	Exposure Value for Standardised Approach	Exposure Value for Internal Rating Based Approach	of which: General Credit Exposures	Total		
	010	020	070	100	110	120
Breakdown by country	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	
United Kingdom	29,192	-	1,960	1,960	3.39%	1.00%
United States of America	38,422	-	3,074	3,074	5.32%	0.00%
France	22,415	-	1,793	1,793	3.10%	0.00%
Singapore	12,461	-	997	997	1.73%	0.00%
Total (Countries with existing CCyB rate)	**102,490**	**-**	**7,824**	**7,824**	**13.54%**	
United Arab Emirates	48,317	-	3,865	3,865	6.69%	n/a
Ghana	20,385	-	1,631	1,631	2.82%	n/a
Nigeria	529,484	-	42,359	42,359	73.29%	n/a
Kenya	12,990	-	1,039	1,039	1.80%	n/a
Total (Countries with own funds requirements weights 1% or above)	**611,176**	**-**	**48,894**	**48,894**	**84.60%**	
Total (Countries with own funds requirements weights below 1%)	**8,743**	**-**	**1,075**	**1,075**	1.86%	n/a
Total	**722,409**	**-**	**57,793**	**57,793**	**100.00%**	

Institution Specific Countercyclical Capital Buffer

		010
010	Total risk exposure Amount under Standards Approach (£'000)	722,409
020	Institution Specific Countercyclical buffer	0.04%
030	Institution Specific Countercyclical Capital buffer requirement (£'000)	338.90

Pillar 2B

Forecast capital positions are subjected to extensive stress analyses to determine the adequacy of the Bank's capital resources under stressed conditions. Under Pillar 2B the PRA uses the outputs from some of these stress analyses to inform the setting of the Bank's PRA buffer assessment, defining a minimum level of capital buffers over and above the minimum regulatory requirements that should be maintained in non-stressed conditions as mitigation against potential future periods of stress. The PRA requires this buffer to remain confidential between the Bank and the PRA.

4.5 Leverage ratio

The Bank has calculated its leverage ratio in accordance with Article 429 of the CRD. As at 31 December 2018 the Bank's leverage ratio was 9.85%, after taking into account the audited profits for 2018. At present the Bank has no minimum UK leverage requirement as it is currently exempt from the UK Leverage Framework Regime, which only applies to banks with retail deposit levels of £50 billion or more.

As the Bank's capital resources consist solely of Tier 1 capital, Articles 499(2) and 499(3) are not relevant to the Bank.

A summary of the Bank's leverage ratio calculation is given below:

	2018	2017
	£'000	**£'000**
Accounting assets		
Derivative financial instruments	174	1,826
Loans and advances and other assets	1,910,218	1,399,261
Total IFRS assets	**1,910,392**	**1,401,087**
Derivatives adjustments		
Potential Future Exposure on derivatives	1,484	752
Total derivatives adjustments	**1,484**	**752**
Weighted off balance sheet commitments	84,690	72,862
Total leverage exposure	**1,996,566**	**1,474,701**
CET 1 capital	**196,584**	**155,154**
leverage ratio	**9.85%**	**10.52%**

5. CREDIT RISK MEASUREMENT, MITIGATION AND REPORTING

5.1 Credit Risk Overview

Introduction

Credit risk is the current or prospective risk to earnings or capital arising from an obligor's failure to meet the terms of a contract with the Bank or its failure to perform as agreed.

The Bank faces credit risk on its exposure to financial institutions from its placement of funds on the inter-bank market, to corporates from its trade finance activities, including the provision of post negotiation funding and from secured property lending. It has developed a detailed credit policy and procedures manual providing strict control of credit policy and operating model and information on how the credit risk management processes are embedded in the business and overseen at the highest level within the Bank.

Credit Risk Management Framework

The credit risk function encompasses both strategic and operational areas of focus: strategic in the sense that it works closely with the Bank's executive in defining the risk appetite, researching target markets and clients, reviewing the credit risk dimension of products and having overall responsibility for portfolio credit quality, monitoring and control; and operational in the sense that credit risk works closely with the client and front office relationship teams, supporting the analysis of credit risk for business written, handling the overall risk assessment for transactions and approving or otherwise the writing and marking of credit exposure. Several control frameworks are in place; examples include:

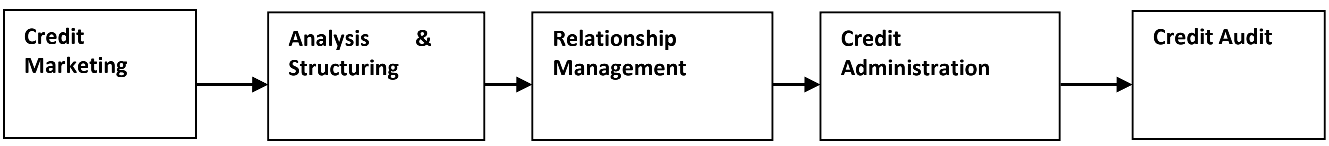
- maximum exposure guidelines relating to the exposures to any individual customer or counterparty;
- country risk policy specifying risk appetite by country; and
- policies that limit financing to certain industrial sectors.

Multiple methodologies are used to inform the rating decision on individual large credits, such as internal analysis, rating agency ratings, and for wholesale assets market information such as credit spreads.

Although a Relationship Manager is responsible for initiating credit approval, no one person can initiate and approve a credit. A typical approval requires a minimum of three steps namely:

- The initiator, the Relationship Manager, who is directly responsible for the account management and who prepares the credit proposal.
- Credit Risk Division which reviews the credit proposal for consistency with the Bank's policies, to ensure that it is a satisfactory risk for the Bank, and to check the adequacy of any security documentation.
- The appropriate sanctioning authority for the third level approval. Dependent upon the level of the credit requested, and whether this is secured or unsecured, the relevant sanctioning authorities are the CEO/MD, The Management Credit Committee, the Board Credit Committee or ultimately the Board.

The following is the scheme for a typical Credit Management Cycle:



5.2 Credit Risk Exposures

The Bank's credit risk appetite is moderate and is in line with the approach deemed appropriate by the Board. The Bank calculates credit risk for exposures under the standardized approach. The Bank uses Fitch as its PRA recognised external credit assessment institution ("ECAI"). The external ratings from Fitch are mapped to the prescribed credit quality assessment scale which produces risk assessment ratings. Fitch is used for the following standardized credit risk exposure classes:

- Central Governments or Central Banks;
- Financial Institutions; and
- Corporates.

The credit risks exposure (based on the definitions for regulatory capital) both before and after credit mitigation as at 31st December 2018 was as follows:

ANALYSIS BY EXPOSURE CLASS (2018)	Exposure Before CCF & Risk Mitigation £'000	Exposure After Risk Mitigation £'000
Central Government or Central Banks	798,794	784,730
Multilateral Development Banks	-	7,193
Institutions	154,076	154,110
Corporates	1,067,265	578,925
Secured by mortgages on commercial real estate	-	-
Secured by mortgages on residential property	-	-
Secured by Mortgages on Immovable Property	82,285	82,025
Retail	8,493	4,124
Exposure at default	1,139	1,139
Equity Claim	1,111	1,111
Other Assets	4,692	4,692
	2,117,855	**1,618,049**

The credit risks exposure (based on the definitions for regulatory capital) both before and after credit mitigation as at 31st December 2017 was as follows:

ANALYSIS BY EXPOSURE CLASS (2017)	Exposure Before CCF & Risk £'000	Exposure After Risk Mitigation £'000
Central Government or Central Banks	407,488	361,860
Multilateral Development Banks	-	46,567
Institutions	335,501	335,502
Corporates	739,107	346,607
Secured by mortgages on commercial real estate	-	-
Secured by mortgages on residential property	-	-
Secured by Mortgages on Immovable Property	80,857	80,857
Retail	6,751	3,943
Exposure at default	761	761
Equity Claim	830	830
Other Assets	4,979	4,979
	1,576,274	**1,181,906**

It should be noted that following an Implementing Decision published by the EBA with relation to the equivalence of the regulatory regimes in non-EU countries, The Bank is required to treat exposures to banks in countries where the regulatory regime is not deemed to be equivalent as corporate exposures for Large Exposure Reporting. To ensure that we are consistent in our CoREP reporting the Bank also reports these exposures as corporate exposures for Capital Reporting.

For 2018 the total exposure after credit mitigation to such banks was circa £330mm (2017 - £155mm).

The average credit risk exposure for the year ended 31st December 2018 before and credit mitigation was as follows:

EXPOSURE CLASS	Average Exposure Before Credit Mitigation	Average Exposure After Credit Mitigation
Central Government or Central Banks	576,477	551,330
Multilateral Development Banks	-	31,985
Institutions	215,499	228,887
Corporates	882,492	513,251
Retail	7,735	4,096
Secured by Mortgages on Immovable Property	80,638	80,573
Exposure at default	757	757
Equity Claim	901	901
Other items	5,487	5,487
	1,769,986	**1,417,268**

The average credit risk exposure for the year ended 31st December 2017 before and after credit mitigation was as follows:

EXPOSURE CLASS	2017 Average Exposure Before CCF & Credit Mitigation	Average Exposure After Credit
Central Government or Central Banks	374,211	322,408
Multilateral Development Banks	-	50,929
Institutions	161,215	161,663
Corporates	720,062	306,130
Retail	7,665	4,313
Secured by Mortgages on Immovable Property	75,957	75,720
Public Sector Entities	-	-
Exposure at default	190	190
Equity Claim	830	830
Other items	4,069	4,069
	1,344,198	**926,252**

The gross credit risk exposure (based on the definitions for regulatory capital) and the geographical distribution of these exposures as at 31st December 2018 were as follows:

	2018 Exposure Value Before Risk Mitigation				
	UK £'000	Africa £'000	Europe £'000	Other £'000	Total £'000
Central Government or Central Banks	464,134	22,278	-	312,382	798,794
Multilateral Development Banks	-	-	-	-	-
Institutions	86,963	407	3,689	63,017	154,076
Corporates	16,368	893,958	26,050	130,889	1,067,265
Retail	2,355	4,787	-	1,351	8,493
Secured by Mortgages on Immovable Property	24,518	47,061	-	10,706	82,285
Equity Claim	-	1,111	-	-	1,111
Exposure at default	-	1,139	-	-	1,139
Other Assets	2,941	1,136	-	615.00	4,692
	597,279	**971,877**	**29,739**	**518,960**	**2,117,855**

	2018 Exposure Value After Risk Mitigation				
	UK £'000	Africa £'000	Europe £'000	Other £'000	Total £'000
Central Government or Central Banks	464,133	12,066	-	308,531	784,730
Multilateral Development BankS	-	300	-	6,893	7,193
Institutions	86,997	408	3,689	63,016	154,110
Corporates	14,852	438,347	22,415	103,311	578,925
Retail	651	2,233	-	1,240	4,124
Secured by Mortgages on Immovable Property	24,517	46,802	-	10,706	82,025
Secured by mortgages on commercial real estate	-	-	-	-	-
Secured by mortgages on residential property	-	-	-	-	-
Exposure at default	-	1,139	-	-	1,139
Equity Claim	-	1,111	-	-	1,111
Other Assets	2,941	1,136	-	615	4,692
	594,091	**501,292**	**26,104**	**494,312**	**1,618,049**

The gross credit risk exposure (based on the definitions for regulatory capital) and the geographical distribution of these exposures as at 31st December 2017 were as follows: -

	2017 Exposure Value Before CCF & Risk Mitigation				
	UK £'000	Africa £'000	Europe £'000	Other £'000	Total £'000
Central Government or Central Banks	226,219	51,204	-	130,065	407,488
Multilateral Development Banks	-	-	-	-	-
Institutions	92,204	180	95,778	147,339	335,501
Corporates	16,757	661,105	12,713	48,532	739,107
Retail	1,215	3,512	430	1,594	6,751
Secured by Mortgages on Immovable Property	22,853	46,262	-	11,743	80,857
Secured by mortgages on commercial real estate	-	-	-	-	-
Secured by mortgages on residential property	-	-	-	-	-
Equity Claim	-	830	-	-	830
Exposure at default	-	761	-	-	761
Other Assets	4,030	646	303	-	4,979
	363,279	**763,669**	**109,224**	**339,273**	**1,576,274**

	2017				
	Exposure Value After CCF & Risk Mitigation				
	UK	Africa	Europe	Other	Total
	£'000	£'000	£'000	£'000	£'000
Central Government or Central Banks	226,219	5,576	-	130,065	361,860
Multilateral Development BankS	-	46,567	-	-	46,567
Institutions	92,204	180	95,778	147,341	335,502
Corporates	14,385	298,278	12,714	21,230	346,607
Retail	392	2,073	-	1,478	3,943
Secured by Mortgages on Immovable Property	22,852	46,261	-	11,744	80,857
Secured by mortgages on commercial real estate	-	-	-	-	-
Secured by mortgages on residential property	-	-	-	-	-
Exposure at default	-	761	-	-	761
Equity Claim	-	830	-	-	830
Other Assets	4,030	646	303	-	4,979
	360,082	**399,581**	**108,795**	**311,857**	**1,181,906**

The residual maturity of these exposures as at 31st December 2018 was as follows:

	2018			
	Exposure Value Before Risk Mitigation			
	Up to 12 Months	1 - 5 Years	More Than 5 Years	Total
	£'000	£'000	£'000	£'000
Central Government or Central Banks	798,794	-	-	798,794
Institutions	154,076	-	-	154,076
Corporates	995,310	71,955	-	1,067,265
Retail	5,533	2,826	134	8,493
Secured by Mortgages on Immovable Property	2,413	29,374	50,498	82,285
Exposure at default	-	-	1,139	1,139
Equity Claim	1,111	-	-	1,111
Other Assets	2,640	1,889	163	4,692
	1,959,877	**106,044**	**51,934**	**2,117,855**

	2018			
	Exposure Value After Risk Mitigation			
	Up to 12 Months	1 - 5 Years	More Than 5 Years	Total
	£'000	£'000	£'000	£'000
Central Government or Central Banks	784,730	-	-	784,730
Multilateral Development Banks	7,193	-	-	7,193
Institutions	154,110	-	-	154,110
Corporates	510,049	68,876	-	578,925
Retail	1,164	2,826	134	4,124
Secured by Mortgages on Immovable Property	2,413	29,114	50,498	82,025
Exposure at default	-	-	1,139	1,139
Equity Claim	1,111	-	-	1,111
Other Assets	2,640	1,889	163.00	4,692
	1,463,410	**102,705**	**51,934**	**1,618,049**

The residual maturity of these exposures as at 31st December 2017 was as follows:

	2017 Exposure Value Before CCF & Risk Mitigation			
	Up to 12 Months	1 - 5 Years	More Than 5 Years	Total
	£'000	£'000	£'000	£'000
Central Government or Central Banks	407,488	-	-	407,488
Institutions	335,501	-	-	335,501
Corporates	689,136	46,267	3,704	739,107
Retail	3,616	2,362	772	6,751
Secured by Mortgages on Immovable Property	1,824	27,373	51,660	80,857
Secured by mortgages on commercial real estate	-	-	-	-
Secured by mortgages on residential property	-	-	-	-
Exposure at default	-	-	761	761
Equity Claim	830	-	-	830
Other Assets	4,598	381	-	4,979
	1,442,993	**76,383**	**56,897**	**1,576,274**

	2017 Exposure Value After CC & Risk Mitigation			
	Up to 12 Months	1 - 5 Years	More Than 5 Years	Total
	£'000	£'000	£'000	£'000
Central Government or Central Banks	361,860	-	-	361,860
Multilateral Development Banks	46,567	-	-	46,567
Institutions	335,502	-	-	335,502
Corporates	298,708	44,193	3,706	346,607
Retail	809	2,362	772	3,943
Secured by Mortgages on Immovable Property	1,824	27,373	51,660	80,857
Secured by mortgages on commercial real estate		-	-	-
Secured by mortgages on residential property		-	-	-
Exposure at default	-	-	761	761
Equity Claim	830	-	-	830
Other Assets	4,598	381	-	4,979
	1,050,698	**74,309**	**56,899**	**1,181,906**

5.3 Past Due Items and Impairment Provisions

With effect from 1st January 2018 the Bank adopted the provisions of IFRS9 for the accounting for impairment provisions. IFRS9 replaced the incurred loss approach underpinning IAS39, with an expected credit loss approach. Full details of the Bank's approach to IFRS9 are included in the Bank's Statutory Accounts.

The Bank has in place procedures to ensure constant review of its risk portfolio to assess whether there is objective evidence that a financial asset, or group thereof, has been impaired by events that have occurred after the initial recognition of the asset.

Evidence of impairment may include, inter alia, default or delinquency in interest or principal repayments, a breach of a covenant, or indications in the press or otherwise that the borrower is experiencing significant financial difficulties. The Heads of the Bank's strategic business units, together with the Credit Risk Division, are responsible for the identification of such assets that might be impaired.

Up to 31 December 2019 the Bank had not had any impaired assets, and as a result the Bank had not had to write off any assets. Given that the Bank did not have a history of bad debts, up to 31 December

2017 the Bank had not booked an impairment provision. With the introduction of the Expected Credit Loss model underpinning IFRS9, the Bank was required to book a provision of £362k as at 31 December 2018.

All potential impairments are investigated by the Credit Division, and reported initially to the Bank's Management Credit Committee, and then to the Board Credit Committee.

Should the Bank suffer an impairment, the Bank's Management Credit Committee will authorise the reclassification of the asset concerned, the appropriate level of provisioning, and recovery action, and then advise the Board Credit Committee.

As at 31st December 2018 the only impaired exposures related to lending secured by property.

5.4 Retail Credit Risk

The Bank's retail lending activity is restricted to secured property lending, and lending against investment assets including UK Gilts.

Retail credit risks are managed in accordance with approval limits set by the Bank's Board in the credit policy, and within aggregate financial limits set by the Bank's Asset and Liability Committee. Customer credit decisions are undertaken on a case by case basis, which includes an affordability assessment which determines a customer's ability to repay the outstanding amount of the credit.

All such retail loans are secured by way of either first legal charge against the property, or a charge over the investment assets that are held in the Bank's nominee name.

Ongoing monitoring of all retail credits is the responsibility of the Bank's Credit Risk Division.

5.5 Corporate Credit Risk

The Bank's corporate lending activity is split between syndicated loans, short term bilateral lending up to a tenor of one year, secured property lending, and trade finance related credits.

Corporate credit risks are managed in accordance with approval limits set by the Bank's Board in the credit policy, and within aggregate financial limits set by the Bank's Asset and Liability Committee.

All corporate loans that are secured on property are so secured by way of a first legal charge against the property. Ongoing monitoring of all retail credits is the responsibility of the Bank's Credit Risk Department.

5.6 Treasury Credit Risk

Treasury credit risk arises from the management of the Bank's balance sheet, and the placement of funds with other banks, and investment in Treasury Bills issued by Central Governments and Multilateral Development Banks, which are held for the Bank's Eligible Liquidity Buffer for ILAAP purposes.

Treasury credit risks are managed in accordance with approval limits set by the Bank's Board in the credit policy, and within aggregate financial limits set by the Bank's Asset and Liability Committee. Ongoing monitoring of all treasury credits is the responsibility of the Bank's Credit Risk Department.

5.7 Credit Quality Step ("CQS") Analysis

As noted above the primary ECAI used by the Bank in its assessment of credit risk under the standardised approach is Fitch. The following table shows the exposure values before and after credit risk mitigation for each of the standardised credit risk exposure classes and the credit ratings associated with each credit quality step. Where no ECAI ratings are available the Bank has followed the provisions of the CRD in allocating exposures to credit quality steps. For unrated exposures, the Bank has allocated exposures to the credit quality steps below based on the credit quality step allocated to exposures to the central government in which the institution is incorporated as required by Article 121 of the CRD. For unrated corporates, Article 122 of the CRD provides that they shall be assigned risk weight of 100% (equivalent to credit quality step 3) or the risk weight of exposures to the central government of the jurisdiction in which the corporate is incorporated if higher, and this is the basis for the inclusion of corporates in the table below, which shows the analysis of exposures by credit quality step as at 31st December 2018.

	Credit Quality Step	Fitch Ratings	Exposure Value Before Risk Mitigation £'000	Exposure Value after Risk Mitigation £'000
Central governments or central banks				
	1	AAA to AA-	776,516	772,664
	4	BB+ to BB-	-	-
	5	B+ to B-	22,278	12,066
			798,794	**784,730**
Multilateral Development Banks				
	1	AAA to AA-	-	7,193
			-	**7,193**
Institutions				
	1	AAA to AA-	8,562	8,562
	2	A+ to A-	141,472	141,506
	3	BBB+ to BBB-	4,042	4,042
			154,076	**154,110**
Corporates				
	1	AAA to AA-	111,450	95,953
	2	A+ to A-	101	102
	3	BBB+ to BBB-	14,053	14,053
	4	BB+ to BB-	129,162	80,869
	5	B+ to B-	812,499	387,948
			1,067,265	**578,925**
Retail				
			8,493	4,124
			8,493	**4,124**
Secured by Mortgages on Immovable Property				
			82,285	82,025
			82,285	**82,025**
Equity Exposure				
	5	B+ to B-	1,111	1,111
			1,111	**1,111**
Other items & Exposure at Default			5,831	5,831
			2,117,855	**1,618,049**

The analysis of the exposures as at 31st December 2017 by credit quality step is as follows:

	Credit Quality Step	Fitch Ratings	Exposure Value Before Risk Mitigation £'000	Exposure Value after Risk Mitigation £'000
Central governments or central banks				
	1	AAA to AA-	364,281	356,285
	4	BB+ to BB-	-	-
	5	B+ to B-	43,207	5,575
			407,488	**361,860**
Multilateral Development Banks				
	1	AAA to AA-	-	46,567
			-	**46,567**
Institutions				
	1	AAA to AA-	30,529	30,529
	2	A+ to A-	282,555	282,555
	3	BBB+ to BBB-	22,417	22,418
			335,501	**335,502**
Corporates				
	1	AAA to AA-	117,407	44,490
	2	A+ to A-	132	132
	3	BBB+ to BBB-	0	0
	4	BB+ to BB-	3,853	3,704
	5	B+ to B-	617,715	298,281
			739,107	**346,607**
Retail				
			6,751	3,943
			6,751	**3,943**
Secured by Mortgages on Immovable Property				
			80,857	80,857
			80,857	**80,857**
Equity Exposure				
	5	B+ to B-	830	830
			830	**830**
Other items & Exposure at Default			5,740	5,740
			1,576,274	**1,181,906**

5.8 Credit Risk Mitigation

The Bank seeks to mitigate credit risk for both on and off-balance sheet exposures through the use of collateral agreements, netting and guarantees.

Collateral

The Bank will accept the following forms of collateral:

- Property;
- Cash;
- Approved list of marketable securities

It is the responsibility of the Management Credit Committee to ensure that credit documentation and collateral status is robust at all times. The Bank has in place processes to ensure that collateral is regularly reviewed to determine current values. To this end, the Bank ensures that cash and quoted securities (or any other collateral with high volatility in value) that are held as security are translated on a daily basis or marked to market by reference to independent prices and valuation quotes or by using standard industry pricing models.

For other forms of security such as properties, assets etc. the adequacy of the security is reviewed on a quarterly basis by Risk Management who in turn submit a report for the review of the Management Credit Committee. The Bank ensures that all other assets apart from cash and shares are fully insured at all times.

There are no market or credit risk concentrations within risk mitigation exposures.

Netting agreements

The Bank has entered into a legal netting agreement with Access Bank Plc, its parent company, and also each of Access Bank Plc's subsidiaries. The Bank has ensured that the netting agreement is robust and has obtained opinion from external counsel that the netting agreement is legally enforceable in all relevant jurisdictions. At 31st December 2018 the value of cash collateral and other balances held by the Bank, and over which the Bank had the right of set off, was £273mm (2017 - £264 million). This was taken into account when calculating the Bank's capital requirements.

Guarantees

Collateral may also be taken in the form of guarantees in most instances from acceptable financial institutions, usually by way of a Standby Letter of Credit which is governed by UCP600 (Uniform Customs and Practice for Documentary Credits), but can encompass personal guarantees if deemed appropriate. However, in some circumstances this can encompass personal guarantees if deemed appropriate.

Credit Derivatives

The Bank does not rely on credit derivatives

5.9 Asset Encumbrance

There are three asset encumbrance tables. Template A shows encumbered and unencumbered assets carrying value. Template B shows the value of collateral received. Template C reports where we have associated liabilities to the collateral received. It should be noted that the tables below for 2018 show the median values calculated using interpolation from the Bank's quarterly Asset Encumbrance submissions to the PRA in 2018.

Template A-Assets				
	Carrying amount of encumbered assets **£** **010**	Fair value of encumbered assets **£** **040**	Carrying amount of Unencumbered assets **£** **060**	Fair value of unencumbered assets **£** **090**
010 Assets of the reporting institution	94,881,968		1,471,211,041	
030 Equity instruments	-	-	830,427	830,427
040 Debt securities	-	-	102,192,643	102,192,643
100 Loans and advances other than loans on demand	94,881,968		953,924,103	
120 Other assets	-		8,004,980	

Template B-Collateral received			
		Fair value of encumbered collateral received or own debt securities £	Fair value of collateral received or own debt securities issued available for £
		010	040
130	**Collateral received by the reporting institution**	377,339,533	377,339,533
220	Loans and advances other than loans on demand	377,339,533	377,339,533
250	**Total collateral received, and own debt securities issued**	377,339,533	

Template-C- Encumbered assets/collateral received and associated liabilities			
		Matching liabilities, contingent liabilities or securities lent £	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered £
		010	030
010	Carrying amount of selected Financial liabilities	94,881,968	

5.10 Counterparty credit risk

The Bank's counterparty credit risk is very limited and consists of forward foreign exchange contracts that are entered into with market counterparties primarily to switch surplus cashflows arising from customer deposits into other operational currencies to provide funding for short term trade finance transactions. These forward foreign exchange transactions are undertaken for periods of up to six months. On limited occasions the Bank will undertake such transactions for customers, and these will be hedged with an institution. The Bank uses ECAI Investment grade rated banks, for which separate sub limits are set.

The Bank's assessment of the counterparty credit risk on these transactions takes account of the daily mark-to-market of these positions plus a conservative volatility add-on.

Given this limited counterparty credit risk the Bank does not experience "wrong-way risk".

The exposures from these transactions are deemed to be immaterial for the purposes of the disclosures required by Article 439 of the CRD.

5.11 Securitisation Positions

The Bank does not have any exposures to securitisation positions.

6. MARKET RISKS

6.1 Market Risk Overview

The Bank does not undertake Trading Book activities. Therefore, the market risk that the Bank faces is the impact that changes in market prices, such as interest rates, foreign exchange rates and credit spreads have on the Bank's income and the value of debt securities.

Management is managing and controlling market risk exposures and ensures that it is within acceptable parameters, while optimising the return on risk.

6.2 Market Risk Control Procedures

The overall market risk limits are set by the Board Risk and Audit Committee and Board Credit Committee. Management is responsible for managing and controlling market risk exposures and ensures that the Bank remains within the parameters set by the Committees, whilst optimising the return on risk.

6.3 Foreign Exchange Risk

In 2018 the Bank was exposed to foreign exchange risk to the extent of its open position in each non-Sterling currency. The Bank undertakes foreign exchange orders on behalf of customers. The Bank has stipulated an internal limit for maximum open position and it is measuring and monitoring this open position on a daily basis.

As at 31st December 2018 the net foreign exchange positions taken by the Bank were not material.

6.4 Interest Rate Risk

Interest rate risk represents the sensitivity of the Bank to changes in interest rates. The principal risk to which non-trading assets and liabilities are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. The Bank's Asset and Liability Committee is the monitoring body for compliance with the Bank's policies and is assisted by Treasury in its day-to-day monitoring activities.

The majority of the Bank's assets are short term in nature, and as at 31 December 2018 82% of the Bank's assets and 62% of the Bank's liabilities had a repricing date of three months or less. In addition, the Bank's policy is to maintain positive cashflows in the sight to one month, sight to three-month, sight to six month, and sight to one-year timebands. These two facts combined with the current low interest rate environment means that the Bank does not take significant interest rate risk. As highlighted at the regular meetings of the Bank's ALCO, one of the main sources of interest rate risk to the Bank in 2018 arose from the US Treasuries held to provide eligible liquidity buffer assets sufficient to provide a prudent surplus over the minimum PRA liquidity requirements. During 2015 the Bank successfully applied to become a participant in the Bank of England's Sterling Money Market Operations, and with this gained access to a Bank of England Reserve Account. Once the reserve account was opened the Bank sold its holdings of UK Gilts, to reduce the interest rate risk that it faced, and placed funds into the reserve account to meets its Sterling liquidity requirements.

The table below shows the sensitivity to the Bank's annual earnings as at 31 December 2018 to a standard parallel 100 basis point increase/decrease in the yield curve across all currencies (using the methodology underlying the PRA interest rate gap report).

Currency	100bps Increase	100bps Decrease
US Dollar	(342)	342
Sterling	2,480	(2,540)
Euro	(4)	4
Other	(1)	-
Total	2,133	(2,194)

The sensitivity as at 31 December 2017 is shown below:

Currency	100bps Increase	100bps Decrease
US Dollar	324	(330)
Sterling	2,069	(2,131)
Euro	-	1
Other	-	1
Total	2,393	(2,459)

Overall non-trading interest rate risk positions are managed by the Treasury department, which uses advances to banks, deposits from banks, and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

7. LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivery of cash or another financial asset.

The Bank is regulated by the PRA, which has set the Bank's Individual Liquidity Guidance based on the Liquidity Coverage Ratio model ("LCR"). The LCR model is normally run on a daily basis, and the results shared with the Bank's Exco and Treasury; on a monthly basis the results are presented to the Bank's ALCO and also circulated to the Board; and the results of the model are presented to the Board on a quarterly basis. As at 31 December 2018 the Bank's LCR was 576%, representing a significant surplus above the UK regulatory minimum requirement of 100%.

The Bank has a documented Liquidity and Funding Risk Policy in place, within the guidelines issued by the PRA. The Bank's Asset and Liability Committee is primarily responsible for overseeing the smooth implementation of the Liquidity and Funding Policy of the Bank, and ensuring that the liquidity guidance from the PRA is not breached. The Bank measures and monitors the liquidity position on a daily basis. The Bank considers its funding ability before committing additional credit facilities and closely monitors upcoming payment obligations. The policy of the Bank is to match the maturities and currencies for all exposures and placements.

As part of the Individual Liquidity Adequacy Assessment Process ("ILAAP"), the Bank undertakes stress tests on its liquidity and funding position taking into account worst case scenarios, and industry level guidelines. The ILAAP model is normally run on a daily basis and the results shared with the Bank's Exco and Treasury; on a monthly basis the results are presented to the Bank's ALCO and also circulated to the Board; the results of the model are presented to the Board on a quarterly basis, and the Bank's complete ILAAP is presented to the Board for review and approval on at least an annual basis, or more frequently where there are substantial changes required. The objectives of the ILAAP are:

- To inform the Board of the on-going assessment and quantification of the Bank's liquidity and funding risks, how it intends to mitigate those risks, and to determine how much current and future liquidity is required;
- To summarise the Bank's Liquidity Risk Management framework and the quantitative and qualitative results of Stress Testing; and
- To explain the Bank's ILAAP process, assumptions and results.

To mitigate the Bank's liquidity and funding risk, the Bank's policy as noted in section 6.4 above is to maintain aggregate positive cashflows in all timebands out to one year.

The Bank has put in place contingency plans to meet its liquidity obligations under stressed scenarios. The Bank is also holding liquid assets (marketable assets and overnight deposits) of at least 10% of the total balance sheet in its portfolio to meet its liquidity obligations. The liquidity positions are reported to the Board and the policy is reviewed periodically to meet the needs of the Bank.

8. OPERATIONAL RISK

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors, or from external events.

Operational risk is taken as a necessary consequence of the Bank undertaking its core businesses and it is the Bank's policy to minimise its risks to the extent possible through a strong and well-resourced control and operational infrastructure.

The Bank observes a process of Operational Risk Management ("ORM"). This is an ongoing process which includes risk identification, risk assessment and measurement, and implementation of risk controls, which results in acceptance, mitigation or avoidance of risk.

There are five stages of ORM management that are observed:

- A robust framework and clearly defined and transparent processes for the identification of all factors that may lead to the said divergences, in line with the Bank's Risk Appetite ("Risk Identification");
- Estimation of the likelihood of their occurrence and the extent or severity of their impact in the event of occurrence ("Risk Assessment/Measurement");
- Design of effective controls to minimize the likelihood and to mitigate the impact of risk events and the setting of clear risk policies ("Risk Control");
- Establishment of procedures to ensure that these controls are effective and are being complied with ("Risk Monitoring"); and
- Regular reporting of risk events and controls ("Risk Reporting").

Managing risk in this context means introducing management techniques to reduce the probability of negative events occurring without incurring excessive costs or hampering the initiative or innovation of staff or the development and growth of the Bank.

The Board Risk and Audit Committee seek to ensure strong corporate governance at all times. The Bank undertakes a regular assessment of the operational risks that it faces, and this review is discussed with, and approved by, the Board Risk and Audit Committee on a quarterly basis. The current top ten risks identified by the Bank are as follows:

- Documentation Risk
- Regulatory Risk
- Conduct Risk (including Financial Crime Risk)
- Cyber Risk
- Liquidity Risk
- Credit Risk
- Counterparty Risk
- Staff Competence Risk
- Key Person Risk
- Reputational Risk

8.1 Regulatory and Conduct Risk

Regulatory Risk is the risk of loss and/or reputational damage arising as a result of non-compliance with laws and regulations. The Bank employs a dedicated Compliance Team whom actively identify, assess and implement new and updated regulations from both the UK, Dubai, and other international regulators. The Bank has a robust policy framework and ongoing training programme for all staff ensuring adherence with regulations at all times.

The phrase "conduct risk" comprises a wide variety of activities and types of behaviour which fall outside the other main categories of risk, such as market, credit, liquidity and operational risk. In essence it refers to risks attached to the way in which a firm, and its staff, conduct themselves. The Bank's senior management and Board of Directors have embedded the Principle of Treating Customers Fairly ("TCF") and Conduct Risk within the operating procedures and business culture of the Bank and regard TCF and conduct risk as a continuous procedure. The Bank recognises the importance of placing the customer at the centre of all key product sales and development innovations.

9. REMUNERATION

Under the Remuneration Code the Bank is classified as a proportionality level 3 firm, and as such has adopted a proportionate approach to remuneration policy, dis-applying certain provisions where appropriate, in accordance with FCA guidance.

9.1 Decision making process for remuneration policy

The Bank has established a Remuneration Committee ("Remco") which assists the Board in fulfilling its oversight responsibility relating to:

- The development of appropriate remuneration strategies for employees of the Bank;
- The implementation of processes to develop the remuneration strategies of the Bank; and
- Reviewing the success of the strategies and processes, and proposing amendments as considered appropriate.

The Board Remco, which meets four times a year, is currently chaired by David Charters, one of the Bank's independent NEDs, and as at 31 December 2018 included Stephen Clark, an independent NED, Tim Wade an independent NED who stepped down from the Board and the Board Committees with effect from 15th March 2019, and Roosevelt Ogbonna NED, who is a director of the Bank and also the Deputy Managing Director of Access Bank Plc, the Bank's parent. The CEO/MD and Head of Strategic Human Resources of the Bank attend as reporting officers.

The Human Resources Department of the Bank used various market data during the year, and external sources of Data Services at year end, to perform a salary benchmarking exercise to assist in the determination of the Bank's remuneration policy.

Remco is responsible for determining and agreeing with the Board the framework for the remuneration of the Bank's Chief Executive, Chairman, the executive directors, and the Secretary. In determining such policy, Remco takes into account of all factors which it deems necessary. The objective of such policy shall be to ensure that executive directors are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Bank.

No director or manager is involved in any decisions as to their own remuneration

9.2 Link between pay and performance

Remuneration at the Bank may comprise fixed pay (salary and fees), variable pay (annual bonus – current and deferred) and deferred share bonus under the Bank's Restricted Share Plan which acts as a long-term incentive scheme.

In determining the pay-out, if any, of variable pay to an employee, the Bank has adopted as policy, the use of discretion to assess the extent to which performance has been achieved, as opposed to applying a formulaic approach. The Policy considers the following when determining individual remuneration arrangements:

- a combination of the overall results of the Bank, the results/performance of the relevant SBU or Control/Support function, and the performance of the individual against their personal Key Performance Indicators, which are reviewed half yearly; and
- an appropriate combination of fixed and variable pay, with the former benchmarked annually, ensuring the Bank's fixed-variable ratios on remuneration are controlled and do not encourage inappropriate risk taking.

The annual performance earned by any individual will be dependent upon their performance against their key performance indicators ("KPIs"), which are set for each director and employee on an annual basis. These KPIs are cascaded down from those set for the Bank's CEO/MD, thereby ensuring that the interests of all individuals are aligned with those of the Bank.

9.3 Aggregate remuneration expenditure

The total remuneration expenditure of the Bank for the year ended 31st December 2018, including executive directors, was £13.6mm, as disclosed in the statutory accounts, with this figure including pension costs, social security costs, and other personnel expenses. The average number of staff employed during the year was 124. As noted in the statutory accounts the Bank has one business area, Banking, and therefore the Bank has not provided a breakdown of remuneration by business area.

9.4 Analysis of remuneration of senior management and other code staff

Article 450 of Regulation 2013/575/EU requires the disclosure of quantitative information on remuneration broken down between senior management and members of staff whose actions have a material impact on the risk profile of the Bank. For the purpose of this disclosure we have assumed that the latter category consists of other Code staff as defined in the Remuneration Code.

Remuneration Code Staff are defined as comprising categories of staff including senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and material risk takers, whose professional activities have a material impact on the firm's risk profile.

For the purposes of this analysis, senior management has been taken to include members of the Bank's Board and Exco. Other Code staff is assumed to include:

- Heads of the Bank's Five strategic business units;
- Staff registered with FCA as performing a Senior Management Function;
- Staff that the Bank has deemed to be Certified Staff under the Senior Management Regime, with this including senior Compliance, Finance, Operations and HR staff, and other material risk takers including deputies of certain strategic business Units.

As At 31 December 2018 eight staff were classified as senior management, and thirty-three members of staff were classified as Other Code staff.

Analysis of 2018 remuneration by type

	Senior Management £000	Other Code Staff £000	Total £000
Fixed pay	1,484.0	2,635.5	4,119.4
Cash bonus	1,790.0	715.8	2,505.8
Deferred cash bonus	330.0	230.0	560.0
Deferred share bonus	119.6	146.8	266.3
Total	**3,723.5**	**3,728.0**	**7,451.5**

N.B. remuneration includes salary, bonus and pension costs

The Amount of outstanding deferrred remuneration, split into vested and unvested portions is:

	Senior Management £000	Other Code Staff £000	Total £000
Vested	164.0	51.8	215.7
Unvested	1,320.4	909.3	2,229.6
Total	**1,484.3**	**961.1**	**2,445.4**

Of the deferred remuneration awarded during the financial year, none has paid out and none has been reduced through performance adjustments. The vesting period for the deferred remuneration is a minimum of three years.

There were no sign-on or severance payments made during the financial year to remuneration code staff.

The Bank is required to complete an annual High Earners Return to the FCA/PRA to advise of staff whose remuneration (current and deferred) whose remuneration is over €1mm. For the 2018 return two individuals were reported.