UNION BANK UK PLC

PILLAR 3 DISCLOSURES

31 December 2022

Union Bank UK PLC (UBUK Plc)

Union Bank UK Plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Union Bank UK Plc is a company registered in the England & Wales, company number 4661188. The registered office is 1 King's Arms Yard, London, EC2R 7AF, United Kingdom.

Contents

1 OVERVIEW

1.1 Introduction

Union Bank Uk plc's ("UBUK" or "the Bank" or "us" or "we") is a UK incorporated bank. In May 2022, as part of a transaction whereby Union Bank of Nigeria (UBN) was purchased by Titan Trust Bank, UBN divested its entire equity stake in UBUK. UBN was the immediate controlling party of UBUK until that point.

The Bank is now owned by the former shareholders of UBN, i.e. the shareholders who sold UBN to Titan Trust Bank, as detailed in note 35. The shareholders subsequently entered into a share Sale and Purchase agreement ('SPA') with a preferred bidder, Fidelity Bank, in July 2022, subject to regulatory approval.

Whilst this process continues, UBUK remains committed to serving its current customers and operating as a leading provider of specialised financial services to target clients with interests in the UK and Africa.

1.2 Basis of Disclosure

The Pillar 3 Disclosure requirements are documented in the Capital Requirements Regulation ('CRR') and Capital Requirements Directive ('CRD'), which first came into effect on 1 January 2014, and in a number of other EU regulations and guidelines. In the UK, the CRR and other regulations have been incorporated into UK law. With effect from 1 January 2022, the PRA introduced a single source of disclosure requirements under the PRA Capital Requirements Regulation. These UK standards are being closely aligned with the global Basel Committee of Banking Supervision ('BCBS') standards and the European CRR standards.

This document comprises Pillar 3 disclosures on capital and risk management as 31 December 2022 ("2022").

It has two principal purposes:

- UBUK has adopted the requirements of Chapter 2 of Title II of Part 3 (the Standardised approach) of the Capital Requirements Regulation, to calculate its Pillar 1 charge for Credit risk, the Basic Indicator approach to Operational risk and the standardised Position Risk Requirement ("PRR") rules for Market risk attributable to foreign exchange from 1 January 2008; it also became subject to Pillars 2 and 3 from that date.
- To provide further useful information on the capital and risk profile of UBUK.

Additional relevant information may be found in the UBUK's Annual Report and Financial Statements 2022, published on the Bank's corporate website www.unionbankuk.com.

The Bank's **Pillar 3** disclosures will be published at least once a year unless circumstances necessitate additional disclosures. Disclosures are prepared in conjunction with the annual statement of accounts and the regulatory filings.

1.3 Basis and Frequency of Disclosures

This disclosure document has been prepared by the Bank in accordance with the requirements of **Pillar 3** and FCA rules and guidance. Unless otherwise stated, all figures are as at 31 December 2022, our financial year-end.
The Bank's **Pillar 3** disclosures will be published at least once a year unless circumstances necessitate additional disclosures. Disclosures are prepared in conjunction with the annual statement of accounts and the regulatory filings.

2 RISK MANAGEMENT OBJECTIVES AND POLICIES

2.1 Strategies and Processes to Manage Risks

UBUK's overall approach to managing its risks is captured in its Enterprise Risk Management Framework ("**ERMF**") which sets out at a high level, the Bank's approach to the management of all the perceived risks, both traditional and emerging risks, which the Bank faces in its business. The **ERMF** is updated and approved by the Board on a regular basis together with the Bank's Risk Appetite Statement ("**RAS**") which defines how much risk the Bank is prepared to take. More frequent reviews (as determined by the Board) are undertaken if there are significant changes to the Bank's businesses and risk profile.

2.2 Governance Model

The governance model deployed by UBUK is one where the Bank manages its risks through a combination of applying a comprehensive governance and policy control framework, strict lending criteria, a prudent investment policy for managing treasury activities and the Bank's liquidity, and a bank-wide "ownership" and active management of operational risk. Ultimate responsibility for identifying, monitoring and managing risk is held by the Board, the Board Risk Committee ("**BRC**"), the Board Credit Committee ("**BCC**") which is a sub-committee of **BRC** and the Board Audit and Compliance Committee ("**BACC**"). Other committees within the Bank, including the Management Risk Committee ("**MRC**"), Asset & Liabilities Committee ("**ALCO**") and Credit Committee ("**CRECO**"), assist the Board in achieving a framework for ongoing and robust risk management.

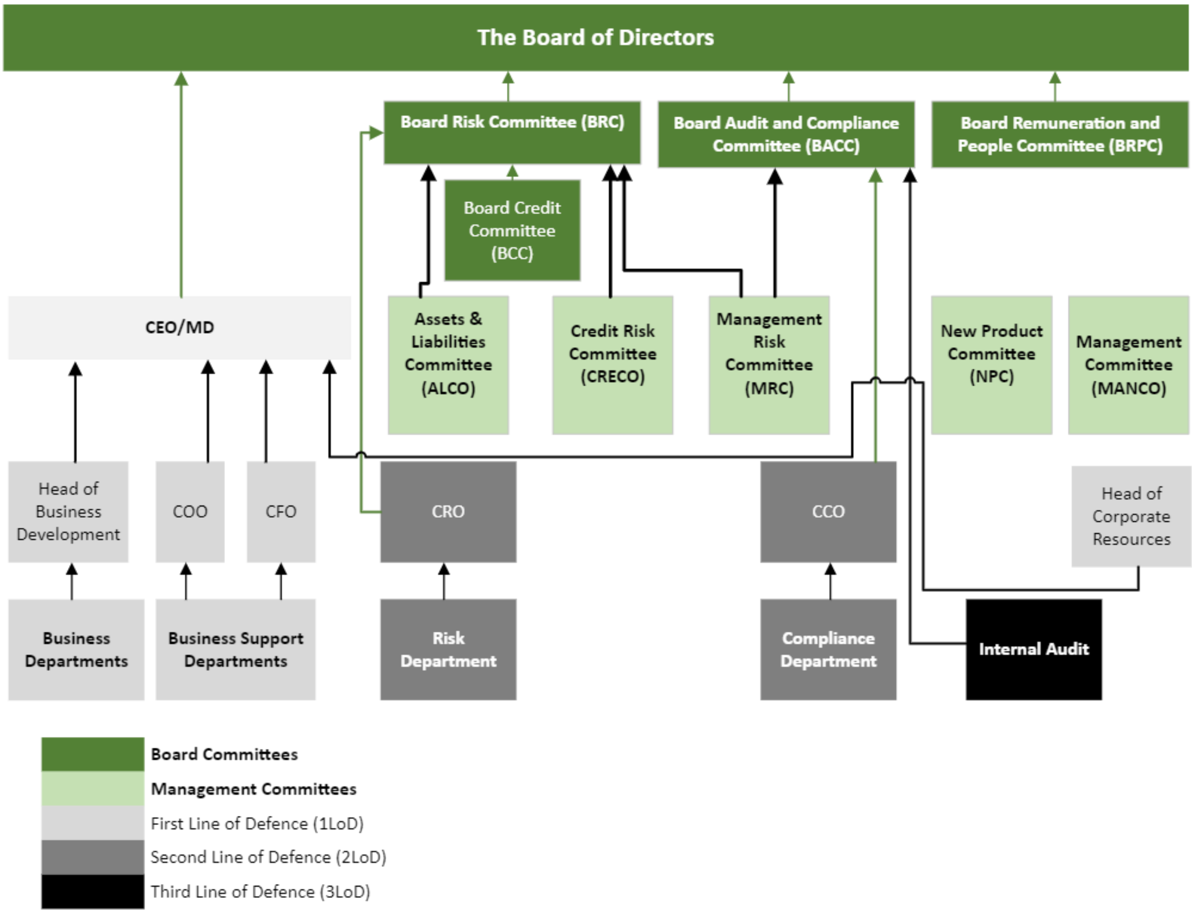
The Bank's Enterprise Risk Management approach is based on the "Three Lines of Defence" model, which means that the First Line, i.e., operational business units within UBUK, are responsible for ensuring they understand, mitigate and manage the risks they face and that they remain within the risk appetite set by the Board.

The Second Line, i.e. the Risk and Compliance units, monitor the First Line's management of its risks, monitor the risk controls and report on all risks to the Board. They also maintain the bank's Enterprise Risk Management Framework and policies and provide advisory services on risk and compliance matters within the Bank.

The Third Line is represented by the Bank's Internal Audit function (outsourced to Grant Thornton Advisory Services). Internal Audit remains independent and is not involved in day-to-day operations, but reviews and reports to the Audit Committee of the Board on a periodic basis and provides both a level of assurance that risks are well managed and also provide specific audit reporting as requested by the Board.

The risk management methodology used in UBUK and evidenced within the **ERMF** consists of Five key pillars: **Pillar 1** - Robust Risk Governance - provided by the Board, the committee structure of both the Board and Senior Management and the Bank's Policies; **Pillar 2** - Risk Appetite - A robust and clearly defined process for setting the Bank's appetite/tolerance for risk while identifying all risks; **Pillar 3** - Risk Identification and Assessment – which set out the approach, processes and structures to be followed to estimate the extent or severity of risks and their impact in the event of occurrence; **Pillar 4** - Risk Control and Mitigation - provided by the First Line of Defence within the terms of the RAS, Policies, and procedures which minimise both the likelihood and the severity of risk events, and procedures to ensure that these controls are effective and are being complied with through the Risk and Control Self-Assessment ("**RCSA**") process; **Pillar 5** – Strong Risk Oversight and Assurance - both internally, and externally to Stakeholders and the Regulator, through the ICAAP, ILAAP, RRP and Pillar 3 provided by an independent Second Line of Defence and Internal Audit.

2.3 Risk Governance Structure



To facilitate the day-to-day business of the Bank and to ensure the Bank has a robust system for maintaining internal control, the Board has appointed a number of committees with terms of reference and delegated powers, as outlined below.

Board Committees	**Principal Responsibilities**
Board Risk Committee (BRC)	Monitor all Operational Risk issues and adequacy of systems and controls. Through the BCC sub-committee, consider credit proposals exceeding **CRECO** limits. Monitor compliance with the UBUK risk policies
Board Credit Committee (BCC)	The BCC is a sub-committee of BRC and considers all Credit related issues and those exceeding **CRECO** limits
Board Audit and Compliance Committee	Monitor and assess financial statements and the performance of external auditors. Ensures compliance with legal and regulatory requirements
Board Remuneration and People Committee (BRPC)	Consider human resource policy, including compensation arrangements.
Executive Committees	**Principal Responsibilities**
Management Committee (MANCO)	Oversight of the business, planning, performance, compliance and management of operational risk.
Management Risk Committee (MRC)	Principal focus on the monitoring and review of all of the Bank's risks, excluding capital, market and liquidity risks that are managed via the **ALCO**
Assets & Liabilities Committee (ALCO)	Overall management of bank's assets and liabilities Oversight of liquidity risk, market risk and operational risk management as described below.
Credit Committee (CRECO)	Credit decisions on mainly Bank & Sovereign exposures. Recommendations to **BCC** if outside authority. Credit decisions within authority, mainly on secured corporate credits. Recommendations to **BCC** if outside.

3 CAPITAL RESOURCES

3.1 Total Available Capital

The capital position for UBUK Plc as at 31 December 2022 is shown in the tables below. The capital position is calculated by applying the **CRD IV** rules, including the relevant transitional arrangements based on PRA guidance.

Table 1: UBUK - Capital Resources		
	Dec 2022 (USD'000)	**Dec 2021 (USD'000)**
Regulatory Capital		
Share capital	60,090	60,090
Share premium		
Reserves	(24,571)	(19,193)
Less regulatory deductions	(507)	(245)
IFRS 9 transitional adjustment	33	66
Total Common Equity Tier I	35,045	40,718
Tier II		
Subordinated debt instruments	-	-
Credit impairment against performing loans	-	-
Less regulatory deductions	-	-
Total Tier II	-	-
Total eligible capital	35,045	40,718

3.2 Tier 1 Capital

Tier 1 capital comprises of ordinary shares, deferred shares and retained earnings.

UBUK currently has no innovative Tier 1 instruments. Ordinary and deferred shares rank behind the claims of all subordinated debt holders, depositors, and creditors of UBUK.

3.3 Tier 2 Capital

The Bank has no tier 2 capital.

4 CAPITAL ADEQUACY

4.1 Risk Assessment and Capital Adequacy

Risk assessment and capital Adequacy for UBUK has been done by considering the Pillar-I and Pillar-II risks as per Basel II guidelines.

Type	Risk Type	Methodology	Capital Allocated	Justification
Pillar 1 Risk	Credit Risk	Standardized Approach	Yes	As per regulatory requirement
	Market Risk	Standardized Approach	Yes	As per regulatory requirement
	Operational Risk	Basic Indicator Approach	Yes	As per regulatory requirement
Pillar 2 Risk	Concentration Risk	Herfindahl Hirschmann Index (HHI)	Yes	Current concentrations result in capital requirement
	Interest Rate Risk in Banking Book (IRRBB)	NII / EVE Approach	Yes	Small exposure results in capital requirements
	Liquidity Risk	Liquidity Gap Approach	No	Adequate liquidity buffers
	Strategic Risk	Qualitative Assessment	No	Minimal risk level
	Reputational Risk	Qualitative Assessment	No	Minimal risk level

4.2 Capital Management

The Bank has adopted the ***Standardised*** approach to Credit risk, the ***Basic Indicator*** approach to Operational risk and the ***Standardised PRR*** rules for Market risk attributable to foreign exchange since 1 January 2008 in order to calculate the **Pillar 1** minimum capital requirement.

UBUK manages its capital levels by balancing efficient use of capital with prudence. The Board considers that this approach is consistent with the Bank's framework for capital adequacy, the need to preserve its competitive position in relation to capital requirements and the objective of maintaining and enhancing its reputation.

Capital requirements are measured on both a regulatory and economic basis. Regulatory capital covers all **Pillar 1** risks (i.e. Credit risk, Operational risk and Market risk) for all significant business areas. UBUK determines its minimum Capital requirements in compliance with the Capital Requirements Regulation, on a daily basis. Economic capital includes all other material risks (after recognising relevant mitigation), which do not require the provision of Regulatory Capital under **Pillar 1** (known as **Pillar 2** risks). As the Bank does not deploy a formal economic capital model, the approach adopted has been to consider individually additional Capital requirements for those risks not covered under **Pillar 1** (i.e. the so-called ***Pillar 1 plus*** approach). Additional risks are categorised into one of the following four main elements:

- Risks covered by Pillar 1 where **Pillar 1** Capital charges may be inadequate
- Risks not fully covered by **Pillar 1**
- Risks not covered by **Pillar 1**
- Business / strategic risks

Individual risks and mitigants are then assessed, additional capital requirements considered, and methodologies developed to compute incremental capital charges where appropriate.

Both **Pillar 1** and **Pillar 2** Capital requirements are computed daily and circulated to senior management. Furthermore, on a quarterly basis the Board receive and review reports of capital adequacy, liquidity and other risks.

4.3 Internal Capital Adequacy Assessment Process

The Bank undertakes an Internal Capital Adequacy Assessment Process ("**ICAAP**") which is an internal assessment of its Capital needs. This internal assessment is made using the Pillar 1 plus approach as outlined above. The **ICAAP** is reviewed annually or more frequently should the need arise.

The **ICAAP** covers all material risks to determine capital requirements over a three-year horizon, given current business plans and related financial projections. The process includes the application of adverse scenarios and stress tests to the projections and material risks to satisfy the regulatory requirements. Where capital is not deemed to be an appropriate mitigate to a particular type of risk, alternative management actions are identified and described within the **ICAAP**. The outcome of the **ICAAP** is presented in an Internal Capital Adequacy Assessment document.

The **ICAAP** is reviewed and considered by **ALCO** before being presented to the **MRC** and the Board with whom ultimate responsibility lies for challenge and approval. In relation to **Pillar 2** risks, the FCA has issued Individual Capital Guidance ("ICG"), expressed as an "uplift ratio" to be applied to the Basel minimum of 8%, which came into effect from 1 January 2008.

4.4 Minimum Capital Requirement: Pillar 1

UBUK's overall Pillar 1 minimum Capital Resource Requirement ("**CRR**") is calculated by adding the Credit Risk Capital Requirement ("**CRCR**") as set out in 4.4 below to that required for Operational risk using the *Basic Indicator* approach, the foreign exchange Position Risk Requirement ("**FX PRR**") element of Market Risk and Counterparty Credit Risk ("**CCR**").

The **FX PRR** charge is the amount of regulatory capital required to cover the risk of losses on open foreign currency positions arising from movements in the foreign exchange rate and is calculated in accordance with the requirements of latest Capital Requirements Regulation.

The Bank does not maintain a trading book. However, it does use "de minimis" derivative instruments (mainly foreign exchange contracts) to hedge against its Sterling expenses and to facilitate customer activity. The Bank calculates its exposure to **CCR** using the mark-to-market method. This requires marking to market those contracts with positive values, and obtaining a potential future credit exposure estimate for all open contracts by multiplying the notional principal, or underlying values, by the percentages in accordance with the Capital Requirements Regulation Article 274. These totals are added together in order to arrive at the exposure value which is then multiplied by 8%. At 31 December 2022, there were no such derivative contract outstanding.

Pillar 1 risk measurement approaches:

Risk Category	Permissible Approach	UBUK Approach Adopted
Credit Risk	The Basel framework applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic level, the Standardized Approach (SA), requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardized risk weightings are applied to these categories. The next level, the Foundation Internal Rating Based ('FIRB') approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), but subjects their quantified estimates of EAD and loss given default ('LGD') to standard supervisory parameters. The third approach is the Advanced IRB ('AIRB') approach that allows banks to use their own internal assessment in determining PD and in quantifying EAD and LGD.	The Bank has considered both the Standardized Approach and Advanced Internal Rating Based approach and has adopted the Standardized Approach (SA) given that it has a higher impact
Market Risk	Basel provides two options for calculating market risk capital requirements – The Standardized Approach (SA) and the Internal Model Approach (IMA). The IMA requires the use of value at risk (VaR) to measure market risk and determine the respective capital requirement.	UBUK has considered both The Standardized Approach and the Internal Model Approach, and the Bank has adopted the Standardized Approach as most appropriate
Operational Risk	In 2017, the BCBS has introduced a single non-model-based method for the calculation of operational risk capital, the Standardized Approach (SA). This proposed replacing all three existing approaches for operational risk under Pillar 1: the Basic Indicator Approach (BIA), the Standardized Measurement Approach (SMA) and the Advanced Measurement Approach (AMA) from 1 January 2022. In 2022 the PRA issued CP16/22 proposing adoption of this BCBS methodology, but from 1 January 2025.	The Bank has considered both the prescribed Standardized Measurement Approach (SMA) and the Basic Indicator Approach (BIA) in its Operational Risk capital measurement. It has adopted the (BIA) given that it has a higher impact.

The following table shows both the Group's overall minimum Capital requirement and Capital Adequacy position as at 31 December 2022 (excluding PRA & CRDIV buffers):

Table 2: UBUK - Capital Requirement		
(USD'000)	**Dec 2022**	**Dec 2021**
Credit Risk (*Standardised* approach)	3,837	6,378
Operational Risk (*Basic Indicator* approach)	1,242	1,704
Market Risk (FX PRR)	166	144
Counterparty Credit Risk		
Pillar 2 Capital Requirement	2,892	6,138
Minimum Capital Resources requirement	8,137	14,364
Total Capital Resources (per section 3.1)	35,045	40,718
Excess of Capital Resources over minimum capital requirement	26,908	26,354

4.5 Minimum Capital Requirement: Credit Risk

The following table shows UBUK's overall minimum Capital requirement for Credit risk under the *Standardised* approach (expressed as 8% of the risk weighted exposure amounts for each of the applicable standardised credit risk exposure classes) as at 31 December 2022:

Table 3: UBUK – Minimum Capital Requirement under Standardised Approach		
Exposure classes *(USD'000)*	**Dec 2022**	**Dec 2021**
Central governments or central banks	-	-
Regional governments or local authorities	-	-
Multilateral development banks	-	-
Institutions	722	2,296
Corporates	2,744	3,606
Retail	3	7
Secured on real estate property	82	103
Short term claims on institutions and corporates	-	-
Past due items	-	-
Other items	286	366
Credit risk minimum capital requirement	3,837	6,378

5 CREDIT RISK MEASUREMENTS, MITIGATIONS AND REPORTING

5.1 Credit Risk Overview

Credit risk is the risk that individuals, corporates, financial institutions and other counterparties will be unable to meet their obligations to the Bank, which may result in financial losses. Credit risk arises principally from the Bank's exposures to treasury counterparties, post-shipment refinancing for issuers of letters of credit, commercial loans and off-balance sheet liabilities in the form of confirmed Letters of Credit and guarantees.

The Bank has established risk appetite levels for each type of counterparty, which reflect its assessment of relative credit risk. Hence, these tolerance levels vary based on a number of factors such as geographic location, international ratings from Fitch Rating Agency and tenor of exposure. These appetite metrics are then used to derive maximum exposure limits as part of the overall governance framework to measure, mitigate and manage credit risk within the Bank's risk appetite.

5.2 Exposures – Credit Risk Mitigation

The Bank's gross and net credit risk exposures before and after credit risk mitigation (based on the definitions for regulatory capital purposes) as at 31 December 2022 is summarized as follows:

Table 4: 2022-Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

2022	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA
Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA
Sovereigns and their central banks	18,123	-	18,123	-	-
Non-central government public sector	-	-	-	-	-
Multilateral development banks	-	-	-	-	-
Banks	43,447	-	43,447	-	9,021
Securities firms	-	-	-	-	-
Corporates	28,272	12,209	22,162	7,307	34,304
Regulatory retail portfolios	60	-	60	-	45
Secured by residential property	2,926		2,926		1,024
Secured by commercial real estate	-	-	-	-	-
Equity	-	-	-	-	-
Past-due loans	-	-	-	-	-
Higher-risk categories	-	-	-	-	-
Other assets	3,571	-	3,571	-	3,571
Total	96,399	12,209	90,289	7,307	47,965

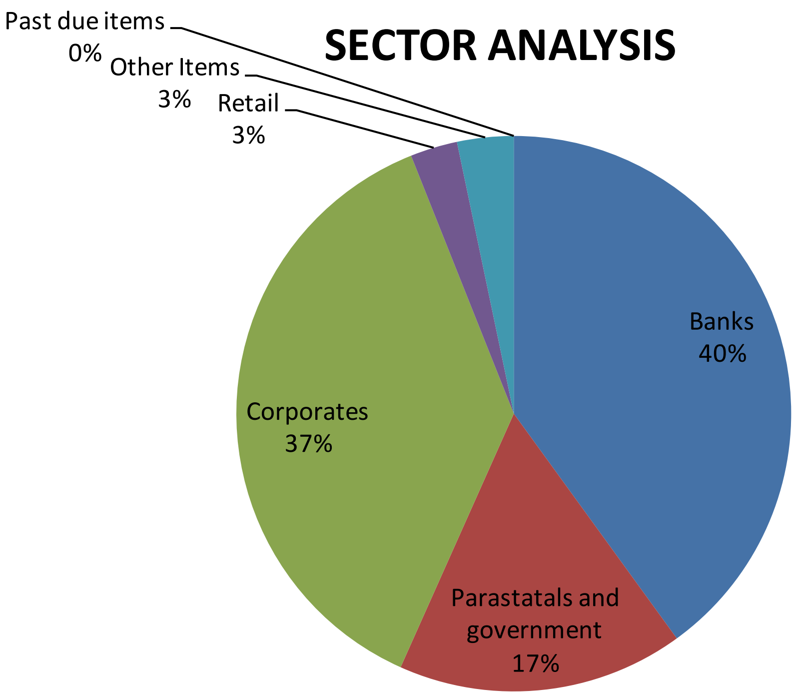
5.3 Exposures by Class

The analysis of the Bank's exposures by exposure class, broken down by counterparty, at 31 December 2022 and 31 December 2021 is as follows:

Table 5: Exposure by Class				
(USD'000)	**Dec 2022**		**Dec 2021**	
	Carrying Value	% of Total	Carrying Value	% of Total
Loans and advances to financial institutions				
Banks	43,447	40%	97,531	52%
Other Financial Institutions	-	-	-	-
Past due items	-		-	
Loans and advances to customers				
Parastatals and government	18,123	17%	22,682	12%
Corporates	40,482	37%	58,718	31%
Retail	2,986	3%	3,806	2%
Other items	3,571	3%	4,574	2%
Past due items	-	-	-	-
	108,609	100%	187,311	100%

The segment above indicates that exposures to Banks is the largest proportion (40%) of the Portfolio as at 31 December 2022.

Classification as per sector/Industry



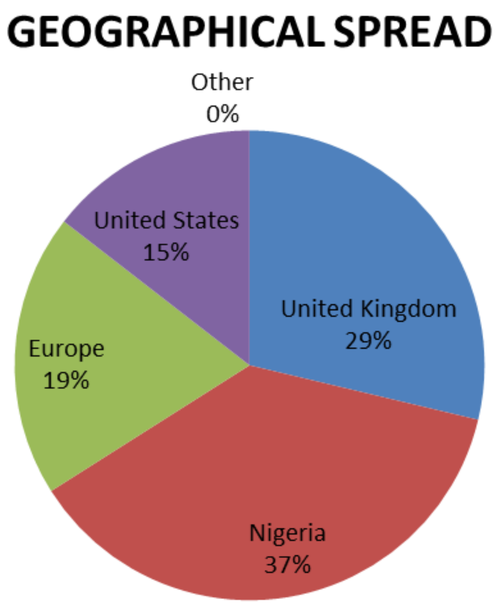
5.4 Exposures by Geography

The geographic distribution is analysed into significant areas by material exposure classes at 31 December 2022 and 31 December 2021 as follows:

Table 6: Exposure by geography										
(USD' 000)	**United Kingdom**		**Nigeria**		**Europe**		**USA**		**Other**	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Financial Institutions	22,265	56,429	-	-	21,166	33,466	-	7,602	16	34
Parastatals and government	2,387	2,695	-	-	-	-	15,736	19,987	-	-
Corporates	-	10,908	40,482	47,810	-	-			-	-
Retail	2,978	3,800	8	6	-	-			-	-
Other	3,571	4,574			-	-			-	-
Past due			-	-	-	-			-	-
	31,201	78,406	40,490	47,816	21,166	33,466	15,736	27,589	16	34

<u>Distribution of Credit Exposure by Geographical Region</u>

Credit risk to counterparties in Nigeria is stated before offset of mitigation in the form of cash collateral held by the Bank.



5.5 Exposures by Maturity

The residual maturity breakdown of all the disclosures, analysed by exposure classes at 31 December 2022 and 31 December 2021 is as follows:

Table 7: Exposure by Maturity

USD' 000	**On demand**		**Within 3 months**		**Between 3 months and 1 year**		**Between 1 and 5 years**		**Over 5 years**	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Financial Institutions	5,340	8,896	38,107	81,034	-	-	-	-	-	-
MDBs	-	-	-	7,602	-	-	-	-	-	-
Parastatals and government	-	-	-	-	18,123	22,683	-	-	-	-
Corporates	974	744	13,585	31,864	25,341	13,341	582	12,767	-	-
Retail	8	6	1	1	19	7	348	762	2,610	3,030
Other Items	1,520	2,144	-	-	342	347	1,367	1,389	342	694
Past due items	-	-	-	-	-	-	-	-	-	-
	7,842	11,790	51,693	120,501	43,825	36,378	2,297	14,918	2,952	3,724

Generally, Credit risk is managed and mitigated through the operation of UBUK's Credit Policy and its related Credit Procedures manual, which provide, *inter alia*, for

- Methodologies for measuring credit exposure, including the recognition of collateral security
- Methodologies for determining the maximum Exposure at Default (EAD) that will be tolerated for each major category of counterparty / customer
- Overall limits of authority for the approval of individual credit exposures
- The definition of acceptable collateral security and the extent to which the value thereof may be recognised for credit risk mitigation purposes
- Procedures for ensuring that facility conditions (including security perfection) are adhered to prior to disbursement of funds
- Processes for monitoring the status of credit exposures.

5.6 Exposures by Credit Quality Step - ECAIs & Treasury Counterparties

The Bank uses the ratings of Fitch Ratings as External Credit Assessment Institutions ("ECAIs") to assess the credit quality of all exposure classes, where applicable, using the credit quality assessment scale in BIPRU 3.4. The Bank has complied with the credit quality assessment scale within BIPRU 3.4.

In the main, Credit Ratings are applicable to Treasury counterparties and certain emerging market banks as the majority of the Bank's corporate customers fall into the Small & Medium sized Entities ("SME") category and, therefore, do not carry international Credit Ratings.

For Treasury counterparties, the long and short-term ratings of ECAIs are one of a number of considerations that form part of the Bank's Credit assessment and limit assignment process within established risk tolerances.
In general, the Bank prefers to refer to long term senior unsecured ratings because it does not acquire assets that are issuer specific. In particular, the Bank does **not** hold any asset-backed securities or commercial paper issued by conduits, structured investment or similar financing vehicles.

The exposure values associated with each credit quality step are as follows:

Table 8: Exposure by Rating					
(USD' 000)		**Exposure Value before mitigation**		**Exposure Values after mitigation**	
		2022	**2021**	**2022**	**2021**
1	AAA to AA-	18,123	30,295	18,123	30,295
2	A+ to A-	42,181	50,882	42,181	50,882
3	BBB+ to BBB-	115	-	115	-
4	BB+ to BB-	1,106	35,706	1,106	35,706
5	B+ to B-	34,249	46,343	23,236	23,196
Un-rated		12,835	24,085	12,835	24,085
Past due items		-	-	-	-
		108,609	187,311	97,596	164,164

5.7 Impairment Provisions

The Bank assesses on a monthly basis whether, as a result of one or more events that occurred after initial recognition, whether there is objective evidence that a financial asset, or group of financial assets, are impaired. Evidence of impairment may include indications that the borrower, or group of borrowers, are experiencing significant financial difficulty, default or delinquency in interest or principal payments or that debt is being restructured to reduce the burden on the borrower.

The Bank first assesses whether objective evidence of impairment exists individually for assets that are separately significant. A provision for expected Credit losses is made and this is expected to cover the life-time losses of the asset. For assets that have no evidence of impairment, a provision is made covering a 12 month expected loss.
If such evidence of individual impairment exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the profit and loss account. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realisable value of any underlying collateral. The resultant provisions have been deducted from the appropriate asset values in the balance sheet.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised the provision is adjusted, and the amount of the reversal is recognised in the profit and loss account.

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the profit and loss account.

The following tables show the provisions for impaired exposures:

Table 9: Counterparty type				
(USD' 000)	**Impairment provision**		**Impaired exposures**	
	2022	2021	2022	2021
Loans and advances to banks	-	-	-	-
Loans and advances to customers	-	-	-	-

In addition, the provision for impaired exposures is analysed by geographical location of the exposure below:

Table 10: Geographic breakdown				
(USD' 000)	Impairment provision		**Impaired exposures**	
	2022	2021	2022	2021

Nigeria	-	-	-	-
Egypt	-	-	-	-
United Arab Emirates	-	-	-	-
Ghana	-	-	-	-

The following table summarises the movement during the year in impairment provisions. Further information on the charge to the profit and loss account for provisions and more detailed analysis is included in note 20 in the Annual Report and Financial Statements:

Table 11: Movement in impairment / ECL provisions						
(USD' 000)	**Individually assessed**		**Portfolio assessment**		**Total impairment**	
	2022	2021	2022	2021	2022	2021
Opening balance	-	-	129	592	129	601
Increases / (releases) in provisions						
Amounts written off	-	-	(88)	(194)	(88)	(203)
Change in assessment method						
Restated through retained earnings						
Increase/(Decrease) in ECL			(33)	(341)	(33)	(341)
New financial assets originated			265	72	265	72
Closing balance	-	-	273	129	273	129

The Bank's approach and methodology for the requirements of IFRS 9 are outlined in UBUK's Annual Report and Financial Statements for December 2022.

The amount of loan loss provisions charged in the Statement of Comprehensive income for the year amounted to a debit of $144,390.

5.8 Credit Risk Concentrations

The Board recognises that concentration of exposure, especially credit exposure to certain geographic regions or industry sectors increases risk, particularly in a down-turn in the economic environment of a particular region or economic sector. Given the Bank's historic parentage and the rationale for its business, the Board accepts concentration of exposure to Nigeria and West Africa generally. Hence, the only other concentration that is accepted arises from the placement of short-term funds in the London money market, which is inevitably focused on financial institutions located in G7 countries and major EU economies. It does not accept other concentrations to geographic regions or economic sectors where it does not have the same level of expertise as is the case with Nigerian business.

Nevertheless, the Board considers country, sovereign and economic sector concentration risks carefully and establishes limits, which are set out in the Credit Policy. UBUK measures geographical exposure on a daily basis which is circulated to senior management and also reported to the Board quarterly.

5.9 Credit Risk Mitigation

5.9.1 Placement of Surplus Funds with Financial Institutions (FIs) - Default Risk

The credit exposures relating to placement of surplus funds in the London money market are controlled through a limit system within the overall risk appetite for such counterparties. This limit system is largely based on the current long and short-term credit ratings of such FIs by Fitch Rating Services and the original tenor of exposures (up to 7 days, three months and one year respectively).

5.9.2 Dealing in Foreign Exchange - Settlement Risk

Nominal limits are established for both the gross open (unsettled) spot position and the settlement day position to mitigate risk with each counterparty. In the case of forward foreign exchange, potential mark-to-market exposure is controlled also through limits weighted according to the period to maturity of the forward contract.

5.9.3 Lending activities for Financial Institutions and customers

i. Nigerian Banks

Given its historic parentage, UBUK has specialised knowledge of the Nigerian banking sector. Risk arises mainly from trade related transactions and is mitigated not only by the establishment of limits individually approved at the Board level in accordance with its overall risk tolerance framework but also by sub-limits.

ii. Customers

The majority of UBUK corporate customers are SMEs and, therefore, do not have balance sheets that would support any material unsecured lending. Consequently, authority to incur unsecured credit exposure is very limited without referral to the **BRC** and, therefore, the majority of credit exposures are secured in accordance with the Credit Procedure Manual where the types of security that may be accepted are detailed together with related security margins.

Pillar 2

The Board accepts that the concentration risk to the Nigerian economy is not reflected fully in the Pillar 1 capital requirements, which assume diversified credit portfolios in particular. Therefore, additional internal capital is provided for Nigerian credit exposures as part of the bank’s use of the HHI index which tracks concentration.

5.10 Credit Risks – Collateral and Other Mitigants

The Bank holds collateral against loans and advances to customers in the form of cash security, mortgages over tangible assets and guarantees. Collateral is not generally held over loans and advances to banks, except in respect of the confirmation of certain letters of credit. The Bank also offsets a proportion of its counterparty credit risk through the holding of legally enforceable netting agreements.

Collateral in the form of tangible assets is subject to margin requirements that are set out in the CPS. The margin requirement is determined by discounting the professionally appraised value of the asset concerned to an assumed “Forced Sale Value” (“FSV”). The FSV varies depending on a number of factors including the nature of the asset, its geographic location and the volatility and depth of the market for the asset(s) concerned. In accordance with the Credit Policy, collateral is always formally documented and, where necessary, the enforceability is subject to legal opinions in relevant jurisdictions.

Also, in accordance with the Credit Policy, collateral is subject to regular professional valuation, the frequency of which depends upon the nature of the asset. The possibility of material change in the value of collateral held is considered at each annual review of a credit and, where considered necessary, valuation is updated outside the normal review cycle and the results reported to **CRECO**.

6 MARKET RISKS

6.1 Market Risk Overview

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimise risk and return.
Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Bank's financial condition or results. Any currency risk arising from the Bank's commercial banking and lending activities in the banking book is managed within the Bank's foreign exchange limits. The Bank's spot and forward foreign exchange positions arise mainly from the residual amounts resulting from customer facilitation transactions.

Market risk exposures are generally calculated and monitored independently of each other. All market risks are monitored closely and regularly reported to the Assets and Liabilities Committee (**ALCO**) on a monthly basis.

6.2 Interest Rate Risk

The Bank is exposed to interest rate risk in its banking book due to mismatches between the re-pricing dates of assets and liabilities. The risk appetite is related to UBUK approved limits for 'maturity' gaps. The maximum 'gap' limits being subject to an assumed adverse parallel shift in the yield curve in each major currency of 200 basis points.

Interest rate risk is mitigated by adherence to policies, including 'maturity gap' limits, set out in the Market Risk Policy Statement. The actual 'maturity gap' positions are reported to **ALCO** on a monthly basis and the BRC quarterly together with the impact of stresses of 200 basis point adverse parallel shifts in the yield curve.

6.2.1 Interest Rate Sensitivity Analysis

Interest rate sensitivity analysis has been performed on the net cash flow interest rate risk exposures as at the reporting dates. A range of possible upward/downward movements in reference rates of 200bps has been assumed for the different currencies.

As interest rate risk in the banking book is not captured within **Pillar 1**, an additional capital charge is computed under **Pillar 2** based on the impact of a 200-basis point adverse parallel shift in the yield curve.

6.3 Foreign Exchange Risk

The Bank does not maintain a trading book and, therefore, currency exposures arise only in the banking book positions. Currency positions mostly arise from any overnight residue from currency transactions on behalf of customers and the movement of sterling expenses into the Bank's US dollar base currency.

Foreign exchange risk is subject to gross and net open position limits, which are established by the Board having regard to allocated risk appetite, which is low since no speculative activity in foreign exchange is authorised. Adherence to these limits is monitored daily by means of reports circulated to senior management.

The Bank's **Pillar 1** minimum capital requirement allows for foreign exchange risk through the foreign exchange Position Risk Requirement (PRR) - see section 4.3.

6.4 Foreign Currency Sensitivity

Foreign currency sensitivity analysis has been performed on the foreign currency exposures inherent in the Bank's financial assets and financial liabilities at the reporting dates. The sensitivity analysis provides an indication of the impact on the Bank's profit or loss of reasonably possible changes in the currency exposures embedded within the functional currency environment in which the Bank operates. Reasonably possible changes are based on an analysis of historical currency volatility, together with any relevant assumptions regarding near-term future volatility.

The Bank believes that for each foreign currency net exposure it is reasonable to assume a 5% appreciation/depreciation against the Bank's functional currency. If all other variables are held constant, the tables below present the impacts on the Bank's profit or loss if these currency movements had occurred.

Table 12: Foreign Currency Sensitivity Analysis

	STERLING (£)		**EURO (€)**		**OTHER**	
(USD' 000)	2022	2021	2022	2021	2022	2021
Net Foreign currency exposures	(1,365)	(1,577)	11	(30)	96	127
Impact of 5% increase in FC:USD rate	54	(68)	-	1	2,163	2,226
Impact of 5% decrease in FC:USD rate	(54)	75	1	(1)	(2,163)	(2,226)

Nigerian Naira, at a year-end rate of 461.21/USD represents 97% of the 'Other' column resulting in the large impact shown in currency.

6.5 Liquidity Risk

The unexpected losses that arise as a result of liquidity risk are considered minimal because UBUK's liquidity policy is to hold a matched book at all times and long-term lending is presently largely funded by capital rather than customer deposits. Nevertheless, it is the policy of UBUK to hold a store of liquidity in the form of short-dated liquid financial instruments (treasury bills, negotiable certificates of deposits etc.) against unexpected customer demand for funds. UBUK performs a detailed annual review of its future twelve-month liquidity requirements in line with the current regulatory requirements.

6.6 Business Risk

Due to their nature, certain short-term deposits received by the Bank show volatility. Therefore, the Board considers it appropriate to maintain a capital "buffer" to allow for short term increases in the credit risk component of the **Pillar 1** capital charge, which arises from the placement of these funds in the money markets.

6.7 Pillar 2

There exists implicit risk *tolerance* to losses that might arise on forced sale of such instruments. Therefore, an allocation of overall risk *tolerance* is made to liquidity risk based on the assumption of forced sale of such instruments and additional capital provided accordingly.

7 OPERATIONAL RISKS

Operational risk is the risk of loss to the Bank resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks.

The Bank's objective is to manage operational risk to balance the avoidance of financial losses through the implementation of controls. For this purpose, the Board approves the Operational Risk Policy, which considers operational risk appetite in terms of both probability and severity of occurrence for each of the following major operational risk categories: -

- Climate Change Risk
- Change & Transition Risk
- Business Process Risk
- Controls Risk
- Clients, Products and Business Practices
- Operational Resiliency Risk
- Business Continuity Risk
- Third Party & Outsourcing Risk
- IT, Cyber and Security Risk
- People Risk
- Employment Practices & Workplace Safety
- Internal Fraud Risk
- External Fraud Risk
- Reputational Risk
- Legal Risk
- Financial Crime Risk (AML)
- Conduct Risk

The objective of the Bank is to reduce "residual risk" (i.e. the assessed risk after the application of controls) in each category so that it is no higher than the risk *tolerance* deemed acceptable by the Board.
To facilitate the monitoring of operational risk and to identify potential for unacceptable increase in risk above targeted levels, the Bank monitors operational risk through:

- a series of Key Risk Indicators ("KRIs"); and
- the recording and assessment of operational risk incidents.

The Bank also maintains insurance against employee fidelity and computer crime risks

The Bank uses the *Basic Indicator* approach to calculate the Operational Risk Capital Requirement. In this approach, a three-year moving average of gross income (defined as net interest income plus all other income) is regarded as a proxy for operational risk exposure and the capital charge is computed as 15% thereof - see also section.

Table 13: Operational Risk Capital Computation			
GROSS INCOME (*USD'000*)	2019 Year 1	2020 Year 2	2021 Year 3
Gross Income for the Three Financial year	14,628	6,268	3,949
Aggregate gross income (year 1 to 3)	8,282		
Beta factor	15%		
Operational risk exposure amount	15,528		
Operational risk capital charge	1,242		

Climate Change Risk

Climate change creates risks that affect the financial system and the economy. These pose long term risks that the Bank needs to start to manage and mitigate now to avoid irreversible impact and significant financial impact. The Bank has taken note of the expectations of the PRA in SS3/19 in terms of managing climate change risks and has initiated steps to address this in a proportionate manner based on the size and exposures of the Bank.

In order to meet the PRA's Supervisory Statement on 'Managing the Financial Risks from Climate Change' during the year, the Chief Risk Officer ("SMF 4") has created and embedded the following:

- A Climate Change Risk Policy, which follows the 5 Pillars approach of our Enterprise-Wide Risk Framework, and includes a mission statement setting out the Bank's overarching commitment and approach to climate risk.
- A Climate Change Risk Framework which sets out the Banks approach and practical application of the Climate Policy and provide a means for assessing the risks on particular business activities as relevant to the scope of our business and client base.
- A Climate Change Risk Assessment which is incorporated in Scorecards resulting in the counterparties internal rating
- Working with a leading specialist the Bank is using science-based carbon accounting to develop a Climate Risk Assessment to benchmark our own operations and CO2 emissions.

Following the sale of UBUK and the formation of a new Board, the Climate Change Strategy will be reassessed in relation to the new strategic direction and business opportunities, at which time they will be re-presented to the new Board for adoption.

Pillar 2

It is considered that the *Basic Indicator* approach generally reflects the Bank's operational risk profile and no pillar 2 capital is required

8 REMUNERATIONS

The aim of the FCA's Remuneration Code ("the Code") is to ensure firms have remuneration policies which are consistent with sound risk management.

This is achieved by regulating the remuneration structures of designated staff employed in Banks through the application of rules designed to prevent short-term practices influenced by the prospect of receiving a bigger bonus at the end of a financial year period.

This statement sets out the disclosures required under the Code as they apply to Union Bank UK plc for the twelve-month period to 31 December 2022

At 31 December 2022 the Company qualifies as a Proportionality Level 3 firm under the Code.

The Bank's Board Remuneration and People Committee (BR&PC) is responsible for the implementation of the Code and the annual review of the Bank's adherence to it. At 31 December 2022 the Committee was made up of seven non–executive directors comprising of the Board Chairman, one other independent non- executive director (INED) and five non-executive directors representing the shareholders, appointed for a transition period, pending the change of ownership of the Company. The independent non-executive directors are regarded as being independent of the Bank and all non-executives possess the necessary skill, experience and sound judgement necessary to demonstrate that decisions taken are consistent with the Bank's financial situation and future prospects.

Members of executive management attend BR&PC meetings for the purpose of briefing the Committee. The Bank's head of Human Resources also attends the meetings.

The BR&PC has reviewed the Company's Remuneration Policy Statement for the financial year ended 31 December 2022 to ensure compliance with the Code.

The Company operates a discretionary performance award bonus scheme for the benefit of its employees. Performance awards under the Bank's bonus scheme qualify as "variable remuneration" as defined by the code. The total pool available is linked to risk-adjusted shareholder return. In addition, the Committee takes due regard of the latest financial, capital and liquidity projections consistent with the ICAAP and ILAAP. The size of the pool is linked to the Bank's financial performance at the end of the year and is based on the allocation of a target bonus pool (i.e. the potential available bonus pool for distribution if the Bank meets its budgeted Profit Before Tax ("PBT"). To achieve the target bonus pool, a predetermined percentage of basic salary for each grade within the Bank is allocated to the pool. The target bonus pool is reduced linearly down to zero if PBT is below budget and may increase, at Board Committee's discretion, if the Bank's PBT is above budget. As individual staff bonuses are not based on volume related criteria, there is no incentive for employees to take unnecessary risks.

Where the Bank fails to meet its financial target, any award would be at the discretion of the Board Committee. In the past this has meant in years of weak performance or loss making, no bonus has been paid. In addition, since approved targets have historically been challenging, the bonus pool allocation has been modest with individual awards closely linked to agreed individual performance criteria which are based on quantitative and qualitative measures.

Traditionally bonuses are paid in April or May. The Bank does not currently operate a deferred bonus scheme. The Bank may enter into a deferred bonus buy out arrangement to secure a new joiner, but these are on a case- by-case basis, with the express approval of the Board Committee and Board of Directors.

The Code requires that all banks put in place a high-level framework to determine which staff within the firm are classified as Code staff and Material Risk Takers. Additional restrictions apply to the remuneration of coded staff. A total of 14 senior staff and 2 INEDS have been identified for the financial period, 2 of the 14 worked part year only Of the 14 senior staff, 1 was classified as a senior executive of the bank and 13 as Material Risk Takers. Of this number, 6 were within the Control Functions category at year end. All staff that serve on the Executive Management Committee of the Bank fall into one of the above categories and are therefore coded. Within the code staff group, no individual has either a variable or total remuneration in excess of £500,000. nor does any individual's performance-related variable remuneration exceed 100% of their total fixed remuneration.

The average number of staff employed by the Company at 31 December 2022 was 36. A number of staff and Board Directors received awards in 2023 which were linked to retention and an agreed Bank performance-related criteria against forecast for the Financial Year ended 31/12/22. -. The cost of retention awards paid to 7 qualifying-code staff in 2023 in respect of the 2022 financial year (excluding associated National Insurance) was GBP 425,000. Total staff employment costs (including variable remuneration) in 2022 were USD 5,421,000 of which the employment costs of code staff were GBP 1,559,137 (excluding retention remuneration). Pension costs amounted to GBP167,764.

Guaranteed retention awards are not part of the Bank's official strategy nor does the Bank operate policies which guarantee variable remuneration. However, such payments may be approved by the Board in the interests of the business to provide for rare and infrequent events. A change of control decision taken in 2020 and unforeseen events occurring in subsequent years necessitated the approval of such awards in the interest of the business. There were no severance awards made during the period.

9 OVERALL CAPITAL REQUIREMENTS

The Bank's total capital requirement as of 31 December 2022 is set out below:

Table 14: Capital Requirements		
Risk *(USD'000)*	**RWA**	**Requirement**
Credit Risk (Standardised approach)	47,966	3,837
Operational Risk (Basic Indicator approach)	15,528	1,242
Market Risk (FX PRR)	2,077	166
Counterparty Credit Risk		
Pillar 1	65,571	5,245
Pillar 2 Capital Requirement	-	2,892
Economic Capital (Pillar 1+Pillar 2)		8,137
Tier 1 Capital	35,045	
Tier 2 Capital	-	
Total Available Capital (Tier 1+ Tier 2)	35,045	
Capital Adequacy ratio	53.5%	