Pillar 3 & Remuneration Code Disclosures
December 2015

unionbank

Union Bank UK plc

A wholly owned subsidiary of the
Union Bank of Nigeria Plc

Contents

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1 Overview

1.1 Background

The European Union Capital Requirements Directive came into effect on 1st 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

UBUK, 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.

Union Bank UK plc ("UBUK" or "the Bank") adopted the Pillar 1 ***Standardised*** approach to 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 1st 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 31st December 2015, our financial year-end.

Future disclosures will be issued as at the Accounting Reference Date and will be made available as soon as practicable after the publication of the Bank's Report and Financial Statements.

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").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 -Risk Appetite Statement

Union Bank UK plc ("UBUK"),'s overall Risk Appetite is captured in its Enterprise Risk Management Framework Document ("ERMFD") for which sets out at a high level, the UK regulator endorsed "three lines of defence" approach to the management of all the different risks, traditional as well as emerging risks, the Bank faces in its business. The ERMFD is updated and approved by the Board on an annual basis, or more frequently (as determined by the Board) 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 strict lending criteria, a prudent investment policy for managing treasury activities and the Bank's liquidity and a bank-wide "ownership" of operational risk. The Risk Appetite Statement is reviewed and approved by the Board at least annually. Ultimate responsibility for identifying, monitoring and managing risk is held by the Board and the Risk & General Purposes Committee ("R&GPC"). Other committees within the Bank, including the Management Committee, Asset & Liabilities Committee ("ALCO") and Credit Committee ("Creco") , assist the Board in achieving a framework for robust risk management.

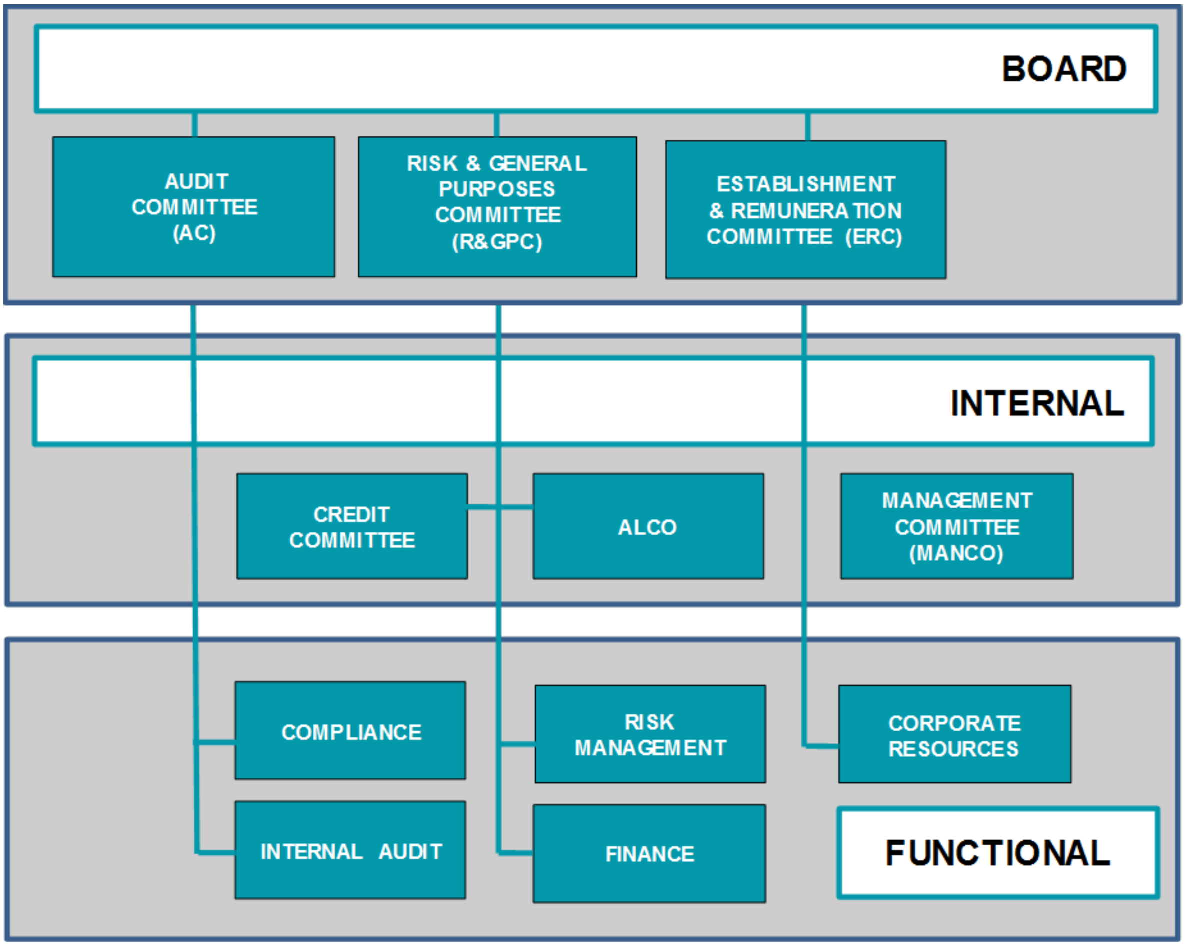
The Bank's enterprise risk management approach is based on the "Three lines of defence" approach, which means that the first line, i.e. operational business units with UBUK, are responsible for ensuring they understand the risk/reward trade off of the activities they undertake, recognise the resources required to investigate new products, new legal entity structures, new jurisdictions or clients from high risk jurisdictions and manage their business 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, provide advisory services on risk matters, monitor on a real time basis the first line's management of the client relationship and signs off on all new and ongoing transactions from a risk perspective.

The third line of defence, represented by the audit function, 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 regular 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 The table below shows the Bank's risk governance information flow:



1.1.1 The Board of Directors

The Board of Directors is the main corporate governance arm of Union Bank UK and it is ultimately responsible for ensuring that the Enterprise Risk Management Framework remains relevant and up-to-date at all times and is consistent with the Bank's business activities and expressed risk tolerances. The board of Directors is comprised of two executive directors, two non -executive directors appointed by UBN and three independent non-executive directors who each chair one of the three standing committees and one of whom is also the chairperson of the board. Decisions of the Board are unanimous. The board meets at least once a quarter, and its main responsibilities as follows.

- Overall direction, supervision and control of the Bank, including assessment of the Bank's competitive position
- Review and approval of strategic, financial plans and review of performance and financial status of the Bank
- Review and approval of significant changes in the Bank's structure and organization
- Establishment of the Bank's risk framework, overall risk appetite and key policies in relation to credit, large exposure, impairment, liquidity and operational risk

- Review regulatory reports such as Liquidity (ILAAP), capital adequacy (ICAAP), Resolution and Recovery Assessment (RRA) and large exposure (including UBN Group exposure) so as to confirm that the Bank position remains within the guidelines and limits set by the FCA/PRA
- Oversight of the Enterprise Risk Management framework and internal control systems
- Approval and monitoring of the Bank's policies in connection with the fight against financial crime

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
Risk & General Purposes Committee (R&GPC)	Consider credit proposals exceeding ALCO/CRECO limits Review financial plans and actuals against plan Oversee major IT initiatives Monitor compliance with the UBUK risk policies
Audit Committee	Monitor and assess financial statements and performance of external auditors Compliance with legal and regulatory requirements and adequacy of systems and controls.
Establishment & Remuneration (E&RC)	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.
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.

2.3.1 Risk & General Purposes Committee ("R&GPC") (previously Credit & General Purpose Committee)

The R&GPC is chaired by an independent non-executive director and is comprised of two executive directors, two non-executive directors appointed by UBN and three independent non-executive directors with as quorum one independent, one executive director from UBN and two executive directors. Decisions are unanimous.

The Committee will meet as frequently as necessary but at least once quarterly. The Committee's responsibilities are as follows:

- The consideration of credit proposals in excess of the limits of authority of the executive assets & liabilities and Credit Committee of the Bank;
- To consider and check the progress of, major IT initiatives and monitor compliance with the Bank's Credit, Large Exposure, Impairment, Liquidity and Market Risk Policies and Financial Regulations.

- The bank's risk management framework (principles, policies, methodologies, systems, processes and procedures). In that regard, the committee will take a forward looking perspective, anticipating changes in business conditions;
- Risk principles and governance of all policies (corporate governance role);
- Setting, monitoring and review risk appetite and tolerances, at least once a year, for:
  - approval and annual review of country limit exposures
  - monitor existing limits and risk exposures (MMI, FX, large exposures, sectors, etc.), receiving reports as to any breaches and obtain explanations
- Setting, monitoring and review risk appetite and tolerances for:
  a) new and emerging risks
  b) credit watch-lists, doubtful debts and defaults
- Credit portfolio evolution
  a) concentration risk and correlation risk;
  b) collateral analysis,
  c) lines of credit not used
- Operational risk including Operational Risk dashboard and Heatmap
- To keep under review the Bank's policies in relation to the assessment of business and consequential risks and the migration thereof with particular reference to Operational Risk
- To keep under review the adequacy of the bank's systems and procedures for ensuring compliance with applicable laws and regulations, including regulatory reporting, and particularly the measurement and reporting of capital adequacy, liquidity and concentration risk;
- Review of recommended credit programmes and endorsement or approval;
- Recommendation of proposal in excess of its delegated authorities to the Board for approval.

2.3.2 Audit Committee

The Audit Committee is appointed by the Board, and its members are all independent non-executive directors of the Company and the non-executive directors from the parent company. A quorum shall be three members, to include one non-executive director from the parent company. The Chairman of the Committee is appointed by the Board from amongst the independent non-executive. The Managing Director, the COO, CR&CO, the Internal Auditor, Head Compliance and a representative of the external auditors shall attend meetings only at the invitation of the Committee.

The Audit Committee's primary function is to assist the Board in fulfilling its oversight responsibilities by monitoring and assessing the integrity of financial statements, the qualifications, independence and performance of internal and external auditors, compliance with legal and regulatory requirements and the adequacy of systems of internal accounting and financial controls, as well as the oversight over the Compliance and Financial Crime prevention activities of the bank.

Its assessment of the internal control environment is made by reviewing and approving the plans of Internal Audit and Compliance and considering and questioning management on operational audit reports.

The responsibilities of the Committee are:

- To oversee the process for selecting the external auditors and make appropriate recommendations to the Board for consideration at the Annual General Meeting (AGM);

- To recommend the audit fee to the Board and to approve any fees in respect of non-audit services provided by the external auditors;

- To review the annual financial statements, before submission to the Board for approval;

- To review the external auditors' management letter and management's response;

- To review at least annually and approve the Terms of Reference of the Internal Audit;

- To review the internal audit programme and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;

- To consider management's response to any recommendations by external or internal audit, or by the FCA/PRA, particularly in relation to controls and systems;

- To review management's and the internal auditor's reports on the effectiveness of systems for internal control, regulatory and financial accounting and reporting, and the management of risk (with particular reference to risk control procedures in respect of new products);

- To keep under review the Bank's systems for Treating Customers Fairly and dealing with Customer complaints, and how complaints are dealt with in practice;

- To keep under review the bank's systems for maintaining the fight against financial crime, including its policies in relation to fraud risk and anti-money laundering;

- To review the MRLO Annual Report for Board consideration;

- To approve the appointment or dismissal of the Internal Auditor;

- To consider any other topic referred to the Committee by the Board.

2.3.3 Establishment & Remuneration Committee ("E&RC")

The E&RC comprises solely of non-executive directors and has responsibility for matters relating to human resources including staff welfare and compensation arrangements. In particular, it reviews and recommends to the Board both overall compensation pools and the remuneration of executive directors and certain other members of senior management. In so doing, it ensures that incentives are geared to the overall performance of the Bank and that reward systems do not encourage undue risk-taking.

2.3.4 Management Committee (MANCO)

The Management Committee (MANCO) is the senior executive committee of the Bank having responsibility for overall oversight of the business, performance including planning, performance, MANCO has also responsibility for implementing high level policies relating to business risk management. In addition, it has responsibility for business continuity / contingency planning (BCP).

2.3.5 Assets & Liabilities Committee (ALCO)

The Assets & Liabilities Committee (ALCO) is responsible for the day to day oversight of liquidity and capital risk management. The ALCO is an executive team that reviews the Bank's liquidity profile monthly and considers actual and forecasted liquidity and cash flow positions, market risk management, as well as the current and future structure of the balance sheet.

The Committee shall constitute of Managing Director/Chief Executive (MD/CE), Executive Director/Chief Operating Officer (COO), Head of Business Development, , Finance Manager, Director/Chief Risk & Compliance Officer, and Manager, Treasury.

The quorum for this committee shall be four members, which shall include at least one of the MD/CE, the COO, or the Chief Risk Officer. The frequency of meetings will be monthly and the Chief Risk Officer will provide the secretariat function. All decisions of the Committee shall be unanimous.

Responsibilities:

- Review the ILAAP in the light of developments in the economic environment, the Banks business activities and credit portfolio at least once a year make recommendations as appropriate to R&GPC;
- Consider the structure of assets and liabilities and give directions for changes therein within limits laid down in Market Risk Policy Statement and Liquidity Risk Policy Statement;
- Review of funding position and liquidity profile of the Bank and consider the results of stress testing;
- Review the interest rate risk and at least quarterly consider the impact on the financial position of the bank of a shift of 200bp in the yield curve in each major currency the bank operates;
- Receive and review recommendation for specific impairment provisioning from CRECO and review of other credit exposures by reference to historical credit loss experience and country and economic sector issues and decide on the appropriate level of collective impairment provisioning to be recommended to the R&GPC;
- Review regulatory reports as liquidity, capital adequacy and large exposures (including UBN Group exposure) so as to confirm that the bank position remains within the guidelines and limits set by the FCA/PRA.
- Review the net interest margin, including explanation of significant variances from plan and/or prior periods;
- Review the open position and foreign exchange book, including the profitability and reasons for any breaches in limits;
- The bank’s risk appetite and risk tolerance;
- The bank’s risk management framework (principles, policies, methodologies, systems, processes and procedures). In that regard, the committee will take a forward looking perspective, anticipating changes in business conditions.
- ICAAP, including risk tolerance, financial projects and capital requirements assessment of treated risk, stress testing and capital allocation
- Review any past due exposures and decide on specific provisioning in line with approved Impairment Policy Statement for recommendation to R&GPC
- Setting, monitoring and review risk appetite and tolerances, at least twice a year, for:
- approval and annual review of country limit exposures

- monitor existing limits and risk exposures (MMI, FX, large exposures, sectors, etc.), receiving reports as to any breaches and obtain explanations
- Setting, monitoring and review risk appetite and tolerances for:
  a) new and emerging risks
  b) credit watch-lists, doubtful debts and defaults
- credit portfolio evolution
  a) concentration risk and correlation risk;
  b) collateral analysis,
  c) lines of credit not used
- operati onal risk including AML assessments
- feedback on launch of new products
- monitor Information Security Risk
- Recovery and Resolution Program (RRP) updates
- Oversight and implementation of the Enterprise Risk Management framework and internal control systems.

2.3.6 Credit Committee (CRECO)

The membership of CRECO is as for ALCO with the exception of the Finance Manager. The Committee meets as frequently as necessary but at least once a month. The quorum shall be three members including one of the MD/CE or Chief Risk Officer; . Decisions shall be unanimous; The Chief Risk Officer provides the secretariat function.

Responsibilities

- Evaluation of risk of individuals/business credits and risk rating as a basis for approval decision;
- On-going assessment and classification/monitoring of quality and performance of the bank's risk asset portfolio;
- Approval of all credit applications within its delegated limit as contained in the Credit Policy document;
- Review of all approved and declined applications made within delegated limits;
- Review of declined applications that had not been considered as meeting the minimum expected standards for forwarding to the R&GPC;
- Ensuring compliance with credit risk management policy;
- Review of recommended credit programmes and endorsement of such for approval;
- Recommendation to senior approval bodies of proposal in excess of its delegated authorities;

2.3.7 Internal Audit

The Internal Audit function has responsibility for assessing the control environment as required by the Audit Committee. Assessment is made in accordance with the annual Audit Plan, developed using a risk-based approach, reviewed and approved by the Audit Committee.

2.3.8 External Audit

External Audit is undertaken by the Bank's appointed Auditors, BDO Audit Plc, to approve the validity of financial statements and valuations and to provide feedback to the Board Audit Committee, the Board and the Shareholders on the operation of the internal financial controls, reviewed as part of the annual audit.

2.3.9 Risk Management Function

Day-to-day responsibility for monitoring adherence to credit policy and procedures is the responsibility of the Risk Management department.

Market risk and interest rate risk in the banking book is monitored and subjected to monthly stress-testing by the Finance function, which also reports independently on a daily basis adherence to capital adequacy, liquidity, ‘large exposure’ and aggregation limits, including country exposures. The Finance Function also prepares financial projections for ICAAP, RRP and ILAA purposes and subjects these projections and related risk components to scenario and stress testing.

Day-to-day monitoring of compliance with the Operational Risk policy is the responsibility of Risk, which also reviews the policy on a regular basis, at least annually, making recommendations for any necessary changes to ALCO which in turn proposes to the Audit Committee. Risk also manages an online register of operational risk events, whether or not they result in actual loss and reports on these on a quarterly basis.

The role of the Risk Management function is to support the other control functions in executing these duties as part of its overall responsibility to Executive Management and the Board for review, maintenance of, and adherence to, the Bank’s Risk Framework and policies. The head of this function acts as the secretary of and compiles the agenda for meetings of ALCO, CRECO and R&GPC of the Board of Directors.

2.3.10 Compliance

The Bank has a Compliance Function which monitors regulatory and legal developments to ensure that UBUK remains compliant with all relevant legislation. The department inter alia oversees AML and KYC policy work and monitoring arrangements, anti-bribery and corruption and staff and director training.

Reporting to the Director/Chief Risk & Compliance Officer , the Compliance function is responsible for ensuring that the Bank complies with its legal and regulatory obligations including those related to the prevention of financial crime. This is achieved by:

- Periodically reviewing and recommending changes to Bank policies and procedures related to anti-money laundering, criminal financing, sanctions, bribery and corruption and other areas of compliance set down in the Compliance Manual in response to an assessment of the related risks and changes in laws, regulations, and the Bank’s business and customer base;
- In accordance with an approved Plan, monitoring adherence to those policies and procedures on a day-to-day basis and reporting regularly to the MD/CE, Senior Management and the Audit Committee;
- To act as a focal point for the internal reporting of suspicions of money laundering, fraud, sanctions breaches which are investigated and where necessary reported to the NCA, the police or other relevant authorities; and
- Providing Management and staff with regular training and information to make them aware of their legal and regulatory responsibilities and the Bank’s related policies and procedures.

2.4 Regulatory Reporting

The Finance Manager has oversight for regulatory returns, with the exception of Compliance and Close Links control reports which are the responsibility of the Compliance Department. Apart from the latter, all regulatory reports are prepared by the regulatory team at the required frequency and reviewed by the Finance Manager prior to submission.

2.5 Reporting of Malpractice

The Bank has a specific Whistle-Blowing policy that sets out procedures for reporting malpractice. The responsibility for the maintenance of this policy is attributed to Compliance, which submits the reviews for the Audit Committee approval. The Audit Committee then recommends the policy to the Board. The Board has appointed an independent non executive director as the Bank's WhistleBlowing Champion.

Stress Testing

The Bank performs regular stress tests on its capital adequacy and liquidity position under a range of scenarios. The scenarios are agreed by ALCO and reviewed by R&GPC , and are regularly updated to reflect the Bank's risk profile and external risks, including the risks of an economic recession. Where applicable the stress tests cover all relevant risks to which the Bank is exposed; for example, capital adequacy stress tests based on macro-economic scenarios analyse the impact on both credit and market risk exposures. Liquidity stress tests are performed monthly and capital adequacy stress tests are performed yearly. In addition, periodic ad-hoc stress tests are performed as required by the executive management or the ALCO.

Detailed results of stress tests are presented to ALCO, including the impact of the stress scenario on the Bank's capital requirement, its capital resources and its profitability; summary results are presented to R&GPC. Stress testing is used to determine the Bank's capital adequacy, the adequacy of its liquidity position and to influence strategy and medium term planning. As part of its risk management process and in line with regulatory requirements, the Bank carries out annual reverse stress testing. This entails review of scenarios that could lead to insolvency how to mitigate such scenarios.

3 Capital Resources

3.1 Total Available Capital

At 31st December 2015 and throughout the year, the Bank complied with the regulatory capital requirements that were in force as set out by the FCA and PRA. The following table shows the breakdown of the total available capital for UBUK as at 31st December 2015:

	Dec 2015	**Dec 2014**
	US$'000	**US$'000**
Tier I		
Ordinary shares	60,000	60,000
Deferred shares	90	90
Retained earnings	14,978	14,123
Available-for-sale reserve	(1470)	(152)
Intangible Assets	(2161)	(1,887)
Total Tier 1 Capital	**71,437**	**72,174**

Tier 2		
Collective impairment provision for loans and receivables	248	217
Total Tier 2 Capital	**248**	**217**
Total capital available (Capital Resources)	**71,685**	**72,391**

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 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 1st 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 Resource Requirement ("CRR") on a daily basis, using specialised regulatory reporting software, which is compliant with the FCA's BIPRU rules. 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.

4.2 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 1st January 2008.

4.3 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 BIPRU rules.

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 table in BIPRU 13.4.5 R. These totals are added together in order to arrive at the exposure value which is then multiplied by 8 per cent. At 31st December 2015, there were no such derivative contracts outstanding.

The following table shows both theGroup's overall minimum capital requirement and capital adequacy position as at 31st December 2015:

	Dec 2015	Dec 2014
	US$'000	**US$'000**
Credit Risk (*Standardised* approach)	11,975	19,580
Operational Risk (*Basic Indicator* approach)	1,728	1,907
Market Risk (FX PRR)	7	6
Counterparty Credit Risk		
Pillar 2 Capital Requirement	**9,867**	**15,475**
Minimum Capital Resources requirement	**23,577**	**36,968**
Total Capital Resources (per section 3.1)	71,596	72,391
Excess of Capital Resources over minimum capital requirement	**48,019**	**35,423**

4.4 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 31st December 2015:

Year	**Dec 2015**	**Dec 2014**
Exposure classes	**US$'000**	**US$'000**
Central governments or central banks	663	565
Regional governments or local authorities	0	799
Multilateral development banks		
Institutions	0	245
Corporates	5,374	1,560
Retail	44	34
Secured on real estate property	236	114
Short term claims on institutions and corporates	5,497	16,056
Past due items		
Other items	161	208
Credit risk minimum capital requirement	**11,975**	**19,581**

5 Credit Risk Measurements, Mitigation and Reporting

5.1 Credit Risk Overview

Introduction

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 also 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.

Exposures

The Bank's gross and net credit risk exposures before and after credit risk mitigation (based on the definitions for regulatory capital purposes) at 31st December 2015 and 31st December 2014 and the average for the year (before credit risk mitigation), are summarised as follows:

	Before mitigation	**After mitigation**	**Before Mitigation**
	31 December 2015	**31 December 2015**	**Average 2015**
	US$'000	**US$'000**	**US$'000**
Financial Institutions	215,090	206,517	300,360
Parastatals and government	38,235	36,120	34,768
Corporates	45,450	45,450	43,680
Retail	579	556	1,414
Other items	17,596	2,016	28,862
Past due items (see 5.2 below)	**-**	**-**	**-**
	316,950	**290,659**	**409,084**

	Before mitigation	**After mitigation**	**Before mitigation**
	31 December 2014	**31 December 2014**	**Average 2014**
	US$'000	**US$'000**	**US$'000**
Financial Institutions	383,992	355,130	457,333
Parastatals and government	17,056	17,056	18,830
Corporates	54,430	52,345	45,719
Retail	3,889	465	4,104
Past due items (see 5.2 below)	957	-	-

	460,324	**424,996**	**525,986**

The analysis of the Bank's exposures by exposure class, broken down by counterparty, at 31st December 2015 and 31st December 2014is as follows:

December 2015	**Carrying Value**	**Maximum Exposure**
	US$'000	**US$'000**
Loans and advances to financial institutions		
Banks	215,090	215,090
Other Financial Institutions	-	-
Past due items	-	-
Loans and advances to customers		
Parastatals and government	38,235	38,235
Corporates	45,450	45,450
Retail	579	579
Other items	17,596	17,596
Past due items	**-**	**-**
	316,950	**316,950**

December 2014	**Carrying Value**	**Maximum Exposure**
	US$'000	**US$'000**
Loans and advances to financial institutions		
Banks	383,992	383,992
Other Financial Institutions		
Past due items		
Loans and advances to customers		
Parastatals and government	17,056	17,056
Corporates	54,430	54,430
Retail	3,889	3,889
Past due items	957	957
	460,324	**460,324**

The geographic distribution is analysed into significant areas by material exposure classes at 31st December 2015 and 31st December 2014 as follows:

December 2015	**United Kingdom**	**Nigeria**	**Europe**	**Other**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Financial Institutions	117,958	30,164	29,946	37,022
Parastatals and government	1,184			26,491
Corporates	0	44,781	669	
Retail	570	6,923	71	3,573
Other	0	17,594	-	
	119,713	**99,462**	**30,685**	**67,086**

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

December 2014	United Kingdom	Nigeria	Europe	Other
	US$'000	US$'000	US$'000	US$'000
Financial Institutions	126,368	134,457	8,616	114,550
Parastatals and government				17,056
Corporates	5	41,471	992	11,961
Retail	531	3,220		139
Past due items			-	957
	126,904	**179,148**	**9,608**	**144,663**

The residual maturity breakdown of all the disclosures, analysed by exposure classes at 31st December 2015 and 31st December 2014 is as follows:

December 2015	**On demand**	**Within 3 months**	**Between 3 months and 1 year**	**Between 1 and 5 years**	**Over 5 years**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Financial Institutions	14,186			163,740	0
Parastatals and government				22,153	5,522
Corporates	3,045	3	14,711	72,734	10,529
Retail	3,597			1,177	3,535
Other items	2,014				
	22,843	**3**	**14,711**	**259,803**	**19,586**

December 2014	On demand	Within 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
	US$'000	US$'000	US$'000	US$'000	US$'000
Financial Institutions	58,037	318,997	4,765	2,193	
Parastatals and government		2,499	7,499		7,058
Corporates	2,976	32,024	3,198	16,233	
Retail	159	3	316	1,569	1,842
Past due items	957				
	62,129	**353,522**	**15,778**	**19,995**	**8,900**

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.

Analysis 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 (see also 5.4 (A) below).

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:

December 2015			
Credit quality step	**Fitch ratings**	**Exposure Value before mitigation**	**Exposure Values after mitigation**
		US$’000	**US$’000**
1	AAA to AA-	29,266	29,233
2	A+ to A-	26,301	26,301
3	BBB+ to BBB-	83,707	83,707
4	BB+ to BB-	50,819	48,457
5	B+ to B-	30,418	12,960
Un-rated		96,815	87,982
Past due items		-	-
		317,327	**288,641**

December 2014			
Credit quality step	**Fitch ratings**	**Exposure Value before mitigation**	**Exposure Values after mitigation**
		US$’000	**US$’000**
1	AAA to AA-	81,416	81,416
2	A+ to A-	48,570	48,570
3	BBB+ to BBB-	130,032	130,032
4	BB+ to BB-	77,648	51,595
5	B+ to B-	7,700	7,700
Un-rated		114,002	105,683
Past due items		-	-
		459,367	**424,996**

5.2 Impairment Provisions

The Bank assesses on a quarterly 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 either individually for assets that are separately significant or individually or collectively for assets that are not separately significant. If there is no objective evidence of impairment for an individually assessed asset it is included in a collection of assets with similar credit risk characteristics and collectively assessed for impairment.

If such evidence 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.

Loans subject to collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due or impaired but are treated as new loans after the minimum required number of payments under the new arrangements have been received. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or are considered to be past due.

The following table shows the provisions for impaired and past due exposures::

December 2015	**Impairment provision**	**Impaired exposures**	**Past due exposures**
	US$'000	**US$'000**	**US$'000**
Loans and advances to banks	-	-	-
Loans and advances to customers	-	-	-
	-	-	-

December 2014	**Impairment provision**	**Impaired exposures**	**Past due exposures**
	US$'000	**US$'000**	**US$'000**
Loans and advances to banks	**-**	**-**	**-**
Loans and advances to customers	957	957	**-**
	957	**957**	**-**

For the purposes of this table, past due is defined as one day or more overdue. The amounts shown as past due represent the full amount of the loan outstanding, not just the amount that is past due.

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

December 2015	**Impairment provision**	**Impaired exposures**	**Past due exposures**
	US$'000	**US$'000**	**US$'000**
United Kingdom	-	-	-
Nigeria	-	-	-
Europe	-	-	-
Other	-	-	-
	-	-	-

December 2014	**Impairment provision**	**Impaired exposures**	**Past due exposures**
	US$'000	**US$'000**	**US$'000**
United Kingdom	894	894	-
Nigeria	63	63	-
Europe	-	-	-
Other	-	-	-
	957	**957**	**-**

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 18 in the Annual Report and Financial Statements:

December 2015	**Individual provisions**	**Collective provisions**	**Total**
	US$'000	**US$'000**	**US$'000**
Opening balance	957	-	957
Increases / (releases) in provisions	-	-	-
Amounts written off	(957)	-	(957)
Recoveries	-	-	-
Exchange differences	-	-	-
Closing balance	-	-	-

December 2014	**Individual provisions**	**Collective provisions**	**Total**
	US$'000	**US$'000**	**US$'000**
Opening balance	3,255	221	3,476
Increases / (releases) in provisions	259		259
Amounts written off	(2,060)		(2,060)
Recoveries	(444)		(444)
Exchange differences	(53)	(4)	(57)
Closing balance	**957**	**217**	**1,174**

5.3 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

5.4 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. These require referral of larger transactions to ALCO where the nature of, and the Bank's concentration to, the goods or services underlying the transaction are considered as well the credentials of the parties to the letter of credit.

(b) 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 R&GPC and, therefore, the majority of credit exposures are secured in accordance with the Credit Policy 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.

5.5 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 100 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 R&GPC 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.

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.

31 December 2015

US$'000	Currencies (FC)		
	£ Sterling	**Euro**	**Other**
Net Foreign currency exposures	2264	13	8
Impact of 5% increase in FC:USD rate	113	1	-
Impact of 5% decrease in FC:USD rate	(113)	(1)	-

31 December 2014

US$'000	Currencies (FC)		
	£ Sterling	**Euro**	**Other**
Net Foreign currency exposures	(117)	8	23
Impact of 5% increase in FC:USD rate	6		(1)
Impact of 5% decrease in FC:USD rate	(6)		1

6.4 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.

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.

6.5 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.

7 Operational Risk

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 so as 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.

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 Remuneration Code

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 2015

At 31 December 2015 the Company qualifies as a Proportionality Level 3 firm under the Code.

The Company's Establishment & Remuneration Committee ("E&RC") is responsible for the implementation of the Code and the annual review of the Bank's adherence to it. The Committee comprises four non -executive directors comprising of the Chairman, two independent non- executive directors and one independent non-executive director 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 E&RC meetings for the purpose of briefing the Committee. The Bank's head of Human Resources also attends the meetings of the Committee.

The E&RC has reviewed the Company's Remuneration Policy Statement to ensure compliance with the Code.

The Company operates a 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. The size of the pool is linked to the Bank's financial performance at the end of the year and is based on a percentage of the Bank's profit before tax. 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 performance assessment based on the following criteria:

- Competency;
- Regulatory compliance;
- Awareness and attitude to risk;
- Flexibility;
- Attendance;
- The achievement of agreed personal objectives based upon quantitative and qualitative measures.

Traditionally bonuses are paid in June.
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 identify relevant senior executives and staff and designate them as "Code Staff". 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 5 are classified as senior executives of the bank, 4 as Material Risk Takers and 5 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 £500,000.00 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 31st December 2015 was 45 of this number, 42 were eligible for performance awards in 2016 in respect of their service during 2015. The cost of performance awards payable in respect of 2015 (excluding associated National Insurance) was £89,438.16 of which £50,189.00 was allocated to 9 qualifying Code Staff. Total staff employment costs (including variable remuneration) in 2015 were $4,623,000, of which the employment costs of code staff were £1,232,167.42 (excluding variable remuneration).

Guaranteed bonuses are not offered as part of the Bank's current performance award arrangements and the Bank did not offer any "sign-on" inducements during the year. A severance award of £10,000.00 was made during the period.