Guaranty Trust Bank (UK) Limited

Pillar 3 Disclosures

For Period Ended 31st December 2018

Paul Nichols

Introduction

Pillar 3 disclosures 2018

Guaranty Trust Bank (UK) Limited (the "Bank") is incorporated in the United Kingdom and is 100% owned by Guaranty Trust Bank plc of Nigeria. The Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA") (firm reference number 466611). It operates from offices at 60 to 62 Margaret Street, London W1W 8TF and does not have any subsidiaries, either in the UK or abroad. All financial data provided in these disclosures relate solely to the Bank, and not to any wider group, unless specified.

As at 31st December 2018, the Bank employed 83 staff on a full time equivalent basis.

The Bank's Pillar 3 disclosure is a summary description of the risk management processes of the Bank and are made in accordance with Article 96 of the Capital Requirements Directive and Articles 435 to 451 of the Capital Requirements Regulation. Within the European Union these requirements have been enhanced by the Capital Requirements Regulation (number EU75/2013) and the Capital Requirements Directive (Directive 2013/36/EU), both dated 26th June 2013 and jointly known as "CRD IV". CRD IV came into effect on 1st January 2014 and, these disclosures are intended to show how the Bank complies with the requirements of the new directives.

Guaranty Trust Bank (UK) uses a simple approach with respect to Pillar 1 requirements:

1. Standardised Approach for Credit risk: Regulatory capital requirements are calculated by multiplying the value of the Bank's exposure by an appropriate risk weight. The risk weight is determined by the credit rating of the counterparty, where available, as well as the type of exposure.
2. Basic Indicator Approach for Operational risk: Regulatory capital is calculated by taking a single risk-weighted multiple (15%) of the Bank's average gross operating income.
3. Standard Position Risk Requirement Approach for Foreign Currency: Regulatory capital is calculated by applying minimum capital ratio to total foreign currency position.

Under Basel III requirements, Guaranty Trust Bank (UK) Ltd has undertaken a self-assessment of its internal capital requirements through its Internal Capital Adequacy Assessment Process, or ICAAP. Any amount of additional capital required is assessed by the Prudential Regulatory Authority (PRA) during its Supervisory Review and Evaluation Process (SREP).

The Bank has completed the implementation of IFRS9. The Bank elected not to use the transitional option as offered by the PRA.

Activities

The Bank offers both retail and wholesale banking products and services to private, corporate and institutional clients. It does not operate a trading book.

The Bank does not have any subsidiaries or associates.

Financial Performance

As at 31st December 2018, the Bank's performance was as follows (GBP thousands):

Turnover	14,448
Profit Before Tax	3,378
Tax Payable on profit	624
Public Subsidies Received	Nil

The figures in this section are as quoted in the Bank's financial statements and, as such have been audited by the Bank's external auditors, KPMG Audit plc.

The Bank's return on assets as at 31st December 2018, being net profit divided by total balance sheet, was 0.67%.

Basis and frequency of disclosures

This disclosure document has been prepared by the Bank in accordance with CRD IV. The disclosures should be read in conjunction with the Bank's Annual Report and Financial Statements for the financial year ended 31st December 2018.

Unless otherwise stated, all figures are as at 31st December 2018.

The Bank will publish its Pillar 3 disclosures at least annually in accordance with the regulators' requirements, on its website (http://www.gtbankuk.com).

The Pillar 3 Disclosures for 2018 have been subject to internal review procedures broadly consistent with those undertaken for audited information published in the Annual Report and Accounts. The disclosures are reviewed by the Bank's Board Audit Committee and approved by the Bank's Board of Directors. The information contained in these Pillar 3 Disclosures has not been audited by the Bank's external auditors except where they are equivalent to those prepared under accounting requirements for inclusion in the Bank's Annual Report and Accounts.

The Responsibility of the Board and Board Sub Committees

The Board

The ultimate governing body of the Bank is the Board of Directors (the "Board") which is responsible for the Bank and oversees senior management and the implementation of the Bank's strategic objectives, its risk strategy and its internal governance, all of which it reviews on a regular basis. The Board consists of 4 Non-executive directors (two of which are independent) together with the Bank's Managing Director and Executive Director. The Chairman of the Board does not act as the Bank's Managing Director / Chief Executive Officer. As at 31st December 2018, Board members hold 1 directorship with commercial institutions other than the Bank and the GTB Group. No individual director holds more than either 1 executive and 2 non-executive, or 4 non-executive directorships in commercial organisations. The Board articulates the Bank's business strategy and objectives, oversees disclosures and communications, is responsible for providing effective oversight of senior management, monitors and reviews overall performance and ensures that all of the Bank's activities are in line with its overall objectives and risk appetite and that all relevant regulations are complied with. The Board of Directors meets four times a year, as a minimum.

All Board members are required to act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of the senior management where necessary and to effectively oversee and monitor management decision making. The Chairman, chairs of the Board

sub-Committees (Audit, Credit, Risk and Compliance and Remuneration) together with the Managing Director and the Executive Director hold Senior Management Functions under the Senior Management Regime.

Due to the size of the Board, and limited turnover in its membership, it has not appointed a committee to review Board appointments, but has adopted a Directors' Assessment, Selection and Succession Planning Policy, setting out the required standards which Board Directors are required to maintain, in terms of knowledge, experience, probity, diversity etc. It also annually assesses the structure, size, composition and performance of the Board, and the knowledge and experience of Board members. Training and information is provided to the Board where required, to ensure that members are able to execute their responsibilities. Individual Board members will usually be involved in the appointment of senior members of the Bank's staff.

The Board has delegated responsibility for ensuring compliance with the Money Laundering Regulations to the Executive Director.

The Board has delegated certain powers to the following sub-committees, whilst retaining full responsibility for all Board Committee actions and decisions:

Board Sub-Committees

All Board Sub-Committees report directly to the Board of Directors and meet four times a year, as a minimum.

Board Audit Committee

The Board Audit Committee comprises three Non-Executive Directors two of whom are independent and ensures that the Bank adheres to all policies and procedures set by the Board. Its more detailed responsibilities involve the review of the Internal Audit scope and annual programme, the review of the external audit scope, and the analysis of audit reports and proposals to amend operating procedures. The Board Audit Committee also ensures the integrity of the accounting and financial reporting of the Bank, reviewing the Bank's annual financial accounts and these disclosures, before recommending them to the Board. The Bank's external auditors attend meetings of the Board Audit Committee. The Board Audit Committee receives reviews and challenges reports from the Head of Internal Audit and verbally reports on all Board Audit Committee meetings to the Board. It is chaired by an independent non-executive director.

Board Credit Committee

The Board Credit Committee is responsible for all credit related risks at the Bank and approves and reviews the Credit Policy Guidelines and all other credit related policies. The Committee reviews all advances granted by the Bank and approves specific loans and bank placement limits above the Management Credit Committee's delegated authorities. The membership comprises the Managing Director, the Executive Director and two Non-Executive Directors (one of whom is independent) and the Committee is chaired by a Non-Executive Director who holds SMF 10.

Board Risk and Compliance Committee

The Board Risk and Compliance Committee is responsible for recommending policies to the Board on the Bank's risk profile and limits, and for assessing the adequacy of the Bank's risk management framework. Its responsibilities include all risks with the exception of credit risk and financial crime. Its membership comprises the Managing Director, Executive Director and three Non-Executive Directors. The Committee is chaired by an independent Non-Executive Director who holds SMF10.

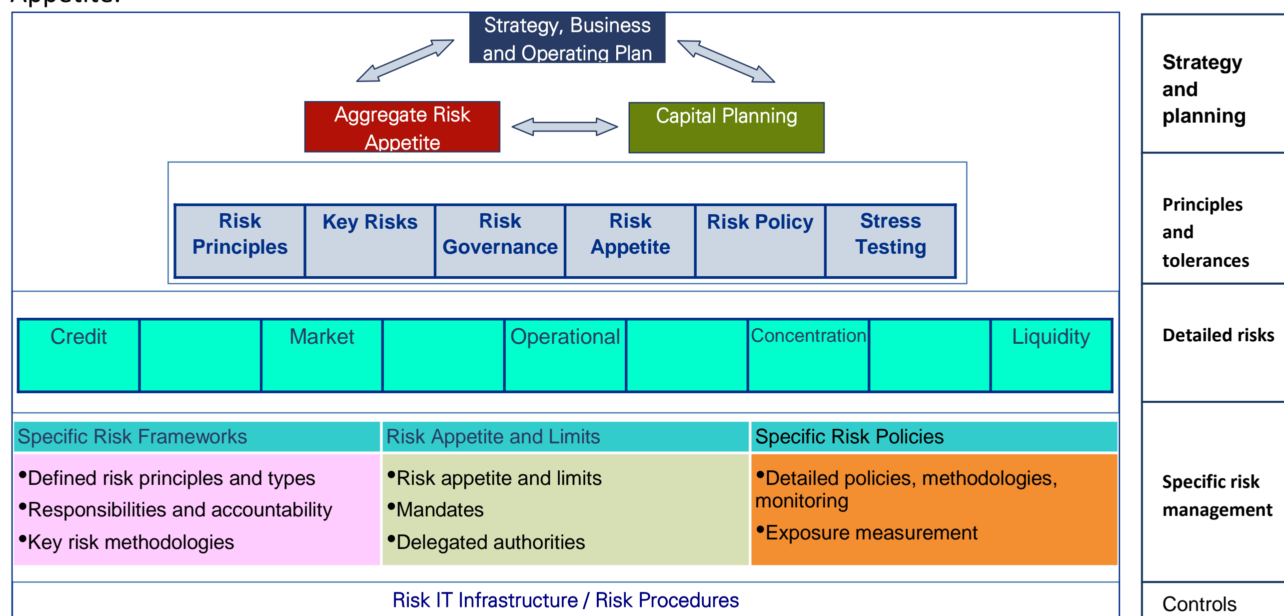
Board Remuneration Committee

The Board Remuneration Committee consists of three non-executive directors, two of whom are independent, and is chaired by an independent non-executive. The function of the Remuneration

Committee is to review the Bank's Remuneration Policy, to ensure that it meets the requirements of SYSC 19C and CRD IV. The Committee also reviews the remuneration of the Managing Director, the Executive Director and the Heads of Compliance, Risk Management and Internal Audit.

Risk management objectives and policies

The Board adopts a prudent approach when deciding upon its appetite for risk in order to take a long-term view of value creation. As such, the Board has agreed to adopt an overall prudent Risk Appetite.



The diagram above represents the Bank's high level risk management framework. The strategic direction of the Bank is set by the Board, which also sets the Bank's risk appetite and risk tolerance. The Bank's management formulates forward looking business and operating plans to tactically implement the strategic plan within the agreed risk tolerances. This plan is agreed by the Board. The Board also agrees the Bank's Internal Capital Adequacy Assessment Process, Individual Liquidity Adequacy Assessment Process and Recovery and Resolution Plans, which provide frameworks to ensure that sufficient capital and liquidity is in place to support the business activities and risk exposures.

The interlinked risk appetite, capital plan, strategy and operating plan are interpreted in the business through:

- Risk principles
- Identification of key risks
- The Risk Governance framework
- Risk Appetite
- Risk policies
- Stress testing

These, in turn, provide the structure through which the specific risks inherent in the business are managed. The major risks faced by the Bank are highlighted in this diagram. Operational risk covers a number of more specific risks such as legal risk, compliance risk and business continuity risk.

At a more detailed level, these risks are controlled and managed through specific policies, frameworks, infrastructure and procedures focusing on the key risks and implemented at the business line level.

The Bank has adopted a "Three Lines of Defence" model to manage its risks. Primary responsibility for the identification, control, monitoring and mitigation of risk lies with the operational areas (first line of defence). Oversight and governance is provided through Risk and Compliance functions and dedicated Risk Committees (second line of defence). Finally, assurance is provided by Internal and External Audits and overseen by the Board Audit Committee (third line of defence).

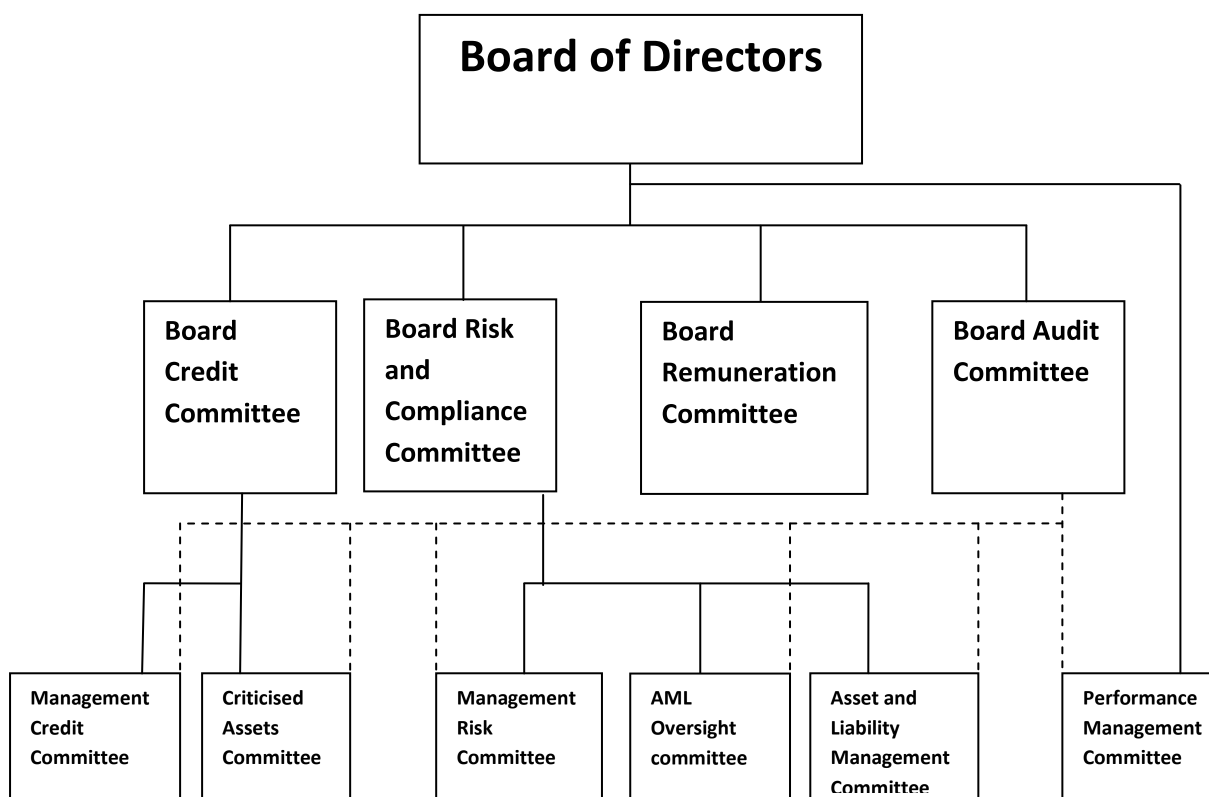
Risk management framework

Overall Organisation and Management Structure

Under the Senior Management Regime, the Executive Director is directly responsible to the Board, and regulator for ensuring there is a clear and appropriate allocation of significant responsibilities amongst senior managers. All heads of departments are responsible for managing business performance in line with the Bank's overall risk appetite and tolerances. This requires them to manage their areas in line with operational performance targets and objectives cascaded from the Bank's business plan, regulatory and economic capital limits flowing from the regular review of business performance, in accordance with risk exposure limits set within the Bank's risk policies.

Committee structure

In order to facilitate, efficiently control and ensure transparency and prudence in the management and operations of the Bank, the Board has delegated authority to various organisational levels and bodies/committees within the organisation. In this regard, the Bank operates four sub-committees of the Board in parallel with six main management committees.



First Line Management Committees

Performance Management Committee

The function of this Committee is to review the financial performance of the Bank, including the analysis of strategy, the external business environment and performance outlook. The purpose is to ensure that senior management is updated in a timely manner on the financial performance and business environment. It enables the Bank to react to changing circumstances in an efficient manner.

Second Line Management Committees

Management framework

The framework of the operating model of various departments and functions of the Bank has been designed to ensure efficiency, transparency, accountability and effective control. The operating model framework of the main departments and functions of the Bank are set out below.

The key second line committees are:

- Management Risk Committee (MRC)
- Management Credit Committee (MCC)
- Asset & Liability Management Committee (ALMAC)
- Criticised Assets Committee (CAC)
- Anti-Money Laundering Oversight Committee (AMLOC)

Management Risk Committee (MRC)

This Committee provides input for the Board Risk and Compliance Committee and is responsible for the regular analysis and consideration of risk policies, risk appetite and all risks with the potential to impact the Bank, other than credit and Anti Money Laundering risk. MRC reviews environmental, compliance issues and operational risks which impact, or are likely to impact the Bank. It also provides recommendations to Board Risk and Compliance Committee as to the steps to be taken to mitigate such risks. Whilst MRC has an overview of market risk, the monitoring of this area is performed by ALMAC. Terms of reference for MRC are subject to periodic review by the Board Risk and Compliance Committee.

Management Credit Committee (MCC)

MCC provides input to the Board Credit Committee and is authorised to approve credit facilities within certain limits. The Committee also monitors the quality of credit risk exposures, Credit Policy, and credit risk appetite. Terms of reference for MCC are subject to periodic review by Board Credit Committee.

Asset and Liability Management Committee (ALMAC)

ALMAC provides input to the Board Risk and Compliance Committee and is responsible for the monitoring and management of the Bank's asset and liability profiles and its liquidity position, with a view to ensuring that the Bank is able to meet its obligations as they fall due. ALMAC is also responsible for monitoring liquidity and market risk performance against policy limits and risk appetite set by the Board and for reviewing the Bank's Liquidity Policy and its Individual Liquidity Adequacy Assessment Process (ILAAP). Terms of reference for ALMAC are subject to periodic review by Board Risk and Compliance Committee.

Criticised Assets Committee (CAC)

The Criticised Assets Committee meets to review any delinquent or criticised assets and to recommend provisions or write-offs to the Board Credit Committee. Terms of reference for the CAC are subject to periodic review by Board Credit Committee.

AML Oversight Committee (AML)

The AML Oversight Committee provides input to the Board Risk and Compliance Committee. It meets monthly to review the Bank's Anti Money Laundering policies and procedures and monitor suspicious activity reports, regulatory orders, sanctions matching and transaction monitoring. Terms of reference for AML Oversight Committee are subject to periodic review by Board Risk and Compliance Committee.

Compliance function

The compliance function stands at the intersection between auditing, internal control and management's legal responsibilities and is the guardian of the Bank's Code of Conduct. It acts as a separate discipline and has responsibility and acts in relation to all aspects of the Bank's operations with particular responsibility in connection with:

- Regulatory authorities;
- Laws and regulations;
- Other Internal directives;
- Proposing Anti-money laundering requirements in relation to the SYSC Sourcebook and the Joint anti-Money Laundering Steering Group guidelines and the Money Laundering Regulations;
- The specific requirements for training and competence within the regulators' rulebook; and
- Ensuring that the Bank's customers are treated fairly and that any complaints received from customers are recorded and dealt with appropriately.

The Bank's Compliance Department proposes policies and procedures for monitoring and reviewing the Bank's adherence to the regulations, laws and principles governing the Bank. The Department reports to each meeting of the Board Risk and Compliance Committee and has a direct reporting line to the committee chairman if it is concerned that specific issues should be escalated. The department also reports directly to the Board on financial crime issues. It also provides input to the AML Oversight Committee and the Management Risk Committee, both of which meet monthly. The Head of Risk Management and Compliance reports administratively to the Executive Director and also has a dotted reporting line to the Chairman of the Board Risk and Compliance Committee.

Risk Management function

The Risk Management Department supports the Board-mandated Risk Committees to fulfil their delegated responsibilities in respect of risk governance. This function covers each of the significant categories of risk, namely retail, commercial and treasury credit risk, market risk, liquidity risk, and operational risk, and plays a major role in supporting the various departments of the Bank to manage their risks effectively on a day-to-day basis.

The Risk Management Department is responsible for the maintenance and review of the Bank's risk policies and appetites and submits changes and recommendations to the relevant management and Board committees. It also has oversight over the risk management frameworks and monitors the effectiveness of these in maintaining the Bank's risk profile within the tolerances set by the Board.

The Department reviews each credit proposal and limit application submitted by the business units and adds its support or raises any concerns before proposals are submitted to the Management

Credit Committee. It is also responsible for day-to-day monitoring of individual and grouped credit exposures against agreed limits and for monitoring the credit risks inherent in such limits. The Department has the authority to suspend limits, should the need arise. The credit risk profile of the Bank is reported to the Board Credit Committee at its regular meetings.

Market risk is independently monitored, whilst the adequacy of the Bank's Capital and Liquidity positions are reviewed daily. Regular capital and liquidity stress testing is undertaken and reported to ALMAC.

The Department facilitates regular risk self-assessments throughout the Bank and collects Key Risk Indicator metrics from the operating departments to measure Operational Risk. The results are analysed and trends are reported to the Management Risk Committee and the Board Risk and Compliance Committee.

The Risk Management Department proposes stress and scenario tests to the relevant Board committee and analyses the results of the tests. These are reported to the relevant management committee. Any recommendations for action as a result of stress and scenario testing are presented to the relevant Board committee.

The Head of Risk Management and Compliance reports to the Executive Director and has direct access to the Chairmen of the Board Credit Committee and the Board Risk and Compliance Committee.

The Board of Directors is satisfied that the Head of Risk Management and Compliance is independent from the business units he oversees and has appropriate authority. Remuneration of this officer is directly overseen by the Board Remuneration Committee. He cannot be removed from this position without prior, specific agreement of the Board.

Third Line – Assurance

The Board Audit Committee, which is formed of three non-executive directors, two of whom are independent, considers the Bank's financial reporting; the nature and scope of audit reviews; and the effectiveness of the systems of internal control, compliance and risk management. It reviews all internal audit reports on the operation of the Bank's systems and controls within all parts of the first and second line of defence. As a separate Board Committee, free from potential influence from the executive, it is able to exercise an independent review role. The Board Audit Committee may also authorise or exercise its authority to commission reports from professional external agencies as considered necessary as circumstances require.

Internal Audit

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Bank's operations. It helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance. This involves ensuring that controls are in place and working effectively in accordance with the Bank's policies and procedures as well as with laws and regulations, and that the Bank's records and reports are accurate and reliable. The work carried out by Internal Audit includes providing assurance on the effectiveness of the second line of defence functions as well as that of controls operated by operating departments. The Board Audit Committee approves the Annual Audit Plan and also receives regular reports of the results of audit work.

The Head of Internal Audit reports functionally to the Board Audit Committee and administratively to the Bank's Managing Director.

The Board Audit Committee is satisfied that the Bank's Internal Audit function is independent from the business units it oversees, and that it has sufficient authority within the Bank.

Coverage of risks

Pillar 3 disclosures in this document cover credit risks, market risks, and operational risks.

There is additional information regarding credit risks in the 2018 Annual Report and Accounts; other information regarding liquidity and funding risks is also included there.

Capital resources

Available capital

The Capital Adequacy calculations in this document are made in accordance with CRD IV. At 31st December 2018 and throughout the year, the Bank complied with the capital requirements that were in force as set out by its Board and the Bank's regulators. The following table shows the breakdown of the total available capital as at 31st December 2018:

Tier 1 Capital	2018 (GBP Thousands)	2017 (GBP Thousands)
Paid-up share capital	37,000	37,000
Profit and Loss reserve	(2,005)	(4,630)
Fair value reserve for available-for-sale	370	94
Intangible Assets	-	-
Sub-total		
Tier 2 Capital		
Subordinated Debt	Nil	Nil
Total Capital Available	**35,365**	**32,464**

Tier 1 Capital comprises paid-up share capital and the Profit & Loss reserve (negative due to the Bank's start-up costs) less intangible assets. These all qualify as Common Equity Tier 1 capital under CRD IV.

The Bank has no Hybrid Capital or other Capital Instruments.

Capital Management and Internal Capital Adequacy Assessment Process

The Bank determines its minimum Capital Resource Requirement (CRR) in accordance with the regulatory requirements of CRD IV.

The Bank undertakes an Internal Capital Adequacy Assessment Process (ICAAP), which is an internal assessment of its capital needs. This internal assessment is an evaluation of all risks for the Bank which is not adequately mitigated by provision of regulatory capital. The ICAAP is performed annually, or more frequently should the need arise.

The ICAAP documents all material risks identified by the Bank to determine the capital requirement over a three-year horizon, and includes stressed scenarios to guide the Bank's strategic planning and

to satisfy regulatory requirements. Where capital is deemed as not being able to mitigate a particular risk, alternative management actions are identified.

The ICAAP is presented to the Management Risk Committee and then to the Board (with whom ultimate responsibility lies) for challenge and approval. The regulator assesses the Bank's ICAAP on a regular basis and sets Individual Capital Guidance (ICG) for the Bank.

Regulatory and internal capital adequacy is monitored on a daily basis by the Risk Management Department. It is reported daily to the executive, monthly to the Management Risk Committee and quarterly to the Board Risk and Compliance Committee and the Board. An assessment of the impact on internal and regulatory capital adequacy is made before launching any new products or undertaking new activities, or entering into significant transactions. Approval from the Risk Management Department is required prior to entering into transactions which require the allocation of capital.

As part of the ICAAP process (and as noted above) the Board has identified a number of other risks faced by the Bank which do not attract capital under the Pillar 1 rules. The Bank has allocated additional capital requirements for these additional Pillar 2 risks as detailed below ("the Pillar 2 capital requirement"). The regulator also introduced a requirement for banks to hold additional capital to enable it to withstand events which are outside of its direct control, such as a deterioration of the macro-economic environment. This additional capital is referred to as the Capital Planning Buffer. In conjunction with the regulator, the Bank has determined its PRA Buffer, which it holds in addition to other capital requirements. The total capital requirement of the Bank is determined as the sum of:

- the Pillar 1 capital requirements,
- the more stringent of: any ICG set by the PRA or the Bank's Pillar 2 requirements and
- The PRA Buffer.

In the view of the Bank, and in line with its ICAAP, the excess of capital resources over and above its Pillar 1 capital requirements, ICG and PRA Buffer is sufficient to meet its existing and planned capital needs. Capital adequacy is stress tested against severe but plausible stress scenarios on a monthly basis, with the results being reported to ALMAC. Results of the latest capital stress test are also reported to each BRCC meeting.

The Bank has been keeping up with the following regulatory changes with regards to capital requirements framework:

- The Capital Conservation Buffer ("CCB") came into effect. The purpose of this buffer is to enable firms to absorb losses in stressed periods. A CCB of 2.5% will be required to be maintained above the regulatory minimum capital requirement by 2019, with this requirement being phased-in in accordance with the transition timetable set out in the CRD; and

- The Countercyclical Buffer ("CCyB") also came into effect. This buffer required firms to build up capital when aggregate growth in credit is judged to be associated with a build-up of system wide risk The buffer can be drawn down to absorb losses during periods of stress. Responsibility for setting the CCyB rate rests with the individual members of the European Union and in the UK the Financial Policy Committee ("FPC") is responsible for setting the CCyB rate that applies to UK exposures.

In November 2018 the FPC announced that it was increasing the UK CCyB rate from 0.5% to 1 of risk-weighted assets.

Minimum Capital Requirement – Pillar 1

The Bank's overall minimum capital resource requirement under Pillar 1 is calculated by adding the credit risk charge to that required for operational risk using the basic indicator approach, and the position risk requirement for the market risk element.

The following table shows both the Bank's overall minimum capital requirement and capital adequacy position under Pillar 1 at 31st December:

Total Minimum Capital Requirement	2018 (GBP Thousands)	2017 (GBP Thousands)
Credit Risk (Standardised)	7, 312	7,341
Market Risk	35	28
Operational Risk	1,208	1,155
Pillar 1 requirement	8,556	8,524
Total Capital Resource	35,365	32,464
Excess of Capital Resource over capital requirement under Pillar 1 and additional capital guidance.	**16,352**	**14,651**

Minimum capital requirement – credit risk

The following table shows the Bank'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:

Minimum Capital Requirement 8%	2018 (GBP Thousands)	2017 (GBP Thousands)
Financial Institutions	4,806	4,295
Retail	9	48
Corporate	-	11
Secured against Real Estate Property	2,2,08	2,505
Fixed and other assets	288	277
Credit Risk minimum capital requirement	**7, 312**	**7,341**

The retail credit exposures above relate to staff loans and overdrawn customer current accounts.

Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract, which potentially affects all areas of the Bank's business. Among the risks the Bank engages in, credit risk generates the largest regulatory capital requirement.

The Bank is committed to having a strong credit function under which the Bank's exposures are controlled within a well-defined credit risk appetite, laid down by the Board and Board Credit Committee. The credit systems and controls ensure that the exposures that the Bank enters into are prudent and are in line with its strategy.

Large exposures and concentrations within the credit portfolio are managed through policy limits agreed by the Board Credit Committee for counterparty, country and industry exposures.

General framework

Responsibility for ensuring that credit risk remains in line with the Bank's risk appetite falls within a number of different areas, which can be summarised as follows:

Approval

- **The Board of Directors** retains the ultimate responsibility for setting the Bank's risk appetite, including the credit risk appetite, and for ensuring the establishment and adherence to sound principles for risk identification, measurement, monitoring and control. For the purpose of facilitating the Bank's operations, it delegates authorities to approve financing facilities at various organisational levels which are documented in an authority matrix, clearly specifying the limits and conditions for each level, in the Credit Policy.
- **The Board Credit Committee** is the main credit risk authority after the Board of Directors. It oversees the management of the credit risk structure, reviews and approves credit applications within its authority and takes decisions on credit issues that are beyond the authorities granted to management.
- **The Management Credit Committee** is responsible for approving credit recommendations and making other credit decisions in line with its delegated authority and for reviewing and recommending to the Board Credit Committee any transaction or facility over and above its own approval mandate. The committee also reviews all credit policies and recommends approval to Board Credit Committee.

Acquisition and marketing

- **The Marketing Departments** undertake credit origination and relationship management.

  Marketing Departments are responsible for the selection of customers to approach for credit relationships. Credit proposals are the responsibility of the Relationship Manager, and are passed through the credit approval process before referral to the appropriate credit committee as necessary.

Monitoring and Administration

In relation to credit exposure, the Risk Management role is to review all credit and limit applications prior to recommending them to the Management Credit Committee. It also monitors all exposures and the credit quality of the portfolio and all approved limits, provides back-office support to the credit process and reviews all credit policies to ensure that they remain relevant.

Structure

In terms of structure, business origination and acquisition, credit approval, administration and risk management are separated from each other to provide effective and efficient control, transparency and accountability.

Exposures

The gross credit risk exposure (based on the definitions for regulatory capital purposes, before credit risk mitigation) and the average for the year is summarised as follows:

31st December 2018:

	Average 2018 (GBP thousands)	December 2018 (GBP thousands)
Financial Institutions	327,163	317,567
Retail	1,074	1,236
Corporate	149	
Secured by Real Estate Property	83,163	77,1887
Government Securities (UK and USA)	115,419	92,383
Other	3,917	3,853
Total	**530,885**	**492,227**

29th December 2017:

	Average 2017 (GBP thousands)	December 2017 (GBP thousands)
Financial Institutions	305,668	304,186
Retail	1,463	1,063
Corporate	1,750	1,106
Secured by Real Estate Property	89,168	90,497
Government Securities (UK and USA)	61,161	100,171
Others	3,629	3,742
Total	**432,839**	**500,765**

All transactions secured by real estate property are secured by mortgages over residential property located in England or Wales.

The geographical distribution of these exposures at 31st December 2018 is as follows:

	UK GBP 000	North America GBP 000	Africa GBP 000	Other European Countries GBP 000	Rest of the World GBP 000	Total GBP 000
Financial Institutions	58,373	22,544	22,496	60,481	153,673	317,567
Retail	1,236					1,236
Corporate						
Secured by Property	77,188					77,188
Government Securities (UK and USA)	18,000	74,383				92,383
Other	3,853					**3,853**
TOTAL	**158,650**	**96,927**	**22,496**	**60,481**	**153,673**	

	UK GBP 000	North America GBP 000	Africa GBP 000	Other European Countries GBP 000	Rest of the World GBP 000	Total GBP 000
Financial Institutions	67,533	54,312	34,192	87,283	95,665	338,985
Retail	1,467	-	-	-	-	1,467
Corporate	1,106	-	-	-	-	1,106
Secured by Property	90,497	-	-	-	-	90,497
Government Securities (UK and USA)	18,000	47,371	-	-	-	65,371
Other	3,742	-	-	-	-	**3,742**
TOTAL	**182,345**	**101,683**	**34,192**	**87,283**	**95,665**	**501,168**

The following table shows the residual maturity of the exposure 31st December 2018

The maturity of exposures is shown on a contractual basis. Contingents are not included as exact maturities are unknown. They would be expected to expire within 9 months.

	Overnight and Demand GBP 000	2 days to 3months GBP 000	3 to 6 months	Over 6 months	Total
Financial Institutions	232,980	76,346	-	-	309,326
Retail		-	-	65	-65
Corporate	-	-	-	-	-
Secured by Real Estate	-	3,141	801	75,055	78,998
Government	75,826	-	-	-	75,826
Other	-4,268	179	1,563	3,422	5,159
TOTAL	**308,801**	**79,666**	**2,364**	**78,477**	**469,309**

29th December 2017:

	Overnight and Demand GBP 000	2 days to 3 months GBP 000	3 to 6 months	Over 6 months	Total
Financial Institutions	205,667	64,454	-	-	270,121
Retail	-	-	-	-	-
Corporate	-	-	-	-	-
Secured by Real Estate Property		2,542	457	83,498	86,497
Government	97,563	-	-	-	97,563
Other	1	254		3,202	3,457
TOTAL	**303,231**	**67,250**	**457**	**86,700**	**457,638**

Impairment provisions

The Bank has in place processes to ensure constant review of its risk asset portfolio so that non-performing accounts can be quickly identified and reclassified appropriately. Final classification of accounts into non-performing and problem exposures will be initiated by Risk Management and ratified at the appropriate Credit Committee meetings. Accounts classified as overdue or non-performing are managed in accordance with the Bank's policies for such accounts and the management activity is monitored by the Risk Management Department. The status of impaired and past due loans are reported to the Management Credit Committee and Board Credit Committee together with recommended courses of action.

The Bank considers the following factors, amongst others, in determining the amount of impairment losses to apply against individual non-performing accounts:

- known cash flow difficulties experienced by the borrower
- Past due contractual payments of either principal or interest
- A significant downgrading in credit rating by an external credit rating agency.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- the Bank's aggregate exposure to the customer
- the viability of the customer's business model and its capability to trade successfully out of financial difficulties and generate sufficient cash flow to service its debt obligation
- the amount and timing of expected receipts and recoveries
- the extent of other creditors' commitments ranking ahead of, or *pari passu* with the Bank and the likelihood of other creditors continuing to support the customer
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession
- The likely deduction of any costs involved in recovery of amounts outstanding.

International Financial Reporting Standard (IFRS 9)

The Bank completed IFRS 9 Financial Instruments from 1 January 2018. IFRS 9 calculates provision based on a forward-looking expected loss model. The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 introduces a new approach for classification and measurement of financial instruments and a more forward looking Impairment methodology.

As at 31/12/2018, the Bank had allocated £126,055 for expected losses under IFRS 9.

Further details of the impact of IFRS9 can be found in the Bank's 31st December 2018 Annual Report and Accounts.

Risk weighted exposures and credit risk mitigation

Use of External Credit Assessment Institutions

For its exposure to credit risk, the Bank uses Fitch Ratings as its External Credit Assessment Institution (ECAI) reference for rated entities. For entities where no external rating exists, an internal assessment is undertaken. The credit assessments provided by the ECAI are used together with an internal assessment process in the consideration of credit risk.

Credit risk mitigation

The Bank uses a range of techniques to reduce credit risk of its lending. The most basic of these is performing an assessment of the ability of a borrower to service the proposed level of borrowing without distress. However, the risk can be further mitigated by obtaining security for the funds advanced.

The Bank may use a number of risk mitigation tools including guarantees, netting and collateral agreements. The primary method adopted by the Bank for mitigation of credit risk for regulatory reporting purposes is to obtain cash collateral. The Bank takes steps to ensure the enforceability of collateral arrangements including the use of standard security documentation and obtaining independent legal opinions.

Risk weighted exposures

The following tables show the exposure values associated with each credit quality step for credit exposures in accordance with the Regulator's credit quality assessment scale under the standardised approach. For risk weighting purposes external credit ratings provided by Fitch have been exclusively used for rated Financial Institutions. Exposures not rated by Fitch have been prudently weighted by the Bank using the regulatory guidelines.

31st December 2018:

Credit Quality Step	**Fitch Rating (where applicable)**	**Exposure Values GBP 000**	**Exposure values after mitigation GBP 000**
1	AAA to AA-	115,844	115,844
2	A+ to A	158,424	158,424
*3	BBB+ to BBB- *	190,374	190,374
4	N/A	1,236	1,236
5	B+ to B-	26,349	4,179
TOTAL		**492,227**	**470,057**

*Note that the Bank's mortgage portfolio, which is secured against residential property in England and Wales, is included under Credit Quality Step 3, despite the fact that it is not rated by Fitch.

29th December 2017:

Credit Quality Step	**Fitch Rating (where applicable)**	**Exposure Values GBP 000**	**Exposure values after mitigation GBP 000**
1	AAA to AA-	171,247	171,247
2	A+ to A	91,297	91,297
*3	BBB+ to BBB-*	173,649	173,649
4	N/A	2,573	2,573
5	B+ to B-	62,401	28,770
TOTAL		**501,167**	**467,536**

*Note that the Bank's mortgage portfolio, which is secured against residential property in England and Wales, is included under Credit Quality Step 3, despite the fact that it is not rated by Fitch.

The following table shows the value and type of collateral used as credit risk mitigants as at 31stDecember 2018

Type of eligible mitigant	GBP thousand
Cash	22,170

At 29th December 2017

Type of eligible mitigant	GBP thousand
Cash	33,631

There is no credit risk or concentration risk in the risk mitigant taken by the Bank.

Counterparty Credit Risk

The Bank is not subject to Counterparty Credit Risk. It is not involved in the derivatives or repo market, and any purchase or sale of assets held in its liquidity buffer is concluded on cash against documents settlement basis on a recognised exchange. The Bank has therefore elected not to allocate additional capital against this risk.

Market risks

Market risk is defined as the potential reduction in net income, or decrease in value of the Bank's balance sheet, arising from adverse market movements. Specific types of market risk faced by the Bank are:

- Interest rate risk
- Foreign exchange risk

Whilst the Bank does not operate a trading portfolio, it is exposed to market risk via its investments in securities, mismatches in the interest rates applicable to assets and liabilities, and also the foreign exchange transactions that it concludes for its customers. The Bank is not exposed to derivatives, does not hold positions in equities and does not securitise any of its positions.

Interest rate risk

Interest rate risk arises from financial instruments where net interest income and market value of the Bank's assets are exposed to movements in interest rates. This risk only arises in the Banking book as the Bank does not run a trading book, and therefore does not have the type of higher risk exposure run by many banking institutions.

In order to maintain a buffer of liquid assets, to ensure that the Bank has access to adequate liquidity during times of stress, the Bank has purchased various United States Treasury Bills, United Kingdom Gilts and EURO denominated paper issued by acceptable European governments. These investments are purchased at a fixed rate of return, the result of which is that the Bank is exposed to movements in interest rates which could affect the value of these investments in the event that they are realised prior to maturity. In addition to monitoring its overall interest rate exposure, as detailed below, the Bank also holds an additional amount of capital to cover potential losses caused by the market risk inherent in these assets.

The Bank is also exposed to interest rate risk in its mortgage portfolio, where assets which earn interest at a fixed margin over the Bank of England Base rate are partially funded with longer term fixed rate deposits. Although Bank of England base rates are at an historic low, and are not expected to fall further, the Bank has deemed this to be a risk and has therefore allocated additional capital in mitigation.

To monitor overall exposure to interest rate risk, the Bank uses the maturity or repricing schedules of balance sheet items to determine the differences between maturing or repricing items within given tenor buckets.

The Bank then measures the potential pre-tax earnings impact over a specified reporting period for the accrual positions, from a 200 basis point movement in the base rate of the main currencies traded by the Bank. As at 31st December, the impact was as follows:

2018:

	200 Basis point increase GBP 000	200 Basis point decrease GBP 000
GBP	670	(709)
USD	319	(307)
EUR	0	-1

2017:

	200 Basis point increase GBP 000	200 Basis point decrease GBP 000
GBP	1005	(1,062)
USD	253	(243)
EUR	6	(7)

In addition to establishing internal limits to monitor interest rate exposure, the Bank has taken due notice of the requirement under CRD IV that it must take action in the event that a perceived 200 basis point shift in interest rates would result in a loss to the Bank of 20% or more of its capital resources.

Foreign exchange risk

Foreign exchange risk arises from assets and liabilities that are denominated in a foreign currency where the Sterling value or net income changes as a consequence of variations in foreign exchange rates.

The Bank does not operate a trading book and exposures to open foreign exchange positions arise as a result of the Bank's purchase and sale of currency on behalf of its customers. These positions are managed by the Treasury Department which match transactions in the market to maintain the overall and individual currency positions within the agreed open limits.

The Bank operates within defined overnight open foreign exchange limits agreed from time-to-time by ALMAC and the Board Risk and Compliance Committee. Adherence to these limits is monitored daily by the Risk Management Department. In view of the very limited exposure to foreign exchange market risk the Bank does not apply any Value at Risk modelling.

The foreign exchange position risk requirement as at 31stDecember 2018 was GBP442 thousand (30th December 2017: GBP349 thousand).

Liquidity risk

The Bank's Treasury Department manages the Bank's liquidity on a daily basis within the limits set by ALMAC and approved by the Board. These are at a level to ensure that the Bank meets its obligations as they fall due and are set to provide a level of liquidity over and above the level required by the regulator.

As it is not possible to allocate capital to mitigate against lack of liquidity, a buffer of highly liquid assets is maintained to ensure that the Bank is able to meet its liabilities during times of stress.

Liquidity positions and the liquidity buffer are reported monthly to ALMAC and quarterly to the BRCC and Board of Directors. The Liquidity Buffer and liquidity position are monitored by the Risk Management Department on a daily basis. The Bank undertakes an Individual Liquidity Adequacy Assessment Process (ILAAP) on an annual basis to ensure that it maintains adequate processes to manage liquidity.

The ILAAP is approved by the Board of Directors and has been reviewed by the PRA, who have provided the Bank with Individual Liquidity Guidance. The Bank's liquidity position is stress tested on a regular basis, to ensure the adequacy of the Bank's liquidity position and has been found to be sufficient at all stages during 2018. The Bank also implemented Liquidity Coverage Ratios during the course of 2018, in accordance with the requirements of the European Central Bank and the PRA.

Operational risk

The Bank has adopted the basic indicator approach to operational risk and has applied the industry standard definition, namely: "the risk of loss arising from inadequate or failed internal processes, people and systems or from external events".
The Bank faces a variety of risks within this definition and undertakes a regular assessment of these risks. The primary risks identified are:

- Business Disruption and Systems Failures
- Clients, Products and Business Practices
- Damage to Physical Assets
- Employment Practices and Workplace Safety
- Execution, Delivery and Process Management
- Regulatory breaches
- Internal Fraud
- External Fraud
- Cyber Crime

The Bank assesses each risk type for the probability and severity of a related event and puts in place mitigants considered suitable to reduce the risks to within the Statement of Risk Appetite and Tolerance set by the Board. The Board of Directors recognises the Bank's operational risks as a distinct risk category that should be managed. The Board Risk and Compliance Committee review the Bank's operational risk policy on at least an annual basis and report its recommendations to the Board. The Board ensures that the policy provides a definition of operational risk and lays down the principles of how operational risk is to be identified, assessed, monitored and controlled.

The Board Risk and Compliance Committee ensure that the Bank's operational risk management policy is subject to internal audit by operationally independent, appropriately trained and competent staff.

Departmental heads are responsible for implementing the operational risk management policy approved by the Board. The policy is consistently implemented throughout the Bank and all levels of staff understand their responsibilities with respect to operational risk management. Risk Management Department together with the departmental heads and executive directors have responsibility for identifying operational risks and developing policies, processes and procedures for managing operational risk in all of the Bank's products, activities, processes and systems.

In order to manage the Bank's key operational risks, data is captured at a departmental and risk oversight level from a variety of sources. These include regular risk self-assessments, internal and external incident analysis, material losses and control failures. The information is analysed and

monitored against defined risk appetite tolerances using a central risk management database, and is reported to the relevant committees.

Under CRD IV, for the basic indicator approach to operational risk, gross income is regarded as a proxy for the operational risk exposure of the Bank. The capital charge for operational risk is calculated separately, based upon gross income over the preceding three years

Pillar 2 Disclosures

The Pillar 1 capital requirements detailed above represent the minimum amount of capital that a Bank is required to hold in relation to Credit, Market and Operational Risk. However, given that banks' business models differ, the amount of capital required by a Bank to support its own business model may be higher than the Pillar 1 requirement. Banks are therefore required to review and disclose their capital requirements in relation to a variety of categories.

As at 31st December 2018, the following risks are mitigated as detailed below:

Risk	Capital Assessment (GBP 000)	Comment
Credit Risk	Nil	Pillar 1 requirement deemed sufficient
Market Risk	Nil	Pillar 1 requirement deemed sufficient
Liquidity Risk	Nil	Buffer of assets held to ensure liquidity in times of stress. A prudent funding profile is followed and a contingency funding plan is in place and tested on a regular basis.
Operational Risk	693	Additional capital held to mitigate operational risks inherent in trade finance
Insurance Risk	Nil	The Bank does not offer insurance products
Concentration Risk	2,194	To mitigate lack of diversification in the credit portfolio
Residual Risk	Nil	N/A. Assets are mitigated with cash collateral held by the Bank
Securitisation Risk	Nil	The Bank does not currently securitise assets
Business Risk	Nil	None. A slowdown in business would not greatly impact the Bank. Changes in business models would be reviewed for capital implications prior to implementation
Interest Rate Risk	608	To cover available for sale investments and interest rate risk in the mortgage portfolio
Pension Obligation Risk	Nil	None required
Group Risk	Nil	Covered by capital allocated under concentration risk
Legal Risk	450	To cover possible flaws in legal documentation
Systems and Controls risk	2,569	To cover potential weaknesses in systems or controls

Following a review of the Bank's ICAAP, the regulator has provided the Bank with Individual Capital Guidance (ICG) in relation to its Pillar 2 exposures and required it to maintain a PRA buffer. The Bank is not permitted to disclose details of the Capital Guidance nor of the Capital Planning Buffer, as both are deemed to be confidential. The Bank can confirm that during 2018, it has maintained sufficient

capital to comply with the stricter of its own Pillar 2 assessments and ICG, whilst maintaining the required PRA buffer.

CRD IV comparison

With the implementation of CRD IV on 1st January 2014, the way that the Bank calculates its capital adequacy has changed. In addition to calculating the amount of capital required under Pillar I, Pillar II and its PRA buffer (or its Individual Capital Guidance plus PRA Buffer, should this be more stringent), CRD IV requires a bank to calculate its capital adequacy as follows:

Firstly, the Bank calculates its "Pillar 1 exposure amount", being its risk weighted credit exposure, together with prescribed exposures for Operational and Market risks.

Secondly, the Bank calculates the amount of capital that it is required to set aside under Pillar 2 and deducts this from its capital resources (ensuring that a maximum of 25% of Tier 2 capital is used for this purpose) and then deducts any capital planning buffer from available capital.

Finally, the Bank calculates the ratio of remaining capital to its Pillar I exposure amount, ensuring that the following ratios are exceeded:

Ratio	Required level
CET1	4.5%
Tier 1	6.0%
Total Capital	8%

As at 31st December 2018, the Bank's capital ratios using this methodology were as follows:

Ratio	Actual level
CET1	22.56%
Tier 1	22.56%
Total Capital	22.56%

Leverage

Article 451 of the Capital Requirements Regulation requires banks to make certain disclosures in relation to leverage. Leverage is defined as the Bank's Tier 1 capital divided by the Bank's total on and off balance sheet exposures, expressed as a percentage. In calculating its leverage, the Bank has elected to use its Tier 1 capital and has not applied any of the derogations permitted by the Regulation.

As at 31st December 2018, the Bank's leverage ratio was 7.29%. This has been calculated by applying the Bank's Tier 1 capital of GBP 35,365,050 against total balance sheet footings of GBP492,226,160 noting that certain elements of the Bank's contingent liabilities have been discounted in accordance with article 429.10 of the CRR.

At the time of writing, the relevant regulators have not set a formal limit for leverage ratios, although indications are that limits will be set in the region of 3%. In order to ensure that leverage ratios are maintained at acceptable levels, the Bank reviews its leverage ratios on a daily basis, and has set leverage ratios considerably higher than the 3% level. This will require it to take action should leverage ratios fall to unacceptable levels, prior to any regulatory limits being breached.

Remuneration

Remuneration Policy

The Bank has elected to establish a Remuneration Committee in line with the Regulator's General Guidance and on risk and proportionality and the introduction of CRD IV regulations of the European Union. The Board of Directors has therefore set out its Terms of Reference for the establishment of The Board Remuneration Committee as a sub is committee of the Board of Directors._The Bank's Remuneration Policy has been developed by Senior Management and is approved on an annual basis by the Bank's Board which also approves the Bank's annual budget for staff remuneration. The policy is designed to ensure that the Bank recruits and retains the high quality staff it requires to build a successful business. The Bank's Remuneration Policy is reviewed annually by the Board of the Bank and recommends to the Board for approval the principles and parameters of Remuneration Policy across the bank in respect of all employees in accordance with all regulation to which the bank is subject.

As the Bank is still in the early stages of its development, it has not, as yet, linked its Remuneration Policy to the financial performance, either of the Bank as a whole, or of individual staff members. In view of this, the Bank's Remuneration Policy does not specify the levels of variable remuneration to be paid by staff in relation to performance, nor does it contain any element of guaranteed variable remuneration, which will only be paid in exceptional circumstances. The Board of Directors is therefore comfortable that the current Remuneration Policy promotes sound and effective risk management, does not encourage excessive risk taking and is in line with the Bank's declared Risk Appetite, strategy, objectives and long term interests, and does not promote conflicts of interests. Variable remuneration will not exceed 100% of fixed remuneration, unless the prior approval of the shareholders and regulators is obtained, and any variable remuneration will be subject to the terms of any regulation in place when it is awarded. Where required by either regulation or the Board, payment of variable remuneration will be subject to restrictions in terms of size, timing of payments, claw-back and cash / non-cash constituents of any sum awarded.

The performance of all staff is appraised on an annual basis, with the distribution of any salary increases or elements of variable remuneration being at the discretion of the Managing Director and in accordance with regulatory direction, taking into consideration the Bank's ability to use retained income to strengthen its own financial position. Remuneration of the Executive and the Head of Risk Management and Compliance and the Head of Internal Audit is directly overseen by the Board Remuneration Committee.

The Board is also aware that the Bank's compliance with the terms of the Remuneration Policy is vital to ensuring that excessive risk taking is not encouraged and will therefore instruct that an independent internal review is conducted on an annual basis, to ensure that the terms of the policy are adhered to. The Board ensures that staff involved in control functions are independent from the business units that they oversee, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business they control.

The Bank is required to disclose the aggregate levels of fixed and variable remuneration made to its Code Staff, being the Bank's directors, senior managers and staff in significant influence functions, in

control positions or those taking significant risk. During the period 1st January 2017 to 31st December 2018, the Bank employed 9 Code Staff, being the Executive and non-executive directors and the heads of Audit, Compliance /Risk Management and Treasury. During this period, the Code Staff received total remuneration of GBP 768,106.11, split as follows:

Fixed Remuneration:	GBP	745,816.32
Variable Remuneration:	GBP	22289.79

Variable remuneration was paid in cash, as it fell within the guidelines for cash payments of variable remuneration under CRD IV.

The Bank did not make sign-on, severance or guaranteed variable remuneration payments to any of its Code Staff during 2018.

No individual member of staff received a remuneration package exceeding EUR 1,000,000 during 2018.

Approval

These disclosures have been reviewed and approved by the Bank's Board of Directors