UNION BANK UK PLC

PILLAR 3 DISCLOSURES

31 December 2018

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.

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1 OVERVIEW

1.1 Background

The European Union Capital Requirements Directive came into effect on 1 January 2007. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II rules ("the Basel II Framework") agreed by the G-10.

Implementation of the Directive in the UK was by way of rules introduced by the Financial Services Authority ("the FSA").[1] Among them are disclosure requirements applicable to banks, building societies and investment firms which are known as **Pillar 3**. These are designed to promote market discipline by providing market participants with key information on a firm's risk management processes and risk exposures. Pillar 3 also aims to complement the minimum capital requirements described under **Pillar 1** of Basel II, as well as the internal capital assessment and supervisory review processes of **Pillar 2**.

1.2 Scope and Pillar 1 Methodologies

Union Bank UK plc ("UBUK" or "the Bank"), a wholly owned subsidiary of Union Bank of Nigeria Plc, is a UK registered bank that is regulated by the Financial Conduct Authority and the Prudential Regulation Authority and, therefore, is subject to the Basel II Framework.
UBUK has no subsidiary undertakings and, therefore, the information contained herein is in respect of the Bank alone.

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.

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 2018, 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.

1.4 Location and Verification

These disclosures are published on the Bank's corporate website (www.unionbankuk.com) solely for the Pillar 3 purposes of providing information about the management of risk and analysis of capital adequacy and capital requirements. The information contained herein is not subject to audit except where it is equivalent to that prepared in conformity with International Financial Reporting Standards (IFRS) for inclusion in the Bank's Annual Report and Financial Statements.

[1] As set out in the FCA Handbook – General Prudential sourcebook ("GENPRU"), and Prudential sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"). The FSA has since been replaced by the PRA and FCA as the UK regulatory entities ("twin peaks").

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 UK regulator endorsed "Three Lines of Defense" approach to the management of all the different risks, traditional as well as emerging risks, the Bank faces in its business. The ERMF is updated and approved by the Board on an annual basis together with the Bank's Risk Appetite Statement ("RAS") which across all risk types 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") 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.

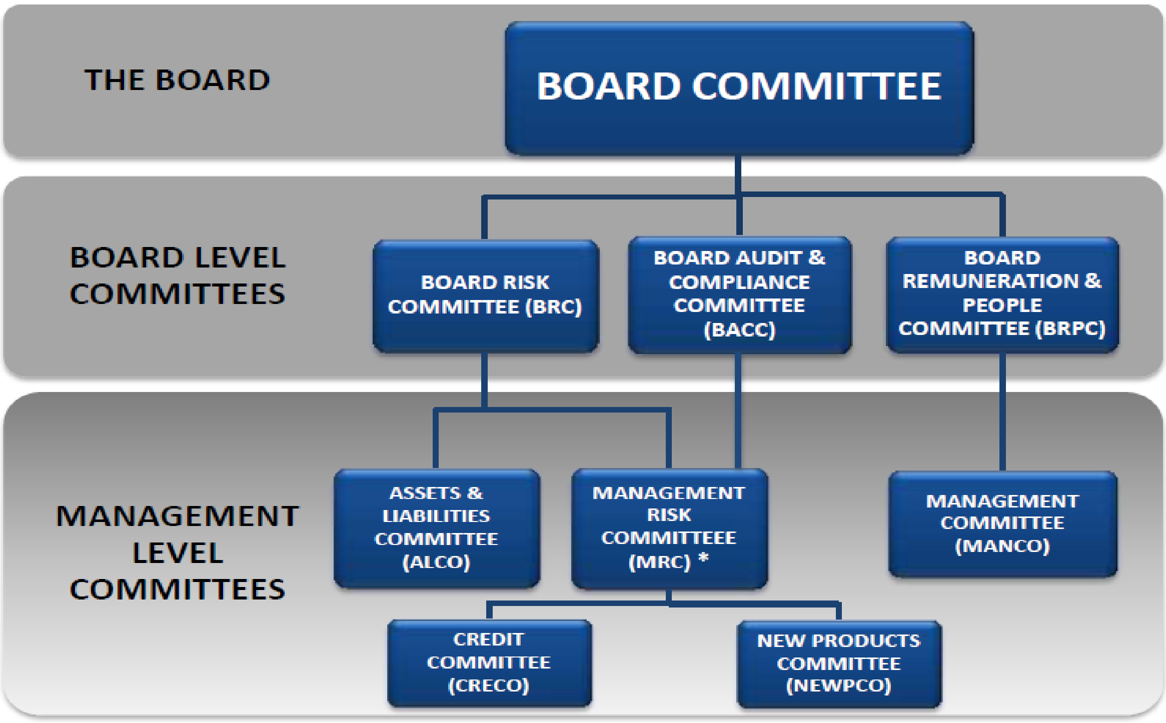
The Bank's enterprise risk management approach is based on the "Three Lines of Defence" approach, which means that the first line, i.e. operational business units within UBUK, are responsible for ensuring they understand, mitigate and manage the risks they face within the risk appetite set by the Board.

The second line, i.e. the Risk and Compliance units, maintain the bank's Enterprise Risk Management Framework and policies, provide advisory services on risk matters, monitor on a real time basis the first line's management of its risks, and report on all risks to the Board.

The third line represented by the Bank's Internal Audit function (outsourced to Grant Thornton Advisory Services), keeps its independence 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 one-off per specific requests of the Board.

The risk management methodology used in UBUK consists of four key components: A robust and clearly defined process for setting the Board's appetite/tolerance for risk while identifying all risks ("Risk Appetite/Tolerance Setting and Identification"); Estimates of the likelihood of their occurrence and of the extent or severity of their impact in the event of occurrence ("Risk Measurement"); Effective controls to minimise both the likelihood and the severity of risk events and procedures to ensure that these controls are effective and are being complied with ("Risk Controls and Monitoring"); and Regularly reporting risk events and controls ("Risk Reporting").

2.3 Risk Governance Structure



**The MRC reports to the BACC for Operational and Compliance Risk and reports to the BRC for all other Risks*

Credit Committee reports directly to BRC for credit matters and to MRC on all other issues.

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)	Consider credit proposals exceeding CRECO limits Monitor compliance with the UBUK risk policies
Board Audit and Compliance Committee	Monitor and assess financial statements and performance of external auditors Compliance with legal and regulatory requirements and adequacy of systems and controls.
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 R&GPC if outside authority. Credit decisions within authority, mainly on secured corporate credits. Recommendations to R&GPC if outside.

3 CAPITAL RESOURCES

3.1 Total Available Capital

The capital position for UBUK Plc as at 31 December 2018 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 2018 (USD'000)	**Dec 2017 (USD'000)**
Regulatory Capital		
Share capital	60,090	60,090
Share premium	-	-
Reserves	14,903	17,904
Less regulatory deductions	(1,160)	(1,155)
IFRS 9 transitional adjustment	464	-
Total Common Equity Tier I	**74,297**	**76,839**
Tier II		
Subordinated debt instruments	-	-
Credit impairment against performing loans	-	208
Less regulatory deductions	-	-
Total Tier II	**-**	**208**
Total eligible capital	74,297	77,047

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

Tier 2 capital comprises a collective impairment provision against loans and receivables.

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)	No	Moderate concentrations along sector lines
	Interest Rate Risk in Banking Book (IRRBB)	NII / EVE Approach	No	Impact within acceptable threshold
	Liquidity Risk	Liquidity Gap Approach	No	Adequate liquidity buffers available
	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 foreign exchange 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 mitigates 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 both the R&GPC and 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 R&GPC 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 customers. 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 per cent. At 31 December 2018, there was one such derivative contract outstanding with a notional value of US$3,372K and an exposure value of US$32K.

The following table shows both the Group's overall minimum capital requirement and capital adequacy position as at 31 December 2018 (excluding PRA & CRDIV buffers):

Table 2: UBUK - Capital Requirement

	Dec 2018 (USD'000)	Dec 2017 (USD'000)
Credit Risk (*Standardised* approach)	16,200	12,208
Operational Risk (*Basic Indicator* approach)	1,792	1,616
Market Risk (FX PRR)	408	152
Counterparty Credit Risk	-	-
Pillar 2 Capital Requirement	**13,869**	**10,535**
Minimum Capital Resources requirement	**32,269**	**24,511**
Total Capital Resources (per section 3.1)	74,297	77,047
Excess of Capital Resources over minimum capital requirement	**42,028**	**52,536**

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) at 31 December 2018:

Table 3: UBUK – Minimum Capital Requirement under Standardised Approach

Exposure classes	Dec 2018 (USD'000)	Dec 2017 (USD'000)
Central governments or central banks	341	-
Regional governments or local authorities	-	-
Multilateral development banks	-	-
Institutions	3,926	4,798
Corporates	9,804	5,638
Retail	17	24
Secured on real estate property	90	400
Short term claims on institutions and corporates	-	-
Past due items	1,890	1,152
Other items	133	196
Credit risk minimum capital requirement	**16,201**	**12,208**

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) at 31 December 2018 is summarized as follows:

Table 4: 2018-Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

2018	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	3,990	-	3,990	-	4,264
Non-central government public sector	-	-	-	-	-
Multilateral development banks	51,174	-	51,174	-	-
Banks	245,354	-	245,354	-	49,071
Securities firms	-	-	-	-	-
Corporates	103,185	23,382	91,809	12,248	122,545
Regulatory retail portfolios	283	-	283	-	212
Secured by residential property	3,204		3,204		1,122
Secured by commercial real estate	-	-	-	-	-
Equity	-	-	-	-	-
Past-due loans	19,337	-	19,337	-	23,619
Higher-risk categories	-	-	-	-	-
Other assets	1,848	-	1,848	-	1,664
Total	428,375	23,382	416,999	12,248	202,497

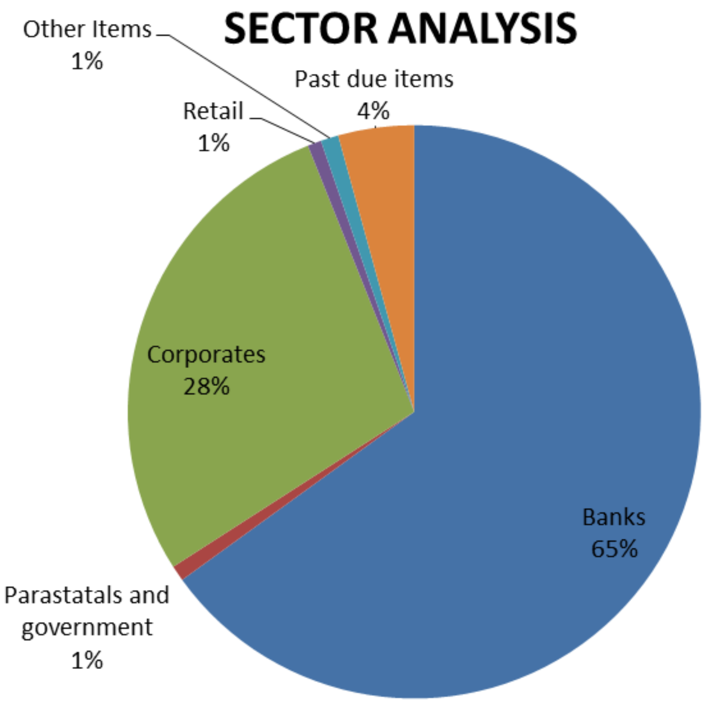
5.3 Exposures by Class

The analysis of the Bank's exposures by exposure class, broken down by counterparty, at 31 December 2018 and 31 December 2017 is as follows:

Table 5: Exposure by Class				
	Dec 2018 (USD'000)		Dec 2017 (USD'000)	
	Carrying Value	**% of Total**	**Carrying Value**	**% of Total**
Loans and advances to financial institutions				
Banks	296,528	65%	321,973	70%
Other Financial Institutions	-	-	-	-
Past due items	-	-	-	-
Loans and advances to customers	-	-	-	-
Parastatals and government	3,990	1%	8,716	2%
Corporates	126,567	28%	99,640	22%
Retail	3,487	1%	7,749	2%
Other items	1,848	1%	2,571	1%
Past due items	19,337	4%	15,077	3%
	451,757	**100%**	**455,726**	**100%**

The segment above indicates that exposures to Banks is the largest proportion (65%) of the Portfolio as at 31 December 2018.

<u>Clasification as per sector/Industry</u>



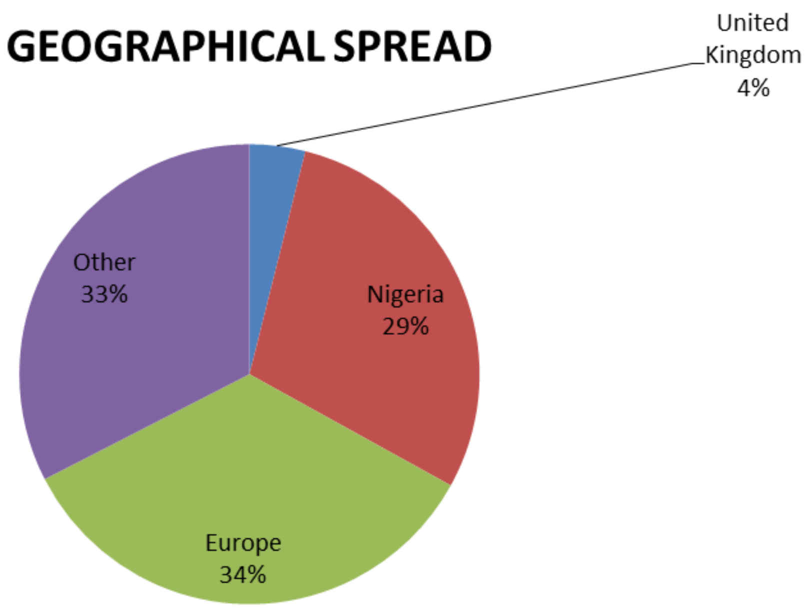
5.4 Exposures by Geography

The geographic distribution is analysed into significant areas by material exposure classes at 31 December 2018 and 31 December 2017 as follows:

Table 6: Exposure by Geography								
USD' 000	**United Kingdom**		**Nigeria**		**Europe**		**Other**	
	2018	2017	2018	2017	2018	2017	2018	2017
Financial Institutions	14,395	21,713	-	-	155,462	146,970	126,671	153,291
Parastatals and government	1,147	1,216	2,843	-	-	-	-	7,500
Corporates	-	-	120,531	79,772	-	-	6,036	19,867
Retail	269	390	3,218	3,624	-	-	-	3,735
Other	1,848	2,571	-	-	-	-	-	-
Past due	-	-	5,012	12,041	-	-	14,325	**3,036**
	17,659	**25,890**	**131,604**	**95,437**	**155,462**	**146,970**	**147,032**	**187,429**

<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 2018 and 31 December 2017 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	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Financial Institutions	26,170	17,517	215,763	281,949	8,423	9,002	46,172	13,506	-	-
Parastatals and government	-	-	-	-	3,990	8,715	-	-	-	-
Corporates	2,432	8,671	84,254	69,141	14,495	11537	25,386	10,290	-	-
Retail	151	3,736	20	395	84	47	437	413	2,795	3,158
Other Items	1,848	2,571	-	-	-	-	-	-	-	-
Past due items	12,215	3,036	7,122	-	-	2,378	-	9,664	-	-
	42,816	35,531	**307,159**	**351,485**	**26,992**	**31,679**	**71,995**	**33,873**	**2,795**	**3,158**

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 Company'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

		Exposure Value before mitigation (USD' 000)		Exposure Values after mitigation (USD' 000)	
		2018	2017	2018	2017
1	AAA to AA-	52,356	31,237	52,356	31,189
2	A+ to A-	65,162	130,745	65,162	130,745
3	BBB+ to BBB-	176,732	168,416	176,732	168,416
4	BB+ to BB-	4	290	4	290
5	B+ to B-	100,704	48,981	78,418	13,963
Un-rated		37,462	60,979	37,237	60,403
Past due items		19,337	15,078	19,337	14,395
		451,757	**455,726**	**429,246**	**419,401**

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.

Further details of the Bank's provision policies under the appropriate accounting framework is explained on p16.

The following tables show the provisions for impaired exposures:

Table 9: Counterparty type				
	Impairment provision (USD' 000)		Impaired exposures (USD' 000)	
	2018	2017	2018	2017
Loans and advances to banks	-	-	-	-
Loans and advances to customers	1,882	683	19,377	15,077
	1,882	683	19,377	15,077

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

Table 10: Geographic breakdown				
	Impairment provision (USD' 000)		Impaired exposures (USD' 000)	
	2018	2017	2018	2017
United Kingdom	-	-	-	-
Nigeria	96	126	5,012	12,042
Europe	-	-	-	-
Other	1,786	557	14,325	3,035
	1,882	**683**	19,337	**15,077**

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 21 in the Annual Report and Financial Statements:

Table 11: Movement in impairment / ECL provisions						
	Individually assessed (USD' 000)		Portfolio assessment (USD' 000)		Total impairment (USD' 000)	
	2018	2017	2018	2017	2018	2017
Opening balance	683	53	208	557	891	610
Increases / (releases) in provisions	-	683	-	(349)	-	334
Amounts written off	-	(53)	-	-	-	(53)
Restated through retained earnings	18	-	114	-	132	-
Increase in ECL	1,181	-	-	-	1,181	-
New financial assets originated			323		323	
Closing balance	1,882	683	645	208	2,527	891

IFRS 9 Financial Instruments, published in July 2014, is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted. The Bank did not early adopt the requirements of IFRS 9 so all comparatives in this document have been prepared in accordance with IAS 39. Following its implementation, IFRS 9 has changed the way credit losses are measured for accounting purposes and introduces new accounting concepts and measures such as significant increase in credit risk, 12 month expected credit losses and lifetime loss measurement. IFRS 9 adoption has resulted in impairment being recognised earlier than is the case under IAS 39 because it requires expected losses to be recognised before the loss event arises.

The Bank implemented the requirements of IFRS 9 on 1 January 2018 and the approach and methodology are outlined in UBUK's Annual Report and Financial Statements for December 2018.

The 'day-1' impact of IFRS9 was to increase loan loss provisions by £132,000. This amount was charged to shareholders equity. The amount of loan loss provisions charged in the Statement of Comprehensive income for the year amounted to $1,507,000. Of this, $323,000 arose as a provision for performing loans where a charge was made under 'stage 1'. This occurred as a result of IFRS 9 and its size is correlated to balance sheet composition. The residual $1,184,000 was provided for as a result of under-performing and non-performing loans ('stage 2' and 'stage 3').

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 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

(A) 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 maturity of exposures (up to 7 days, three months and one year respectively).

(B) 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.

(C) Lending activities for Financial Institutions and customers

(a) Nigerian Banks

Given its 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.
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.

In addition, in recognition of the dependence of the Nigerian economy on the oil & gas sector, a further additional capital charge on an incremental basis applies to exposures with a maturity of over one year in the event that the forward price of crude oil falls below a reference level. The reference level is established (and adjusted annually) having regard to that assumed for the purposes of the federal budget of Nigeria.

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 perfected 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.

Pillar 2

The Bank has not identified any risks, other than residual legal risk in relation to collateral held, which are not sufficiently mitigated by Pillar 1 capital charges. Where collateral is recognised for the purposes of calculating Pillar 1 capital charges, either by way of offset or reduced risk weighting an incremental Pillar 2 charge is applied to the extent that mitigation is recognised under Pillar 1. This additional charge is designed to reflect residual risk (primarily legal risk) that collateral may not be legally enforceable. Consequently, the charge is higher for collateral that may require enforcement action in developing countries.

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 respectively.

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 Libor/Euribor 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)	2018	2017	2018	2017	2018	2017
Net Foreign currency exposures	(31,392)	4,126	65,226	(70)	3,038	11
Impact of 5% increase in FC:USD rate	(1,495)	206	3,106	(4)	145	1
Impact of 5% decrease in FC:USD	1,652	(206)	(3,433)	4	(160)	(1)

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: -

Financial crime (fraud, money laundering etc.)	Information security
Employment practices	Information technology
Premises & physical assets	Legal & regulatory
Customer fulfillment	Reputational
Business Continuity	Transactional
Staff conduct	

The objective of the Bank is to reduce "treated 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 4.3.

Table 13: Operational Risk Capital Computation

GROSS INCOME (USD'000)	**2015 Year 1**	**2016 Year 2**	**2017 Year 3**
Gross Income for the Three Financial year	10,516	11,036	14,290
Aggregate gross income (year 1 to 3)	11,947		
Beta factor	15%		
Gross income X beta factor	1,792		
Operational risk capital charge	**1,792**		

Pillar 2

It is considered that the *Basic Indicator* approach generally reflects the Bank's operational risk profile except for trade finance where, despite sound mitigating controls, inherent risk arises from the documentary and labour intensive nature of the activity. Therefore, additional capital is provided under Pillar 2 by reference to a moving annual total of the volume of activity.

In addition, capital is provided to the extent that a deductible is accepted under the Bank's Comprehensive Crime insurance policies.

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 2018

At 31 December 2018 the Company qualifies as a Proportionality Level 3 firm under the Code.

The Bank's BR&PC is responsible for the implementation of the Code and the annual review of the Bank's adherence to it. The Committee comprises six non–executive directors comprising of the Chairman, two other independent non- executive directors and three non-executive directors nominated by the shareholder from the parent bank. The non-executive directors are regarded as being independent of the Bank and also to 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 of the Committee.

The BR&PC has reviewed the Company's Remuneration Policy Statement for the financial year ended 31 December 2018 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 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. 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 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 of the Bank has been identified for the financial period. Of that number 1 was classified as a senior executive of the bank, 13 as Material Risk Takers. Of this number, 6 are within the Control Functions category. 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 variable remuneration exceed 33% of total remuneration. In addition, the variable component of the total remuneration of code staff identified as a Material Risk Takers does not exceed 100% of their fixed component of their total remuneration.

The *average* number of staff employed by the Company at 31 December 2018 was 42 the *actual* number eligible for performance awards in 2019 in respect of their service during 2018 was 36. The cost of performance awards payable in respect of the 2018 financial year (excluding associated National Insurance) was £226,503 of which £100,272 was allocated to 14 qualifying Code Staff. Total staff employment costs (including variable remuneration) in 2018 were £4,248,113 of which the employment costs of code staff were £1,278,275 (excluding variable remuneration).

Guaranteed bonuses are not offered as part of the Bank's performance award arrangements and the Bank does not offer "sign-on" inducements. Severance awards of £132,000 were made during the period.

9 OVERALL CAPITAL REQUIREMENTS

The Bank's total capital requirement as at 31 December 2018 is set out below:

Table 14: Capital Requirements		
Risk	**RWA**	**Requirement**
	USD'000	**USD'000**
Credit Risk (Standardised approach)	202,497	16,200
Operational Risk (Basic Indicator approach)	22,401	1,792
Market Risk (FX PRR)	5,097	408
Counterparty Credit Risk	-	-
Pillar 1	**229,995**	**13,976**
Pillar 2 Capital Requirement		**13,869**
Economic Capital (Pillar 1+Pillar 2)		**27,845**
Tier 1 Capital	74,297	
Tier 2 Capital	-	
Total Available Capital (Tier 1+ Tier 2)	74,297	
Pillar 1 Capital Adequacy ratio	32.30%	
Total Capital Adequacy ratio	32.30%	