



## **FCMB Bank (UK) Limited**

**PILLAR 3 DISCLOSURES**  
FOR THE YEAR ENDED 31 DECEMBER 2024

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## **1. Introduction**

### **1.1 Business Profile**

FCMB Bank (UK) Limited (the “Bank”) is a limited company incorporated and registered in the United Kingdom with company registration number 6621225. The registered address is 81 Gracechurch Street, London, EC3V 0AU. It is a bank authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA (Financial Services Register number: 502704). It is a wholly owned subsidiary of First City Monument Bank Ltd (“FCMB” or “Parent Bank”), which is regulated by the Central Bank of Nigeria and a member of the FCMB Group PLC, a leading financial services group based in Nigeria.

The Bank is authorised to accept deposits from wholesale and retail customers and the details of its Part IV permissions are available at the URL below:

<https://register.fca.org.uk/s/firm?id=001b000000MgGThAAN>

The Bank is domiciled in the UK, operating from a central London office and providing services to customers and counterparties focussed on Sub-Saharan Africa and other geographies, with a particular focus on Nigeria.

The Bank’s principal products and propositions include:

- Deposit taking, including operating / current accounts.
- Trade finance.
- Commercial and syndicated lending.
- Buy to let Mortgages.
- Treasury operations, including money market and forex, including eFX, and the management of an investment portfolio, including bonds and fixed income securities.
- Digital banking services, which are currently in pre-launch phase, with further significant developments expected in 2025 under the Rova brand

### **1.2 Basis of Disclosure**

The Pillar 3 disclosures are unaudited and have been prepared by the Bank to meet the requirements of Capital Requirements Directive (“CRD”) and to provide information in line with Articles 431 to 455 of Capital Requirements Regulations (“CRR”) and the associated disclosure section of the PRA Rulebook to the extent that this is not disclosed in the Audited Annual Report and Accounts (“ARA”) of the Bank.

These disclosures are based on and derived from the same accounting and financial systems that are used in preparing the ARA of the Bank. These disclosures are unaudited however the information has been internally reviewed and validated by the management and formally presented to the Board of Directors (the “Board”) for approval. These disclosures are provided in addition to the ARA.

## 2. Key Regulatory Metrics

\$'000	December 2024	December 2023
<b>Own Funds:</b>		
Common Equity Tier 1 (CET1) Capital	57,951	50,032
Total Capital	67,551	59,632
<b>Risk-Weighted exposure amount</b>		
Total Risk-Weighted exposure amount (TREA)	350,177	287,662
<b>Combined buffer requirement (as a % of TREA)</b>		
Capital Conservation buffer	2.50%	2.50%
Overall capital requirement	16.0%	17.34%
<b>Leverage Ratio</b>		
Total exposure measure	376,611	486,253
Leverage Ratio %	14.73%	10.29%
<b>Liquidity Coverage Ratio (LCR) *</b>		
Total High Quality Liquid Assets	159,598	194,898
Cash Outflows	96,430	88,187
Cash Inflows	48,532	54,942
Total Net Cash Flows	47,897	33,244
Liquidity Coverage Ratio %	333%	729%
<b>Net Stable Funding Ratio (NSFR) *</b>		
Total Available Stable Funding	264,324	185,387
Total Required Stable Funding	159,601	106,823
Net Stable Funding Ratio %	166%	174%

\* Per CRR Article 447, each LCR component has been calculated as the 12-month average, and for NSFR components the average of the last four quarters. Hence, the LCR % is the average of the previous 12 reported LCRs, rather than the average HQLA / the average net outflow.

## 2.1 Regulatory developments

### Basel 3 Finalisation

In 2024, the PRA published its near final rules on the credit risk, output floor and reporting and disclosure elements of the 'Basel 3.1' standards.

The PRA's proposed implementation date for the finalisation package was 1 January 2026, with a transitional period of four years; however, in January 2025, this was delayed until 1 January 2027 to allow time for greater clarity in the implementation plans of the US. The transitional period has also been reduced to three years, so that the date of full implementation remains 1 January 2030.

We continue to assess the impact of Basel 3.1 standards on our capital.

## 2.2 Disclosures

The Pillar 3 Disclosure is published on the Bank's website at: [www.fcmbuk.com/about-us](http://www.fcmbuk.com/about-us)

The following table maps the CRR requirements to the location for the relevant disclosure:

CRR	Pillar 3 Disclosure	Pillar 3 Section
431	Disclosure requirements and policies	1
432	Non-material, proprietary or confidential information	1
433	Frequency and scope of disclosures	1
435	Disclosure of risk management objectives and policies including the Board declaration on the adequacy of the risk management arrangements	2
437	Disclosure of own funds	3
438	Disclosure of own funds requirements and risk-weighted exposure amounts	3
439	Disclosure of exposures to counterparty credit risk	5
440	Disclosure of countercyclical capital buffers	5
445	Disclosure of exposure to market risk	3
446	Disclosure of operational risk management	5
447	Disclosure of key metrics	4
448	Disclosure of exposures to interest rate risk on positions not held in the trading book	5
449a	Disclosure of environmental, social and governance risks (ESG risks)	5
450	Disclosure of remuneration policy	6
451	Disclosure of the leverage ratio	4
451a	Disclosure of liquidity requirements	4
453	Disclosure of the use of credit risk mitigation techniques	5

### **3. Governance and Risk Management**

#### **3.1 Risk Management Approach**

The Bank has a proactive approach to risk management and endeavours to develop and maintain a healthy business portfolio within the defined risk appetite and regulatory framework. The risk management framework is designed to identify key risks, measure, mitigate and monitor them effectively to achieve an appropriate trade-off between risks and returns and thus enhance shareholder value, all while protecting customers in line with Consumer Duty. In the process, an integrated and coordinated approach is followed to inculcate a risk culture with the active involvement of the risk owners and other stakeholders including the Board.

The ultimate responsibility for risk management at FCMB UK rests with the Board of Directors. The day-to-day responsibility is cascaded down through delegation of responsibilities to the:

1. Board Risk and Compliance Committee and Board Credit Committee.
2. Executive Committee ("EXCO"), Management Risk and Compliance Committee ("MRCC"), Asset and Liability Committee ("ALCO"), Management Credit Committee ("MCC"), Operations Committee ("OPCO"), Customer & Product Committee (C&P) and other executive level committees; and
3. Documented job profiles of individuals.

A top down and bottom-up approach is followed in the risk governance structure of the Bank. For example, the decisions of the Board are disseminated via the executive committees through to the business units. The minutes of various executive level committees and other risk information also flow back to the Board and Board committees on a regular basis.

Based on its strategic business and operational objectives, the Bank is exposed to a wide range of risks such as credit, liquidity, market, currency, operational, cyber / technological, strategic and regulatory risks. The Board considers that effective and prudent risk management is critical to the achievement and sustainability of the Bank's strategic business objectives. The Bank's Board is satisfied that the risk management systems and processes that are in place are adequate, given the size and complexity of the Bank.

The Bank's risk management policies and practices are integrated and structured to identify, measure, monitor, anticipate and develop suitable mitigants to risks that may affect the fulfilment of the Bank's objectives.

#### **3.2 Governance Structure**

The Bank has a Board approved Corporate Governance Manual ("CGM") which outlines the Bank's approach to corporate governance and remains committed to adhering to best practice corporate governance principles. The CGM includes a suite of documents which is reviewed annually, this includes delegations provided by the Board, to Board Committee through defined terms of reference. Decision making responsibility at the Bank rests ultimately with the Board of Directors, and the full details of responsibilities is set out in the Board approved Management Responsibilities Map (MRM). The Bank's risk appetite is set by the Board. The risk management framework and risk appetite statement are reviewed and updated as part of an annual review process and as and when necessary and approved by the Board. The Board has delegated responsibility for developing, implementing, and updating these policies, control systems and limits to the senior management team. The Bank operates a "Three Lines of Defence" model as part of its governance structure, and the third line of defence is outsourced to a specialist third-party provider.

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The Board, supported by various subcommittees which, provide appropriate support to assess the implications of the economic performance of the target markets, socio-political developments, and changes in the regulatory environment. Board Composition

The Board is comprised of nine directors of which four are independent non-executives (INEDs); three are non-executives (NEDs) of which represent the parent (with an additional alternate director), one executive director (ED). The number of directorships held by the Bank's Board directors (including FCMB UK) are outlined below :

Director Name	Role	Directorships
Frank le Roex	NED and Chairman (resigned 31 December 2024)	1
Albert Maasland	INED and Chairman (appointed Chairman 1 January 2025)	4
Derren Sanders	ED and interim Chief Executive Officer (resigned 24 April 2025)	2
Martin Richardson	ED and Chief Executive Officer (appointed 2 May 2025)	2
Amy Kirk	INED	3
Richard Jones	INED	3
Susannah Alier	INED	4
Yemisi Edun	NED	2
Ladipupo Balogun	NED	6
Gerald Ikem	NED (alternate for Ladi Balogun)	
Oluwatoyin Olaiya	NED	1

The Board is responsible for control and governance of the Bank and each director also has specific responsibilities detailed in job specifications and contained in the CGM. Senior management are responsible for the day-to-day management of the Bank alongside their individual responsibilities. Recruitment onto the Board combines an assessment of technical capability, competency, skills and cultural fit and is managed by the Remuneration and People Committee, with subsequent ratification from the Board. The Board and Board Committees each meet a minimum of four times a year, where necessary, additional meetings are held to consider specific matters.

#### 3.2.1 Board Responsibilities

The responsibilities of the Board are to:

- Act in accordance with the Bank's memorandum and articles of association and exercise powers for the purposes for which they are conferred.
- Set the vision of the bank.
- . Monitor financial performance and approval of the Bank's Financial Statements
- Approve annual budgets and 3-year business plans with overall strategy.
- Monitor performance on a regular basis and review the strategic objectives agreed with management.
- Maintain and ensure that the Bank complies with relevant laws and regulations

#### 3.2.2 Board Committees

To assist the Board in carrying out its functions and to provide independent oversight of the internal control and risk management framework, some responsibilities are delegated to various Board committees such as the Board Audit Committee (BAC), Board Risk and Compliance Committee (BRCC), Board Credit Committee (BCC), Remuneration and People Committee (Rem & People) and Board Digital Committee (BDC). Each of the Committees is chaired by an experienced Chair and members are NEDs only. The Board is kept up to date on the activities of the committees through reports from the



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Committee Chair at each Board meeting. An annual Board effectiveness evaluation is carried out internally by the Bank and externally periodically. The Committees have Terms of References, are accountable to the Board and do not relieve the Board of any of its responsibilities.

Committee	Summary of responsibilities	Frequency
<b>BAC</b>	<ul style="list-style-type: none"> <li>• Ensure the integrity of the Bank's accounting and financial reporting systems, including the independent audit.</li> <li>• Review the relationship with the external auditors, including matters related to their independence and the scope of their audit; to make recommendations on the auditors' appointment and remuneration; to discuss any matters arising from the audit and recommendations made by the auditor.</li> <li>• Review and assess on an annual basis, the responsibilities, functions and pre-approval policy for audit and non-audit services.</li> <li>• Review and approve the annual internal audit program. Periodically reviewing the findings of Internal Audit and management responses and progress in implementing recommendations made by the internal audit.</li> <li>• Review the internal controls for the Bank and in relation to financial reporting for the Bank</li> <li>• Review the form and content of the Bank's statutory accounts and other published financial information including the accounting, provisional policies and disclosures.</li> <li>• Review the Bank's whistleblowing policy and framework.</li> </ul>	Quarterly
<b>BRCC</b>	<ul style="list-style-type: none"> <li>• Review the Risk Appetite Statement of the Bank and recommend to the Board for approval.</li> <li>• Monitor and review the Bank's risk management framework and management of compliance.</li> <li>• Review the risk appetite statement and recommend to the Board for approval.</li> <li>• Monitor and review the Bank's policies as appropriate.</li> <li>• Review ICAAP, ILAAP, Credit Policy, Recovery Plan, Resolution Pack, Solvent Wind Down Plan, and other key regulatory documents of the Bank and recommend for approval of the Board.</li> <li>• Review operational resilience including IT management and cyber-security.</li> <li>• Review the findings of any internal investigations of any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations.</li> <li>• Consider regulatory and other developments</li> <li>• Ensure that appropriate systems are in place for monitoring risk, proper conduct, and compliance with relevant regulations.</li> </ul>	Quarterly
<b>Rem &amp; People Committee</b>	<ul style="list-style-type: none"> <li>• Set a performance-based remuneration framework with reference to corporate goals and objectives</li> <li>• Review and approve the Bank's Remuneration Policy.</li> </ul>	Quarterly

Committee	Summary of responsibilities	Frequency
	<ul style="list-style-type: none"> <li>• Oversee fixed and variable pay arrangements for MRTs and ensure MRTs are properly identified.</li> <li>• Ensure that all variable pay awards are considered in accordance with the firm's financial position and any risk events are accounted for appropriately</li> <li>• Recommend Non-Executive Directors' fees to the Board.</li> <li>• Review and approve key human resources policies for the Bank, particularly those governing the terms and conditions of employment, remuneration and other benefits.</li> <li>• Review and consider succession planning for the Board and Senior management.</li> <li>• Review and approve competencies, roles and responsibilities of key roles in the Bank including those holding SMF and MRT roles.</li> <li>• Oversight of the recruitment and selection of senior management</li> <li>• Ensure that compensation payable in connection with termination of appointment or removal for misconduct is determined in accordance with relevant contractual terms and that any compensation payment is otherwise fair, reasonable, appropriate and not excessive.</li> </ul>	
<b>BCC</b>	<ul style="list-style-type: none"> <li>• Monitor the risk management processes as they relate to Credit Management and Loan Review</li> <li>• Approve credit limits and take lending decisions in line with relevant delegations and exceptional to the approved Credit Policy.</li> <li>• Periodically review and approve the Bank's Credit Policy</li> <li>• Monitor and manage credit risk acceptance criteria, tolerances. Approve country and sovereign limits.</li> <li>• Approve and monitor implementation of the internal rating methodology that the Bank uses to measure credit risk.</li> <li>• Review and approve the Expected Credit Loss (ECL) calculation methodology and periodic calculations.</li> </ul>	Quarterly
<b>BDC</b>	<ul style="list-style-type: none"> <li>• Review, monitor and approve the Bank's digital and transformation strategy</li> <li>• Evaluate technology investments and projects</li> <li>• Review periodic reports on the performance of digital strategy and technology performance across the Bank, including (where necessary relevant emerging risks related to technology and digital matters)</li> <li>• Oversight of the transformation and digital change and project management processes.</li> </ul>	

### 3.2.3 Board Meetings

The Board meetings are scheduled a minimum four times in a year. The Board regularly reviews business performance, progress of strategic objectives, financial performance, management of risk and operations of the Bank. Board meetings are led by the Chairman and an environment of openness is

encouraged in discussions, considerations and debates to support balanced decision making and cultivate independent challenge.

### 3.2.4 Management Committees

The Board has delegated the day-to-day management and business of the Bank to senior management who are also supported by the following, management committees:

Committee	Summary of responsibilities	Frequency
<b>Executive Committee (EXCO)</b>	<ul style="list-style-type: none"> <li>To monitor the progress and performance in line with the Board's approval.</li> <li>Manage and monitor the day-to-day performance of the business.</li> <li>Monitor the financial performance of the Bank.</li> <li>To escalate any necessary matters to the Board as appropriate.</li> <li>Monitor and review the impact of the external environmental factors (including competitor performance, regulatory changes and socio-economic events on the Bank.</li> <li>Review, approve and monitor the IT and Digital strategy for the Bank.</li> <li>Review and recommend for approval the annual Budget and other financial planning for the Bank.</li> <li>Consider human resource issues as necessary.</li> </ul>	Monthly
<b>Management Risk &amp; Compliance Committee (MRCC)</b>	<ul style="list-style-type: none"> <li>Assess the effectiveness of the Bank's Risk Management Framework.</li> <li>Ensure there are adequate bank wide processes and systems for identifying and reporting risks and deficiencies.</li> <li>Consider the Bank's risk appetite and recommend any changes to the BRCC for approval where appropriate.</li> <li>Reviewing and monitor the Bank's application of the Risk Appetite Statement ensuring it is fit for purpose.</li> <li>Monitor operational risk events monthly incident and near misses.</li> <li>Ensuring the business growth plans are properly supported by effective risk infrastructure including review and recommendation of all risk management policies to the BRCC as appropriate.</li> <li>Periodically reviewing the ICAAP, ILAAP, Recovery Plan, Resolution Pack and Solvent Wind Down Plan and recommend to BRCC approval.</li> <li>Providing a clear focus on current and forward-looking risks, including Regulatory Horizon Scanning.</li> <li>Considering the financial risks of climate change, sustainability and ESG related risks.</li> <li>Review regular Compliance performance and escalate any issues as require to the BRCC.</li> <li>Review and recommend the Annual MLRO Report to the BRCC for approval.</li> <li>Oversight of key compliance and financial crime risks facing the Bank.</li> </ul>	Monthly and Ad-Hoc

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Committee	Summary of responsibilities	Frequency
<b>Asset and Liability Committee (ALCO)</b>	<ul style="list-style-type: none"> <li>• Establish the strategies, organisation, method of analysis and system support for the effective management of the assets and liabilities of the Bank.</li> <li>• Review and recommend to the Board the Bank's ILAAP, ICAAP, Liquidity contingency plan and associated capital and liquidity policies for approval.</li> <li>• Recommend limits for liquidity and market risk within the banks overall risk appetite and ensure its implementation.</li> <li>• Monitor the proportion of loans and fixed income securities in assets and their corresponding income and establish strategies on the loans and securities portfolios.</li> <li>• Review and monitor the maturity and re-pricing mismatches</li> <li>• To approve interest rates on assets and liabilities products.</li> <li>• Oversee market exposures for foreign exchange to ensure that limits are maintained.</li> <li>• Monitor compliance with treasury limits and approve counterparties for treasury operations.</li> <li>• Monitor interest rate exposures and consider the results of interest rate stress tests.</li> <li>• Review the funding and liquidity profile, the bank's ability to borrow and lend in the inter- bank market and define the strategies on the deposit base.</li> </ul>	Monthly and Ad-Hoc
<b>Management Credit Committee</b>	<ul style="list-style-type: none"> <li>• Ensure management of the credit risk strategy and Credit Policy as approved by the CC.</li> <li>• Agree and recommend to the BCC, credit, country and concentration risk policies, and underwriting guidelines within the Bank's overall risk appetite.</li> <li>• Agree any changes to the Expected Credit Loss (ECL) calculation methodology and periodic calculations and recommend to the BCC.</li> <li>• Agree exceptions in credit proposals and take credit decisions in line with delegated authority.</li> <li>• Agree new credit products and associated documented processes/procedures and recommend to the BCC.</li> <li>• Consider Customer Outcomes in credit products and decisions.</li> <li>• Review and agree amendments to internal rating scoring methodology that the Bank uses to measure credit risk and recommend to the BCC.</li> <li>• Review credit risk reports on a periodic basis.</li> <li>• Review arrears, provisions and steps taken to ensure repayment of loans.</li> <li>• Review credit events and assess their impact on the credit portfolio. Where relevant, develop an action plan, provide recommendations and progress reports to the BCC.</li> </ul>	Monthly and Ad-Hoc

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Committee	Summary of responsibilities	Frequency
<b>Operations Committee (OPCO)</b>	<p>Review and monitor all customer service delivery channels including onboarding.</p> <ul style="list-style-type: none"> <li>• To ensure that the Bank's IT strategy is aligned with the strategic goals, regulatory requirements and Board approved policies.</li> <li>• Consider and recommend or approve IT capital and operational budgets in line with business requirements and cost and benefit analysis proposed for each major new IT development initiatives.</li> <li>• Approve IT projects in line with business requirements and end-user specifications.</li> <li>• Track status of IT development projects in regard to their priorities, timelines and implementation issues.</li> <li>• Approve all third-party vendors and service providers and monitor their financial conditions, performance, resilience and adherence to contractual agreements.</li> <li>• Monitor and review any new Operational Risks, ensuring root causes are identified and mitigating actions are in place.</li> <li>• Oversee Operational Resilience and Business Continuity Plans for the bank, ensuring clear actions are in place for both the bank and key 3rd party suppliers.</li> <li>• Monitor and provide mitigation for risks associated with cyber security, operational resilience, outsourcing, critical third parties and key vendors, advising MRCC of any issues.</li> <li>• Monitor IT service levels, service improvements and data protection/security matters, including operational resilience and cyber security.</li> <li>• Consider and recommend to EXCO for consideration and submission to the Board for approval all major operational projects including premises and facilities management.</li> <li>• Report to the EXCO on the status of major IT and Operations projects or issues.</li> </ul>	<p>Monthly and Ad-Hoc</p>
<b>Customer and Product Committee (C&amp;P)</b>	<ul style="list-style-type: none"> <li>• To review, manage and deliver products aligned to the Bank's strategy and in line with regulatory requirements paying particular attention to Consumer Duty outcomes, PROD, vulnerable customers and TCF.</li> <li>• Monitor and review customers outcomes and feedback ensuring that the products and services provided by the Bank.</li> <li>• Identify where customers or groups of customers are not experiencing positive outcomes and remediate as necessary.</li> <li>• To review the service delivery across the bank for the benefit of the customer.</li> <li>• Escalation of relevant matters to other management committees where required and necessary.</li> </ul>	<p>Monthly and Ad-Hoc</p>

### **3.3 Three Lines of Defence**

The Bank has adopted the three lines of defence model to achieve an effective governance and oversight of the risk management framework.

#### First Line of Defence

The front line employees are primarily responsible for identifying and managing risks in their respective business areas. The Board and Senior Management approve policies and procedures that assist them in active risk management and periodic reporting on risks. The risk framework enables management to make best use of early warning indicators to identify, evaluate and respond quickly by initiating remedial actions.

Specific responsibilities of the First Line include:

- Ownership of the risks in the respective business segment or area of operations.
- Embedding risk management framework, policies and sound risk management practices into standard operating procedures.
- Efficient management of available and allocated economic and regulatory capital to generate acceptable returns.
- Assist in generating liquidity to mitigate funding and liquidity risk through deposit mobilisation and accessing other funding avenues, as needed.
- Comply with the terms of the Funds Transfer Pricing (FTP) and Risk Adjusted Return on Capital (RAROC) methodology for efficient management of risk and capital allocation.
- Carry out initial climate risk assessment when onboarding clients or during periodic review of existing clients.
- Engage with clients to understand carbon intensities and their business plans for mitigating climate risk.
- Understand, assess and consider uncertainties and developments around timing and channels of climate risk.
- Adhering to policies and procedures in day-to-day operational activities.
- Reporting on ongoing risk identification, assessment, control, mitigation and monitoring.
- Ensuring that processes and controls are operated on an ongoing and consistent basis to manage risks effectively.
- Attending risk training and workshops to contribute to risk identification.

The Finance function is responsible for capital management, performance analysis, regulatory reporting, FTP and RAROC methodology, and providing analytical support to Management Risk and other functions for scenario modelling and stress testing.

The Operations and IT functions provide operational support to the front office including back-office support to Treasury.

#### Second Line of Defence

The second line of defence consisting of the Risk, Compliance, Data Protection and Financial Crime functions are responsible for developing policies, setting direction, introducing best practices, guiding implementation and monitoring their proper execution.

The Risk function, including Credit, is responsible for facilitating the development, implementation and embedding of processes whereby management identifies, assesses, monitors, controls and mitigates

the risks in the business. It monitors and oversees all risk exposures. It is also responsible to approve risk request from the first line.

The Compliance function is charged on a continuing basis to develop, enhance and actively encourage high standards of compliance within FCMB UK. Its main roles are to assist in the development of appropriate policies and procedures; provide compliance advice as required for the business; and monitor compliance by the business with the agreed policies and procedures and applicable laws and regulations as well as horizon scanning and planning for upcoming developments which may impact the Bank, regulatory and other.

The Risk and Compliance functions provide oversight over business processes and risks and provide assurance to the Board along with the outsourced audit function.

The second line is responsible for:

- Developing, maintaining and monitoring implementation of risk management framework, policies, systems, processes and tools.
- Ensuring that risk management framework, policies, systems, processes and tools are reviewed and updated periodically and effectively communicated to the First Line.
- Establish early warning system for potential or actual breaches of limits and risk appetite.
- Influencing and challenging decisions that give rise to material risk exposure and grant credit and other process related approvals.
- Set-up and own central risk frameworks.
- Develop the tools for identifying and assessing climate risks and develop scenarios and undertake stress testing.
- Support first line activity to understand, assess and consider emerging uncertainties.
- Deliver training in risk identification, management and mitigation, with an emphasis on emerging risks e.g., climate change
- Reporting to the governing body via the CRO on all risk management matters including risk mitigation actions as and where appropriate.

#### Third Line of Defence

The Bank does not have an in-house 'internal audit function' and has outsourced the Internal Audit function to Grant Thornton. It provides independent and objective assurance on the operations of FCMB UK to the Audit Committee of the Board on the internal controls, risk management and governance processes. The Bank follows the guidance under SYSC on the internal audit functions and the day-to-day relationship with the outsourced internal audit is managed by the CRO. The outsourced internal audit function has direct access to the Chair of the Board Audit Committee and presents its reports to the Committee besides attending the Board Audit Committee meetings, as well as various other committee meetings.

The third line is mandated to:

- Provide independent assurance to the Board.
- Independently assess the design and operational effectiveness of the Bank's internal controls, risk management and governance systems and processes.
- Assess the quality of risk MIS to the Board and Senior Management.
- Suggest improvements and corrective actions wherever considered necessary; and
- Track implementation of all internal audit recommendations and external audit reports and report to the Board.
- Make suggestions to the Board and BAC of an appropriate rolling program of Internal Audit reviews.

### **3.4 Assurance**

MHA served as the Bank's auditors for the financial year ending 31 December 2024. They provided an opinion as to the truth and fairness of the Bank's financial statements and provided feedback directly to the Board Audit Committee and the Board regarding the effectiveness of the Bank's systems and controls.

### **3.5 Integrated Planning Process**

The Bank has in place an integrated planning process which is refreshed annually. This includes:

1. **Budget** – This is approved by EXCO & the Board
2. **3 Year Financial Plan** – This is approved by EXCO & the Board
3. **Internal Capital Adequacy Assessment Process ("ICAAP")** – Based on the Board approved 3 Year Financial Plan. Further detail included within Section 3.1
4. **Individual Liquidity Adequacy Assessment Process ("ILAAP")** – Based on the Board approved 3 Year Financial Plan.
5. **Recovery Plan ("RP")** – The Board is the ultimate owner of the RP. As part of the approval process, the plan is reviewed and challenged by the Board at least annually, following ICAAP and ILAAP approvals. If there are any changes to the Bank's business model, strategy, environment or activities, an interim review is carried out and any resultant changes are incorporated into the recovery plan and approved by the Board. The RP is also reviewed, challenged and approved by the BRCC which is chaired by an independent NED, thereby ensuring the integrity of the corporate and risk governance process. Senior management are responsible for overall day-to-day management of the Bank's risks, including capital and liquidity. The assigned management team retains responsibility for the day-to-day monitoring of risk limits, early warning indicators ("EWI" alerts) and limit breaches. In the event of a crisis, the Bank will activate its Crisis Recovery Committee (CRC), chaired by the CEO and comprising other EXCO members, to evaluate the action steps required to contain a crisis event on the perceived basis of the nature, severity, and duration of the situation.
6. **Resolution Pack** – The Resolution Pack details aspects of the Bank business that are required for the PRA in the event that the Bank goes into resolution.
7. **Solvent Wind Down Plan ("SWDP")** – The Board is the ultimate owner of the SWDP and as part of the approval process, the policy is reviewed and challenged by the Board at least annually. The SWDP records the plan the Bank will follow in a solvent wind down situation.
8. **Pillar 3 Disclosures** – These disclosures are provided in addition to the Audited Annual Report and Accounts.



## 4. Capital Resources

### 4.1 Internal Capital Adequacy Assessment Process (ICAAP)

The Bank manages its capital through an ICAAP, and the Individual Capital Guidance (ICG) stipulated by the Prudential Regulation Authority (PRA). The ICAAP is refreshed and approved by the Board periodically, at least annually, to confirm that it remains valid in the light of changes in the business plan, market conditions or circumstances specific to FCMB UK's activities. The capital adequacy is monitored regularly based on the business profile.

The Bank manages its capital structure and adjusts it according to changes in economic conditions and the risk characteristics of its activities. Stress tests are carried out periodically, and the Bank's capital position and business pipeline is reviewed on a weekly basis at the Performance Management Committee (PMC). No material changes have been made to the objectives, policies, and processes from the previous years. However, they are under constant review by management.

### 4.2 Total Available Capital

The following disclosures are in accordance with the requirements of the Capital Requirements Directive and as submitted to the PRA and do not reflect any adjustments to the financial statements which are not considered to be material.

	\$'000	31/12/2024	31/12/2023
Tier 1 capital (T1)	Share capital	53,900	53,900
	Retained earnings	5,750	(1,269)
	Other comprehensive income (Other reserves)	(136)	(1,642)
	Intangible assets	(620)	(541)
	Other Capital Adjustments	(443)	(416)
Total Tier 1 capital		57,951	50,032
Tier 2 Capital (T2)	Subordinated loans	9,600	9,600
<b>Total capital (TC= T1+T2)</b>	<b>Total regulatory capital (CAR)</b>	<b>67,551</b>	<b>59,632</b>
	Required capital including buffer	55,967	50,485
	Surplus Capital	11,584	9,147
	Risk weighted assets	350,177	257,090
	Tier 1 capital ratio	16.5%	17%
	Total capital ratio	19.3%	21%

Tier 1 capital at 31 December 2024 is comprised of 53,900,000 issued and fully paid at \$1 each share and retained earnings. Tier 2 capital is comprised of 10-year fixed rate subordinated notes.

#### 4.3 Minimum Capital Requirements

\$'000	31/12/2024	31/12/2023
<i>(8% of Own funds requirement)</i>		
<b>Credit Risk</b>	24,221	20,567
Central Governments and Central Banks	2,449	2,005
Corporate	4,513	3,118
Personal and Business Banking	366	507
Financial Institutions	16,635	14,064
Other items	259	873
<b>Market Risk</b>	634	424
<b>Operational Risk</b>	3,148	2,022
<b>CVA Risk</b>	12	
<b>Total Pillar 1 Capital Requirement</b>	28,014	23,013

## **5. Risk Appetite**

### **5.1 Risk Appetite**

The overarching risk appetite remains embedded within the Bank's strategy and is to avoid losses in all aspects, whilst recognising that losses are an inevitable consequence of doing business albeit it is managed and monitored within pre-defined risk appetite and tolerance limits. To this end the Bank continues the desire for sustained diversified growth through the provision of services and efficient deployment of funds in products and geographies that it understands. Ultimately, the Bank's aim is to deliver good customer outcomes with healthy returns commensurate with the risk and reward dynamics.

The Bank operates under a Risk Management Framework ("RMF") which is reviewed and approved annually by the Board. Tolerances and Early warning indicators (EWI), as well as actions when breaches occur or are expected are contained in a Risk Appetite Statement ("RAS") which is also reviewed annually by the Board and forms a key basis of medium and long-term planning.

### **5.2 Credit Risk**

Credit risk is the risk of loss as a result of any counterparties failing to fulfill their contractual obligations. The Bank follows the 'Standardised Approach' to credit risk management as prescribed in the Capital Resources Requirements and Capital Requirement Directive IV. Credit risk is managed through credit approval processes; the credit approving authority structure; setting and monitoring of prudential exposures and country/counterparty limits; portfolio management and risk-based pricing.

The Bank has a strong record with regard to credit quality. It realised one credit loss during 2024, in respect of holdings in Ghanaian sovereign Eurobonds, which underwent a restructuring. As of 31 December 2024, the Bank had one non-performing stage 3 exposures, which also related to a sovereign backed loan in Ghana and which was also pending restructuring. The ECL in 2024 reduced due to crystallisations of the Ghanaian bond losses. In other respects, it remained broadly stable. The Bank is active in emerging markets, which are by their nature more prone to challenging credit conditions. Where it observes signs of distress or potential distress the Bank implements dynamic monitoring and may tighten its credit risk appetite where appropriate.

Provisions are made in line with the requirements of IFRS9. Management considers those provisions provide adequate cover for the Bank's credit risk. The Bank has developed a model for the calculation of its Expected Credit Loss with the assistance of external consultants. It has been customised to match the Bank's business profile, whilst drawing on both internal and external sources of data, such as probabilities of default, loss given default ratios and macro-economic forecasts. For the forward-looking element of the calculation, the portfolio is split between Nigeria, other emerging markets and the rest of the world. These three categories each has its own set of macro-indicators that applies best to the respective region. The model is reviewed at least annually to ensure it continues to perform satisfactorily and statistical integrity is maintained. The model and its outputs are maintained by the Credit Department, with oversight from the Management and Board Credit Committees, and ultimately the Board. The model is also critically examined by the external auditors.

The Bank monitors the performance of all credit exposures. It classifies an exposure as past due whenever a due payment of interest or principal is overdue. The Credit Department is responsible for monitoring exposures. If it has a concern as to whether an exposure may be at risk of default this is

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referred to the Management Credit Committee and subsequently the Board Credit Committee. Exposures are classified as impaired if there is a reasonable probability of default, in a manner consistent with IFRS9.

Countercyclical capital buffer (CCyB) rates and Geographical distribution of material credit exposures

Country of exposure \$'000	CCyB Rate %	Total exposure subject to CCyB	% of Bank's total CCyB exposure
Nigeria	0.0%	88,043	48.1%
Ireland	1.5%	22,705	12.4%
United Kingdom	2.0%	18,858	10.3%
Cayman Island	0.0%	14,193	7.7%
Tanzania, United Republic of	0.0%	9,129	5.0%
Luxembourg	0.5%	9,097	5.0%
United Arab Emirates	0.0%	5,728	3.1%
Ghana	0.0%	4,593	2.5%

### 5.2.1 Credit Risk Mitigation

The Bank uses credit risk mitigation (CRM) in terms of the cash collateral available against Letters of Credit, Group and other counterparty deposits, risk participations and eligible credit insurance for calculation of capital requirements. All CRM is supported by legal documentation and a legal opinion where required.

Exposure type \$'000	Unsecured carrying amount	CRM substitution outflows	CRM substitution inflows	CRM Cash collateral	Haircut on cash collateral	Property collateral	Secured carrying amount	RWA
Central Governments	57,091	(3,361)	-	-	-	-	53,730	25,836
Corporates	202,546	(6,146)	9,507	(61,103)	(34)	-	137,374	181,129
Buy to let mortgages	9,050	-	-	-	-	18,778	9,050	3,168
Total	268,687	(9,507)	9,507	(61,103)	(34)	18,778	200,155	210,132

### 5.3 Market Risk

Market risk arises from fluctuations in capital values of traded assets, interest rates, exchange rates and/or market prices of commodities. The Bank follows the standardised method for calculation of Pillar 1 capital.

The Bank does not currently maintain a trading book. It holds a bond portfolio for liquidity and profit purposes which exposes it to related interest rate, credit, and foreign exchange risks. The bonds are marked to market (MTM) on a periodic basis determined by the term and maturity. The MTM on the bond portfolio is circulated to Performance Management Committee (PMC) members daily, and reviewed weekly at the PMC, including the impact on the Bank's capital.

#### **5.4 Operational Risk**

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events arising from day-to-day operating activities. Fraud, data compromise, IT disruption, cyber-attack, and conduct breaches are examples of operational risk that the Bank is exposed to. The operational risk requirement has been calculated using the Basic Indicator Approach (BIA). The operational risk is managed and mitigated in various ways including:

- Policies and Procedures
- Operational Resilience planning
- Cybersecurity Strategy
- Recruitment processes
- Monitoring of losses and near misses
- Business Continuity Plans: review, testing and monitoring
- Third-Party Vendor Risk Management and Procurement policies
- Regulatory monitoring

#### **5.5 Liquidity Risk**

##### **5.5.1 Definition**

Liquidity risk is the risk of not maintaining adequate liquid resources to meet the Bank's obligations as and when they fall due, at all times. As noted in section 2.2.3, day to day oversight of liquidity risk and its monitoring is delegated to ALCO.

##### **5.5.2 Rationale and Objectives**

- The Bank is required to comply with the Overall Liquidity Adequacy Rule ("OLAR") under which it is expected to maintain at all times adequate liquid resources both in quality and quantity to ensure that there is no significant risk that its liabilities cannot be met when they fall due.
- Additionally, the Bank must comply with the specific LCR and NSFR requirements under CRD V.
- The Bank recognises the short-term nature of its liquidity profile and has set targets and strategies to attract more long-term, stable deposits from retail depositors. The Bank will also increase its use of retail deposits through the digital banking initiative 'Rova' in due course.
- The Bank's liquidity plan and requirements are set out in the ILAAP document which is refreshed annually.
- The Bank utilises deposit aggregator platforms to obtain long term deposits to facilitate longer lending opportunities. The maximum size of the deposits is subject to the deposit

insurance limit set by FSCS, and the tenor can range from 3 months to 5 years. The Bank has taken steps to diversify this funding source.

- The Bank recognises the importance of a stable diversified funding base, particularly in times of stress. To this end the Bank has set deposit concentration limits to mitigate an over-reliance on one particular source of funding. The Bank utilises 3rd parties to mobilise funding such as Deposit Aggregators i.e., Raisin, Flagstone and, in future its bespoke platform Rova, which produce granular, stable, longer-tenor deposits at competitive and cost-effective rates. Such deposits are monitored and managed to avoid maturity clusters – a limit of monthly maturities of <25% of total liabilities per 3<sup>rd</sup> party/deposit aggregator. Maximum funding acquired via 3rd parties is capped at 50% of total liabilities.
- The Bank has taken cognisance of the risks enumerated in the “Dear CEO Letter on Deposit Aggregators” as the Bank utilises deposit aggregator platforms to raise deposits. It believes this risk is manageable as the platforms are origination channels and not counterparties. The actual individual deposit counterparties are large in number with small tickets that are protected by FSCS in case of deposits raised through Raisin. However, the deposits raised through Flagstone include deposits from individuals, charities and corporates which are subject to FSCS protection as per their eligibility. The platforms provide good tenors of deposits that the Bank can manage on a portfolio basis at competitive rates which makes the aggregator ‘book’ the most stable source of funding available to the Bank.
- Over time the Bank intends to add additional platforms to the mix including using Rova as a fixed tenor deposit aggregator. In the initial stages of its operation, Rova is not projecting to mobilise substantial deposits. However, as it gets embedded and matures the Bank will reconfigure its deposit mobilisation strategy to ensure a proper balance between the platforms.
- While wholesale funding can be expensive and unreliable, particularly in times of stress, and short-term the deposit aggregator funds, fixed for up to 3 years are a reliable source of liabilities and make a strong contribution to managing the Net Stable Funding Ratio.

## **5.6 Interest Rate Risk**

### **5.6.1 Definition**

- Interest Rate Risk in the Banking Book (“IRRBB”) relates to present and future risks to a bank’s capital and earnings arising from fluctuations in market interest rates.
- The Interest Rate Risk in the Banking Book basically arises due to mismatches in the re-pricing schedules of assets and liabilities.
- IRRBB is typically quantified in two distinct ways.
  - *Economic Value of Equity measures* - An Economic Value of Equity (“EVE”) approach evaluates the change in the net present value of all cash flows originating from banking book assets, liabilities, and off-balance sheet items resulting from a change in interest rates and assuming a run-off balance sheet.
  - *Earnings-based measures* - An earnings-based approach evaluates the change in net interest income over a particular time horizon as a result of a movement in interest rates and based on certain balance sheet assumptions (e.g., run-off balance sheet, constant balance sheet, dynamic balance sheet).

- In order to arrive at the impact, the assets and liabilities are placed in buckets according to their re-pricing time and a net gap calculated. The values are then discounted using rates given for the forward yield curve to calculate economic value at risk.

### **5.6.2 Rationale and Objectives**

- As part of its obligations under the overall Pillar 2 rule, the Bank must carry out an evaluation of its exposure to the interest rate risk arising from its non-trading activities, including an evaluation of its exposure to risk arising from potential changes in interest rates that affect either or both of the following:
  - (1) the economic value of the firm's non-trading activities.
  - (2) the earnings in respect of the firm's non-trading activities.
- The PRA expects that the Bank must regularly carry out an evaluation in respect of the following 6 interest rate shock scenarios to all material currencies.
  - scenario 0: current interest rates.
  - scenario 1: parallel shock up.
  - scenario 2: parallel shock down.
  - scenario 3: steepener shock (short rates down and long rates up).
  - scenario 4: flattener shock (short rates up and long rates down).
  - scenario 5: short rates shock up; and
  - scenario 6: short rates shock down.
- For the purposes above the Bank has to determine which currencies are material currencies using the following tests:
  - (1) each currency that has non-trading book assets in that currency more than 5% of total non-trading book assets shall be a material currency.
  - (2) where the sum of non-trading book assets in material currencies as identified under (1) does not exceed 90% of total non-trading book assets, a firm must select additional currencies to be deemed material currencies such that the sum of non-trading book assets in material currencies as identified under (1) and (2) is at least 90% of total non-trading book assets.
  - (3) each currency that has non-trading book liabilities in that currency more than 5% of total non-trading book liabilities shall be a material currency; and
  - (4) where the sum of non-trading book liabilities in material currencies as identified under (3) does not exceed 90% of total non-trading book liabilities, a firm must select additional currencies to be deemed material currencies such that the sum of non-trading book liabilities in material currencies as identified under (3) and (4) is at least 90% of total non-trading book liabilities.
- The Bank must immediately notify the PRA if any evaluation under the rule indicates that, as a result of the application of the interest rate scenarios as above the EVE would decline by more than 15% of the sum of its common equity tier one capital and its additional tier one capital.
- The Bank must carry out the evaluation as frequently as necessary for it to be reasonably satisfied that it has at all times a sufficient understanding of the degree to which it is exposed to the risks and the nature of that exposure. In any case it must carry out those evaluations no less frequently than once a year.
- The Bank does not actively pursue interest rate positions in any of its business lines and the majority of its exposures have floating rates or maturities of less than 90 days.
- As the Bank attracts longer maturity retail deposits at fixed rates, it will accept increased interest rate risks, but this risk is not expected to be high.
- The Bank automates the generation of interest Rate Risk MI on a daily basis and ensures the scope of monitoring is adequate and appropriate for all relevant parties.

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- Deposit risk will also be partially offset by longer dated TF forfeiting transactions and retail Buy to Let assets.

#### 5.6.3 Impact

The impact of the six shocks from an EVE basis is as follows:

\$'000	31/12/2024	31/12/2023
<b>EVE</b>		
Parallel Up	199	113
Parallel Down	(728)	171
Steeper	(178)	(135)
Flattener	157	500
Short Rates Up	241	466
Short Rates Down	(615)	(73)
<b>Maximum</b>	<b>(728)</b>	<b>500</b>

#### 5.6.4 Earnings-based IRRBB

The bank also assesses its Interest Rate risk using an earnings-based methodology. Parallel up and down shocks are applied to the balance sheet and the results noted. A constant balance sheet is used for the basis of assessing the earnings based IRRBB with earnings changes calculated over a 12 month horizon.

#### 5.6.5 Impact on Earnings

\$'000	31/12/2024	31/12/2023
Earnings based IRRBB	-	-
Parallel Up	859	729
Parallel Down	(1,824)	(1,465)

#### 5.6.6 Hedging Interest Rate Risk

The bank has limited interest rate risk exposure beyond 18 months, with the exception of its hold to maturity Bond portfolio. As a consequence, the bank currently does not use interest rate derivatives to hedge its interest rate exposure but relies on minimising any material maturity mismatches between assets and liabilities. The bank is considering using interest rate derivatives as the balance sheet grows in complexity and maturity.

#### 5.6.7 Key drivers of interest rate risk.

The bank has some key drivers of interest rate risk. These are as follows: -



**Maturity mismatches.**

The bank sources term funding from Deposit Aggregators, Central Banks, Corporate and retail clients directly and financial institutions. The bank currently accepts deposits in GBP and USD. These deposits are Fixed Term deposits with maturities that reflect the desire of depositors to place funds for certain periods of time. The bank also sources funds from Fi.

The bank also sources Instant Access funding from various counterparties, including Central banks and its own customers.

The aggregate maturities of these deposits do not necessarily match those of the bank's assets.

**Currency mismatches.**

The bank uses FX swaps and forwards to manage its currency mismatches. These Swaps may not bridge the maturity gap between assets and liabilities.

**Interest rate fixing mismatches.**

The bank generally funds its term liabilities on a fixed rate basis as dictated by the market. Its assets are a mix of fixed rate and floating rate loans. Another key part of the interest rate mismatch arises from the HQLA assets held in overnight or short term funds.

**Model issues.**

The bank uses standard models to assess its interest rate risk. These specify larger interest rate shifts for GBP than for USD or EUR.

The same models also only have 6 time buckets below 1 year. Given the large proportion of the bank's assets & liabilities that reprice within this time this level of granularity in grouping balance sheet items together can impact the overall accuracy of IRRBB calculations, due to the timespan of each bucket and the shifts in average maturity when risk positions move between adjacent buckets on consecutive trading days.

The use of a constant balance sheet also adds further potential inconsistencies in assessing earnings based IRRBB. This is because the model assumes that all balance sheet items repricing or maturing within a year will automatically roll over until the 12 month point. This has not generally been borne out in practice.

## **5.7 Currency Risk**

Currency risk is the risk of a mismatch in the balance sheet created by the operation of a multi-currency balance sheet by the Bank. Currency risk, also referred to as foreign-exchange risk or exchange-rate risk, is related to changes in currency values. The currency risk generally occurs because of the following three types of exposures:

- Transaction exposure arising due to transactions taking place in foreign currency e.g., time difference between entitled and physical receipt of foreign currency resulting in an unexpected gain or loss.
- Translation exposure arising from conversion from a local currency to a reporting currency which impact the financial performance differently due to foreign exchange movements.
- Economic exposure caused by the effect of unexpected and unavoidable currency fluctuations in future cash flows and market value. This is long term in nature.

The operating currency of the Bank is US Dollars. It faces forex risks as a significant part of its liabilities are in Sterling and the assets are in US Dollars, as well as some in Euros. The capital of the Bank is in US Dollars. This exposes the Bank to currency risks in terms of mismatches and volatility in exchange rates. The Bank uses currency hedging to manage the risk in the treasury book through FX forward

contracts in order to synthetically match its currency balance sheets. The Bank also uses FX forwards to manage its non-treasury (OpEx) book, which result from revenue being primarily in US Dollar operating expenses GB Pounds.

### **5.8 Cyber Security and Information Security Risk**

Cyber Security's core function is to protect the confidentiality, integrity, and availability of the Bank's information and data including securing all IT equipment, processes, data, and the communications infrastructure of the Bank (including any services that are accessed) from theft, loss of control, or damage by external / internal parties. A key component of this is preventing unauthorised access to the data and information stored on devices, remotely and in the cloud, whether in respect of the Bank's operations or personal / specific to customers. Cyber Security has become an increasing area of concern to all businesses, and particularly those operating in Financial Service, who have become targets for ransom demands through denial-of-service attacks and those targeting information and data. The Bank undertakes periodic reviews of all of its IT security aspects and updates its IT platforms as soon as the Bank, its software / hardware providers or its advisers become aware of known vulnerabilities. Further, the Bank has in place a Board approved Cyber Security Policy Framework and a Cyber Security Strategy to be implemented over a sustained period and has developed significant traction to date in the way it is being implemented. The goals of this strategy include:

- Strengthen cyber capabilities to enable secure, stable, and efficient banking operations, protecting our reputation and assets, with comfort obtained through strong governance and regular reviews and testing.
- Collaborate with key third party vendors and partners to promote resilience and reduce the likelihood and severity of cyber security breaches.
- Educate and promote leading cyber security standards across all Bank colleagues and the wider industry.
- The Bank wishes to remain operationally resilient always and stay ever alert to cybersecurity risk recognising that preventive measures minimise such risk.

The Bank's Cyber Security Strategy is built on feedback received from the PRA from its C-Quest and C-Best Thematic review documents, as well as expertise from both FCMB Group and external consultants. The Bank's approach is also subject to regular review through the Third Line of Defence Internal Audit function.

In support of the Bank's Cyber Security posture, a series of Information Security policies, procedures and related colleagues guidance have been enacted.

### **5.9 Financial Risks of Climate Change and ESG**

The Bank has taken note of the expectations of the PRA in terms of managing climate change risks and initiated steps to address this in a proportionate manner based on the size and exposures. Broadly, the following action points are targeted:

#### **5.9.1 Governance:**

1. The Bank has updated its Risk Appetite Statement, having considered physical and transition risks, and then set short (<5years), medium (and long term (by 2050) targets for the business to mitigate related risks.
2. The Bank monitors the energy efficiency of the properties in its Buy to Let portfolio as one of its Key Risks Indicators in its Risk Appetite Statement.
3. The Board of the Bank has identified and allocated the responsibility an SMF holder.
4. The Bank is mindful to ensure adequate resources, as and when necessary, and has worked to develop adequate skills and expertise in the relevant personnel to manage the financial risks arising from climate change. A Working Group has been formed to oversee this process.
5. The Bank has in place an Environmental, Social and Governance "ESG" Policy, in which it has set out the principles under which it will run its business.

#### **5.9.2 Risk Management**

1. The Bank has incorporated the financial risks from climate change on a proportionate basis into existing financial risk management practices.
2. The Bank has included climate change risk in the Credit Policy and Process and will expand on this as the Bank's strategy evolves.
3. The Bank seeks to identify, measure, monitor, manage and report on such exposures as part of the Risk Management Framework.
4. The Bank will include any material exposures relating to the financial risks from climate change in the Internal Capital Adequacy Assessment Process (ICAAP).
5. The Bank will seek to mitigate its risk where possible. It has developed, and is in the process of rolling out, new products that encourage energy efficiency in housing funded in its buy-to-let customers.

#### **5.9.3 Scenario Analysis**

The Bank carries out periodic scenario analysis of the countries where it has maximum credit exposures and assesses the impact of climate change on the business. This includes both threats and opportunities created by physical and transitional events and changing business patterns.

#### **5.9.4 Disclosure**

The Bank will make adequate and proportionate disclosures in the audited annual financial statements reflecting its evolving understanding of the financial risks from climate change. It is also making the necessary preparations for regulatory reporting requirements as they shall apply to it.

#### **5.10 Financial Crime Risk**

The Bank acknowledges both the regulatory focus and importance in protecting the Bank and the UK financial system from financial crime.

The Bank takes a number of steps to manage this risk. The Bank has in place policies and procedures for the management of anti-money laundering, anti-bribery and corruption, fraud and sanctions risk. These are reviewed annually and approved by Board. Additionally, a Financial Crime Risk Assessment (FCRA) has been developed and is also approved by Board.

The Bank collates management information on financial crime risk. The reports are placed before the Risk and Compliance Committee and the Board Risk and Compliance Committee.

As part of the FCRA, the business model of the Bank is reviewed regularly to ensure that financial crime controls are keeping pace with business developments.

The Bank also has some key systems and controls which it has implemented to mitigate financial crime risks. For example, we have our transaction monitoring (TM) systems and the onboarding functionality for Rova, both of which were operational by the end of 2023 and represent significant enhancements to our financial crime prevention framework.

#### **5.11 Conduct Risk**

The Bank acknowledges the critical importance of customers to its business (wholesale and retail) and aims to operate in a balanced manner ensuring fair treatment of customers. New banking services are developed and approved by the EXCO based in the spirit of Consumer Duty.

The Bank has in place a policy with provisions for conflicts of interest and insider trading to ensure that customer interests are safeguarded and remain paramount in our dealings with them.

The Bank collates management information on Consumer Duty and reviews complaints as part of a complaints handling policy. The reports are placed before the Management Risk and Compliance Committee and the Board Risk and Compliance Committee.

The business model of the Bank is reviewed regularly in view of the evolving market trends and business strategies readjusted to address margins while taking care to ensure that the customer is not adversely affected.

## **6. Remuneration Policy**

As required by the UK Remuneration Code guidelines, the Bank has a remuneration policy in place. It is classified as a proportionality level 3 firm and as such has adopted a proportional approach, disapplying certain provisions where appropriate.

### **6.1 Remuneration and People Committee**

The bank has an established Remuneration and People Committee (Rem & People) with an agreed term of reference. It consists of non-executive directors as members and the executive directors attend the meetings as invitees. The committee takes remuneration decisions for the Chief Executive and oversees fixed and variable pay decisions for all Material Risk Takers (MRTs) as recommended by the CEO to the committee. The Chair of Rem & People is an INED and is also a member of the Board Audit Committee (BAC) and Board Risk and Compliance Committee (BRCC). The Chair has been approved as SMF12. The Board is briefed on the proceedings in the committee meetings. The Remuneration and People Committee is ultimately responsible for the Remuneration Policy Statement. The HR function has been entrusted with the responsibility in developing and implementing the bank's remuneration policies and practices in consultation with the Executive Directors. The information is shared with the Board including the members of the Board Risk and Compliance Committee by way of a brief from the Chair of the Rem & People. The committee takes input from the CFO and the BRCC to ensure there are no adjustments required to variable pay for prudential or risk event reasons. The committee has not appointed remuneration consultants for advice.

During 2024, the Rem & People met formally five times.

### **6.2 Variable Remuneration**

The Bank has in place a discretionary variable pay policy for the benefit of its employees, which classify as 'variable remuneration' as defined in the Code. Based on adequate profitability being achieved for the period, the Rem & People considers and makes recommendations to the Board on a variable pay pool.

The overall quantum and allocation of variable pay are based on a combination of:

- The Bank's profitability against the business plan for the period;
- An appropriate distribution of profits between retaining capital for growth, distribution to shareholders and employees, taking into consideration the needs of the Bank as determined by senior management, the Rem & People and the Board;
- An individual's performance and contribution to the Bank, as well as an individual's behaviours (derived from their performance rating).

The Bank has a Clawback and Malus Policy agreement in place with employees eligible for variable pay.

The Bank is required to submit an annual High Earners Return to the PRA to advise them of colleagues whose remuneration is over €1m. The Bank does not have any colleagues who qualify as High Earners under the definition of "High Earners" and therefore a nil return was submitted for 2024.

## **7. Regulatory Projects and Change Initiatives**

### **7.1 Operational Resilience**

The Bank continues to develop its Operational Resilience program in line with regulatory expectations, working with external consultants. The Bank had identified its important business services ("IBS") (including those that related to its Digital Borderless Banking division, Rova), mapped these services, reviewed vulnerabilities, established relevant tolerances and stress tested several scenarios. As a result, the Bank was able to finalise its initial Self-Assessment of its Operational Resilience state in March 2022. This has subsequently been shared with regulators.

The Bank continues to review its Operational Resilience stance, with further refinement to its approach to IBS, planning for further scenario-based stress tests and ensuring that vulnerabilities are integrated into planning for business continuity and mitigations sought. The Auditors will conduct a review of the Operational Resilience program in Q3 2024, with the Bank due to complete an updated self-assessment for 2025. In addition, all process changes are reviewed for their impact on Operational Resilience.

### **7.2 Cyber Resilience**

The Bank has in place a Board approved IT / Cyber Security Policy Framework and a Cyber Security Strategy to be implemented over a sustained period. The above includes plans and playbooks which facilitate resilience in various identified scenarios. More detail on this is contained in Section 5.8.

### **7.3 Regulatory Reporting Automation**

The Bank is undergoing a Regulatory Reporting Automation project. The scope of this project is to provide for enhanced automation for a range of key regulatory reports including Financial Services Compensation Scheme (FSCS), tax reporting, COREP, FINREP, PRA, BoE and FCA. This project is ongoing with significant enhancements expected by the end of 2025 and further improvements in 2026.

### **7.4 Climate Change**

The Bank has taken note of the expectations of the PRA in terms of managing climate change risks. The Bank's approach and this is covered in Section 5.9.

### **7.5 Financial Resilience**

In a Dear CEO Letter dated 11th January 2024 the PRA updated international banks active in the UK on the priorities for 2024. These priorities complement the supervisory feedback in the Periodic Summary Meeting (PSM) of the firms. Robust governance, Risk management and controls have been highlighted as a major priority for PRA in its 2024 Dear CEO Letter. Effective risk mitigation, robust controls have been embedded in the Bank's existing strategy and planning, which is under review. The Bank's ICAAP, ILAAP and Recovery Plans all factor in Financial Resilience.

Summary of Financial Resilience themes:

1. Sustainability and resilience of the business model - as central banks taper huge stimulus programmes and interest rates are rising
2. Capital - PRA plans to ensure that firms are adequately capitalised
3. Liquidity – firms have sufficient liquidity for the risks they are planning to take (including diversification of funding sources)
4. Improvement in counterparty risk management
5. Managing concentration risks and diversification of asset exposures
6. Close monitoring of credit risk and traded risk
7. Challenge posed by structural changes in the marketplace through digitalisation
8. Risk management and governance and frameworks – ICAAP, ILAAP, Recovery Plan etc.
9. Risk culture
10. Incentive structure – alignment of remuneration with risk management
11. Consistent adoption of IFRS 9
12. Regulatory reporting and data collection
13. PRA wishes to ensure this through core supervision, delivering workplans following periodic meetings, technical risk reviews, and maintaining minimum requirements etc.

#### **7.6 Funds Transfer Pricing**

The Bank recognises the value a Funds Transfer Pricing (FTP) system can bring in terms of managing the balance sheet and enabling it to accurately measure and manage the profitability of many business decisions. The Bank has in place a Board approved FTP policy, methodology, and model. The FTP framework has implemented and is embedded in business-as-usual processes.

#### **7.7 Consumer Duty**

The Consumer Duty Principle was implemented in July 2023 for open products and then July 2024 for closed products. The regulation introduced a new Principle 12, Conduct Rule 6 as well as three cross-cutting rules and four customer outcomes. At present, the Bank has an appointed INED who serves as board champion with BAU activities remaining a collaboration between first and second line. Reviews of current products and price assessments are submitted into the Customer, Product and Service Committee (CPSC).

The latest Consumer Duty Board Report has been reviewed by CPSC and is due to be reviewed and approved by the Board in due course.

#### **7.8 Diversity, Equity, and Inclusion (DE&I)**

The Bank has a dedicated DE&I champion and has set up a ESG and DE&I working group which consists of leadership and colleagues to oversee all matters relating to DE&I alongside the HR function.

In line with the PRA and FCA consultation paper an action plan is in being created to enable us as a firm to monitor our progress against key deliverables.

#### **7.9 Conduct and Culture (Tone from the Top)**

The Bank has undertaken a comprehensive culture review, including a bank wide culture diagnostic which enabled us to understand current behaviours, mindsets and views providing insights for improvement.

The assessment has helped us align our Tone from the Top, enhancing communication through monthly townhalls led by the CEO, and Board members, as well as a regular newsletter from the CEO.

#### **7.10 Model Risk Management**

Model Risk Management is a new regulatory imperative by PRA per CP6 / 22. The Bank's management have started this project, including identifying its key models, and are working through the implications in order to strengthen all related key aspects of the proposed regulations.

#### **7.11 The implementation of Basel 3.1**

This is monitored through MRCC, and the Bank has a working group set up to work on the detail of this project. The Bank has noted PRA's announcement on the delay to implementation until 1st January 2027. The Bank has conducted an impact assessment based on the "near final" rules and has established that the impact is not material for the Bank on that basis. As the Bank has a programme to increase the automation of its regulatory reporting systems, the requirements of Basel 3.1 are incorporated any enhancement to ensure readiness.