Pillar 3 Disclosures 31 December 2015

Contents

1 Introduction

1.1 Business profile

Diamond Bank (UK) Plc. (DBUK or the Bank) is a wholly-owned subsidiary of Diamond Bank Plc, Nigeria (DB Plc or Parent Bank). The Bank is authorised in the UK by the Prudential Regulation Authority (PRA) as a wholesale bank and is regulated by the Financial Conduct Authority (FCA) and the PRA.

DBUK's principal activities are to offer a range of commercial and wholesale banking and financial services to clients primarily based in, or trading with, West Africa, Europe, China and other Asian markets. The main business segment for the Bank is trade finance. DBUK does not have a retail presence, manage client assets, or have a trading book and does not currently securitize any part of its lending. DBUK is a single UK domiciled entity and has no subsidiaries.

The objective of the Bank is to offer a comprehensive range of services to companies and institutions who seek to conduct business in West Africa.

1.2 Pillar 3 regulatory framework

The Basel II Framework is structured around three pillars:

Pillar 1 – the minimum capital requirement and rules for the calculation of credit, operational and market risk. With respect to Pillar 1, the Bank has adopted the Standardised Approach to credit risk; the Basic Indicator Approach ("BIA") to operational risk and Standard Position Risk Requirement Approach to market risk.

Pillar 2 – this is the supervisory review process that requires banks to undertake an internal capital adequacy assessment process for risks not included in Pillar 1. The minimum capital requirements and supervisory review processes are captured within the Bank's Internal Capital Adequacy Assessment Process ("ICAAP").

Pillar 3 – these are market discipline disclosures that allow investors and other market participants to understand the risk profiles of individual banks. The disclosure requirements of Pillar 3 are designed to complement the minimum capital requirements described under Pillar 1 and the supervisory review process of Pillar 2. The intention of the Pillar disclosures is to promote market discipline by providing market participants and other stakeholders with key information on firms' risk exposures and risk management processes.

1.3 Basis of disclosure

The European Union ("EU") Capital Requirements Directive ("CRD" or "the Directive") came into effect on 1 January 2007. The Directive introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II Framework. On 1 January 2014 the CRD IV legislative package came into force which revised the definition of capital resources and included additional capital and disclosure requirements.

These Pillar 3 disclosures have been prepared by the Bank in accordance with the requirements of the Capital Requirements Regulation (CRR) and Capital Requirements Directive IV (CRD IV), in particular Articles 431 to 455 of the CRR. The Directives are enforced in the UK by the PRA.

1.4 Location, verification and frequency of disclosure

The report will be published on the Bank's corporate website: www.diamondbankukplc.com and should be read in conjunction with the Diamond Bank (UK) Plc Directors' Report and Financial Statements for the corresponding financial year.

The Bank is a public limited company, incorporated and domiciled in the UK and the disclosures in this document are unconsolidated and prepared for Diamond Bank (UK) Plc only. There are no material practical or legal impediments to the prompt transfer of own funds or repayment of liabilities[1].

The disclosures have not been subjected to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Bank's annual report and accounts.

Throughout 2015 DBUK has operated a system of risk management and internal control which provides assurance over the information disclosed in this report. Pillar 3 disclosures are subject to internal review and validation by senior management and the Executive Committee (EXCO) prior to being submitted to the Board for approval. Consistency checks and reconciliations are performed with accounts and regulatory returns.

Pillar 3 disclosures will be issued on at least an annual basis and shall be published in conjunction with the date of publication of the Annual Report and Accounts. The Bank will assess the need to publish some or all disclosures more frequently than annually if there is deemed to be a material change in the business strategy or the calculation of capital.

Unless otherwise stated, all figures are as at 31 December 2015, which is the Bank's financial period-end.

1.5 Disclosure policy

Regulatory rules require firms to have a formal disclosure policy. The Bank may omit information it deems immaterial. The Bank will regard information as material if its omission or misstatement could change or influence the decision of a user relying on the information for the purpose of making economic decisions.

---

[1] A legal impediment to the prompt transfer of own funds or repayment of liabilities between the counterparties as referred to in paragraphs 5 to 10 of Article 11 of Regulation (EU) No 648/2012 shall be deemed to exist where under the laws applicable to the counterparties, or under the contractual relationship between the counterparties, or between a counterparty and a third party, there are any current or anticipated restrictions including any of the following: (a) Currency and exchange controls; (b) Regulatory restrictions; (c) Restrictions stemming from insolvency, resolution or similar regimes; (d) Current or potential limitation on the ability of a counterparty to promptly transfer own funds or repay liabilities when due between the counterparties.
A practical impediment to the prompt transfer of own funds or repayment of liabilities between the counterparties as referred to in paragraphs 5 to 10 of Article 11 of Regulation (EU) No 648/2012 shall be deemed to exist where sufficient assets of the counterparties are or may not be freely available to the counterparty in the necessary form in order to satisfy such transfers or repayments when due, including due to obstacles stemming from operational, financial or commercial systems, processes or practices.

In addition, if the required information is deemed to be proprietary or confidential, then the Bank may take the decision to exclude it from the disclosure. The Bank defines proprietary information as that which, if shared, would undermine its competitive position. The Bank defines information as confidential where there are obligations binding it to confidentiality with customers, suppliers or counterparties.

2 Risk management objectives and policies

2.1 Risk Management framework

There is a formal structure for managing and monitoring risks at DBUK comprising of a Board approved risk appetite, detailed risk management framework and independent governance and oversight. DBUK's risk management framework is based on the "three lines of defence model". Under this model, responsibilities and accountabilities for risk management resides with all levels within the Bank, from the Board of Directors down to the lowest levels.

First line of defence - The business

This line consists of all business line functions with primary responsibilities for risk management. The process for assessing, evaluating and measuring risks is embedded in their day-to-day activities. The first line of defence comprises senior management, and the core business units in the Bank including all individual members of staff within these. The bank has a series of policies and procedures setting out risk parameters within which business must be conducted as well as regular reports and daily risk monitoring by both the business and the risk management function. Active risk management and timely reporting on risks is crucial to the quick identification and response to potential risks. Management use early warning indicators to identify, evaluate and respond to changes quickly.

Second line of defence - Risk oversight

The second line of defence consists of all business unit functions with primary responsibilities for independent risk oversight and monitoring and who set the Banks's boundaries by drafting and implementing policies and procedures and monitoring their proper execution. They provide oversight over business processes and risks and comprise risk management, finance, HR and compliance functions and, where necessary, recourse to external legal and regulatory advice. These oversight functions ensure compliance and provide assurance oversight for Board members and Audit Committee members.

Third line of defence - Independent assurance

The third line of defence consists of all functions with primary responsibilities for evaluating and providing independent assurance on the adequacy, appropriateness and effectiveness of the Bank's overall risk management framework, risk governance structure, and risk management process and controls. The third line of defence comprises Compliance and internal audit and entails independent challenge, audit of key controls, formal reporting on assurance and will maintain an independent reporting line with the Board Audit & Risk Committee. The independent internal audit function is an outsourced service.

Risk Management framework

The risk management framework is a combination of clearly laid out organisational structure manned by highly experienced professionals together with division of responsibilities and accountability. The structure is further complemented by well-articulated policy manuals outlining general procedures on how the Bank identifies, analyses, reports, mitigates, and manages particular risks.

DBUK has robust and fully developed Individual Liquidity Adequacy Assessment (ILAA/ILAAP) and Individual Capital Adequacy Assessment Process (ICAAP) policies and a strong Recovery and Resolution Plan (RRP) with formally identified recovery triggers. Key Risk Indicators (KRI's) are constantly reviewed and the Bank has a well-established Business Continuity Plan. The Bank believes the overall systems and controls in place combined with an experienced senior management team will reduce the risk of a control failure occurring.

The Bank is committed to a strong risk management culture and risk incident reporting is embedded at all levels within the bank. Detailed risk reports are written for potential or actual risk events and are reviewed by senior management and the Board. Additional controls and procedures may be required where existing controls are not deemed sufficient to mitigate any risks. The DBUK risk management process is designed to identify, analyse and set appropriate limits and controls. These are then applied and monitored through reliable and accurate management information systems. Training is provided at all levels, including at director level. The aim of training is to instil a culture of individual and collective responsibility and accountability. This is established within an environment of discipline, conservatism and constructive challenge.

DBUK's Board of Directors recognise the need to establish reasonable guidelines for identification, measurement, and management of risks in line with regulatory requirements. To this end the Board has put in place written policies and procedures regarding risk tolerance. DBUK manages the business in a conservative manner with a cautious approach to business development, realistic expectations, a strong control culture and professional management. The Board formulates and approves the high level parameters of the DBUK risk appetite policy and reviews this policy on an annual basis. Ongoing supervision is the responsibility of ALCO, which will meet monthly and is chaired by the CFO. The intention is to ensure that all risks are consolidated within an area and named individuals have the necessary skills, tools and commitment to manage the risk profile and policies professionally. The Board and senior management of DBUK are aware that one of the key tools enabling risk to be managed effectively is the availability of detailed and robust management information (MI). The management of DBUK ensures that the reports provided to the Board and external parties are of the highest quality. Internal trigger limits are set below regulatory thresholds as early warning indictors to ensure no breaches of regulatory limits occur.

The CEO (through EXCO) continuously reviews the effectiveness of the risk management policies and EXCO receives and acts on recommendations for changes made by ALCO, either through decision and/or recommendation to the Board. All changes recommended to the Board carry the specific endorsement and support of EXCO. EXCO and the Board of DBUK are satisfied that the risk management framework in place is adequate given the risk profile, size and complexity of the bank's operations.

Our auditors are free to carry out their duties as shareholders' agents. This is in line with DB Group's principle within its corporate governance to adhere to best practices of involuntary and voluntary disclosures and this ensures a co-operative process between FCA, PRA and the Bank.

2.2 Summary of risks

The main risk factors that the bank is exposed to are highlighted below:

Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers or market counterparties fail to fulfil their contractual obligations to the Bank. Credit Risk for the bank arises principally from lending, trade finance and trade services, purchases of securities and money market operations. The bank manages Credit Risk exposures within the Risk Appetite defined by the Board.

Capital risk

Capital risk is the risk that the Bank does not have sufficient capital resources to meet its regulatory capital requirements or to support its current business and strategy for future development.

The Bank is required retain sufficient capital resources under the requirements of CRD IV. These limits are monitored daily by risk and senior management and are subject to rigorous stress testing as part of the Internal Capital and Liquidity Adequacy Assessment Processes and annual review and renewal by the Board.

Market risk

Market risk is the risk that the Bank's earnings or capital or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of markets rates or prices such as interest rates, equity prices and foreign exchange rates. The bank has no trading book and assets are invested at market rates within the constraints of the Bank's risk appetite as approved by the Board. Market risk is further divided into the following:

- Interest rate risk: Interest rate risk is the risk that changes in interest rates will result in reduced income and/or higher financing costs from the Bank's interest bearing financial assets and liabilities.

- Foreign exchange risk: Foreign currency risk arises due to the extent of the Bank's foreign currency assets not matched by foreign currency borrowings in the same currency. All material foreign exchange risks are hedged through forward foreign exchange transactions and monitored on a daily basis through the Bank's risk management reporting systems. The Bank's net open foreign currency position is monitored on a daily basis against internal limits.

Liquidity risk

Liquidity risk is the risk that the Bank's cash and committed facilities may be insufficient to meet its payment obligations as they fall due. On a daily basis, liquidity reports are reviewed by senior management including undrawn lending commitments, overdrafts and contingent liabilities.

Operational risk

The Bank's business is dependent on the ability to process a large number of transactions efficiently and accurately. To mitigate this risk, the Bank has implemented risk controls and loss mitigation actions, including the use of Key Risk Indicators that are integrated into Recovery and Resolution Planning work.

Regulatory risk

Regulatory risk is the risk of an adverse impact resulting from the failure to comply with laws, regulations, codes of conduct and standards of good practice governing a financial institution operating in the UK market. The Bank has an objective Compliance Department and devotes adequate resources towards mitigating this risk. An anti-money laundering (AML) Trade Finance Checklist process is in place to complement an already well developed suite of policies designed to ensure that the Bank complies with all relevant regulatory requirements.

Reputational risk

Reputational risk is the risk of a loss of reputation, both of the Bank and its parent or another Group entity, most likely to arise as a consequence of a failure to manage the other principal risks. The Bank has an experienced management team, follows all rules and regulations of the UK Regulatory bodies and adheres to the Bank's core values.

2.3 Risk Governance structure and oversight

The governance structure has been put in place to allow control and oversight by the Board in respect of all aspects of risk at DBUK. At the pinnacle of the structure the Board sets the risk appetite and strategy for the business. It oversees the implementation of the strategy and monitors that this happens within the tolerance for risk expressed in the Bank’s risk appetite.

To support the Board in considering and challenging specific subject matters three Board sub-committees have been set up:

- Board Audit & Risk Committee;
- Board Credit Committee; and
- Board Remuneration and General Purposes Committee

In addition the Board has delegated authority to an Executive Management Committee (EXCO) for the day-to-day operational management of the Bank. The EXCO has three sub-committees:

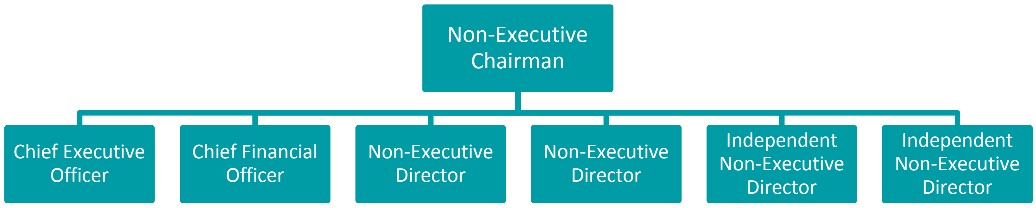
- Asset and Liabilities Committee (ALCO);
- Executive Credit Committee (ECC)
- Executive Audit & Risk Committee (EARC).

The day to day administration of the Bank is supervised by the CEO and relevant internal committees.

2.4 Board of Directors

The Board of DBUK comprises a non-executive chairman (appointed by the parent), four non-executive directors (of whom at least two are independent NEDs) and two executive directors, the CEO and the CFO.

Board structure



Board responsibilities

The Board determines DBUK's strategy and its risk appetite and it sets the Bank's values and standards and ensures that its fiduciary duties to shareholders and other stakeholders are appropriately discharged. The Board of DBUK is the highest authority in the management structure and is ultimately and collectively responsible for the management of the Bank including the meeting of all regulatory requirements as applicable. All members need to be approved by the PRA in their capacity as carrying out controlled functions.

Governance arrangements

Diamond Bank (UK) Plc recognizes the importance of a diversity on the Board and in the workplace. All Board appointments are made on merit taking account of individual competence, skills, experience and knowledge. The Board Remuneration and General Purposes Committee (RGPC) reviews and assesses Board composition and skills mix on behalf of the Board and manages the appointment of new directors. In reviewing Board composition and when considering any new appointments, the RGPC considers all aspects of diversity, including, but not limited to, skills, industry experience, background, race and gender.

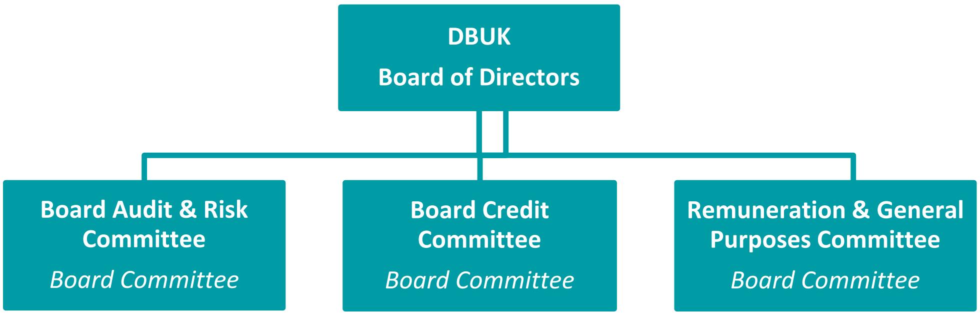
Below is a table indicating how many directorships are held by members of the Board. Directorships held within the same group are counted as a single directorship and those in non-commercial organisations are not included.

Number of directorships held by Board Members 31 December 2015		
Name	**Position**	**Directorships**
Mr Uzoma Dozie	Chairman	4
Mr Garry Marsh	Non- Executive Director	4
Chizoma Okoli	Non- Executive Director	3
Mr Carey Leonard	Independent Non- Executive Director	3
Mr Christopher Duncan	Independent Non- Executive Director	1
Mr David Rollo Greenfield	Chief Executive Officer	1
Mrs Fiona Christiansen	Chief Financial Officer	1

Board oversight

To assist the Board in discharging and overseeing their responsibilities, it has delegated responsibilities to individuals and committees. The Board of DBUK has also delegated responsibilities through the committee structure outlined below:

DBUK Board Committees structure



2.5 Board sub-committees

a) Board Audit & Risk Committee

The Board Audit & Risk Committee is a sub-committee of the main Board and was established to support the Board with technical expertise in respect to audit related matters and to oversee and challenge the services provided by the outsourced internal audit services provider. The Committee also oversees and challenges the adequacy of systems and controls in place and reviews ICAAP, ILAAP and RRP. The Board Audit and Risk Committee makes recommendations to the Board for decision.

The Committee will meet on a quarterly basis at least, normally in London. Any committee member or the Company Secretary may call additional meetings as necessary. The meetings are scheduled so that timely reports can be submitted in advance of board meetings.

The Board Audit & Risk Committee comprises a minimum of three non-executive director members, one of whom, an independent, will act as chairman. In addition, the attendance on a non-voting basis is required of the CEO, failing whom the CRO and/or the CFO, and the outsourced internal audit providers. Other individuals, whether Board members or not, may attend by invitation, also on a non-voting basis.

b) Board Credit Committee

The Board Credit Committee is a sub-committee of the main Board and is responsible for overseeing all aspects of the Bank's credit risk management framework including the credit rating methodology, credit policies and specific credit facility requests.

The Committee meets formally as required or deal with matters by circulation making recommendations to the Board as appropriate. It reports formally to each Board meeting.

The Board Credit Committee comprises a minimum of three directors, one of whom, an independent non-executive director, will act as chairman and includes the CEO or in his absence an alternative executive director. The CRO attends as Secretary and non-voting member. Other individuals may be asked to attend as required.

c) Board Remuneration and General Purposes Committee

The Board Remuneration and General Purposes Committee is a sub-committee of the main Board and was established to support the Board with technical expertise in respect of remuneration, human capital, capital expenditure and business planning. The Committee undertakes an annual review of the Bank's remuneration policy dealing with DBUK's obligations under the remuneration code and has been given a framework within which to approve pay and benefit increases for all staff and variable remuneration arrangements for code staff with the exception of Executive Directors, whose variable remuneration arrangements are approved by the Board, as are all other recommendations of the Committee. The Committee will normally convene on a quarterly basis or more frequently if required.
The Board Remuneration and General Purposes Committee comprises three members, with a non-executive director serving as chairman. In addition, other individuals, whether Board members or not, may attend by invitation on a non-voting basis.

2.6 Executive Management Committees

DBUK Executive management committee structure

EXCO

The EXCO is responsible for the day-to-day running of the bank and for making decisions of an operational nature within their delegated authority from the Board. EXCO meets at least monthly with additional ad hoc meetings as required. The members of EXCO include Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Risk Officer (CRO) and Chief Business Development Officer (CBDO). Other members of staff may attend at the invitation of the Chairman (CEO) but will attend in a non-voting capacity. The Head of Compliance will be invited to attend as a matter of routine. EXCO makes recommendations and/or refer matters to the Board for decision where matters fall outside their authority, are of a strategic nature or where additional scrutiny and challenge from the experienced individuals making up the Board is considered pertinent.

The EXCO has three sub-committees to support its activities.

a) Asset and Liability Committee ("ALCO")

The ALCO is responsible for ensuring the Bank operates within the overall policy and strategy agreed by the Board and EXCO (based on sound commercial practice and regulatory requirements) with respect to the management of liquidity, funding, balance sheet risk, and capital related policies. It oversees, monitors, updates and makes recommendations to the EXCO, regarding the ILAAP, the liquidity contingency funding and liquidity stress tests. The ALCO is the primary governance forum for the management of liquidity risk.

This committee will meet on a monthly basis or more frequently if required. The members of ALCO include CFO (Chair), CEO, CRO, CBDO, Head of Treasury, Financial Controller, Head of Compliance and Internal Audit and Head of Business Development.

b) Executive Credit Committee

The Executive Credit Committee (ECC) is responsible for assessing and monitoring the credit risk management of DBUK, for making recommendations for changes and improvements and for escalating issues to the Board Credit Committee as appropriate. The members of ECC include CRO (Chair), CEO, CFO and CBDO. ECC meets regularly as required or decisions can be made by circulation.

c) Executive Audit & Risk Committee

The Executive Audit & Risk Committee's (EARC) remit covers all relevant items not considered by the Executive Credit Committee or ALCO. In particular it will focus on the day to day operational aspects of risk management and audit. This includes reviewing the results of all relevant monitoring and compliance activities as well as tracking progress of action plans. The members of EARC include CRO (Chair), CEO, CFO and CBDO. EARC meets regularly as required.

3 Own Funds

3.1 Overall own funds

The level of capital resources which DBUK is required to hold is based on the minimum capital resources requirements implemented in article 575 of the Banking Consolidation Directive and the Capital Adequacy Directive. Through its rules, the regulator sets minimum capital resources requirements for firms. Throughout the year the Bank complied with all regulatory capital requirements. The Bank's total own funds as at 31 December 2015 are set out below:

Own funds		
£'000	**31-Dec-15**	**31 Dec 2014[1]**
Common equity Tier 1 (CET1)		
Called up share capital	**48,000**	48,000
Retained earnings	**(15,300)**	(17,532)
Regulatory deductions from common equity Tier 1		
Unrealised losses on AFS debt securities	**(427)**	(398)
Intangible assets	**(32)**	(57)
Total common equity tier 1	**32,241**	30,013
Tier 2 capital	**Nil**	Nil
Tier 3 capital	**Nil**	Nil
Risk weighted assets	**79,333**	65,494
Core tier 1 ratio [2]	**40.64%**	45.83%

Tier 1 capital is comprised of 48,000,000 issued and fully paid ordinary shares at £1 each and retained losses of £15,300,000 that have been audited by the Bank's external auditors.

3.2 Tier 2 and tier 3 capital

As at the 31 December 2015 the Bank had no tier 2 or tier 3 capital.

3.3 Reconciliation between equity to common equity tier 1

Under Article 437 of the CRR DBUK is required to provide a reconciliation of its own funds to the balance sheet in the audited financial statements.

Reconciliation equity and common tier 1 capital resources as at 31 Dec 2015		
	£'000	£'000
Total equity as reported in statement of financial position	**32,273**	30,070
Regulatory deductions from common equity Tier 1		
Intangible assets	**-32**	-57
Total common equity tier 1	**32,241**	30,013

4 Capital requirements

4.1 Capital management

Regulatory capital is calculated in accordance with the requirements of the CRR and the Bank holds sufficient capital resources at all times to support the risk assets of the Bank both in normal trading conditions and in times of stress. The Bank's regulatory capital requirements are calculated and monitored daily by management and reported to ALCO monthly and the Board on a quarterly basis. Capital adequacy ratios are maintained comfortably above minimum regulatory requirements. The Bank has adopted the following basis for the calculation of its Pillar 1 capital requirements:

- Basic Indicator Approach for Operational Risk;
- Standardised Approach to Credit and Market Risk and
- Standard position risk requirement for foreign currency.

The bank has a market risk position arising from foreign currency positions in the non-trading book and there is no trading book.

4.2 Internal Capital Adequacy Assessment Process (ICAAP)

On an annual basis, or more frequently if required, the Bank prepares an ICAAP which is an internal assessment of the Bank's risk profile and its capital needs, designed to address the capital requirements under Pillar 2 of the Basel framework. The ICAAP identifies the risks associated with the business plan and highlights additional capital or management actions that would need to be put in place in respect of each risk. Detailed stress tests are performed that consider the effect of these risks and the outputs of the stress tests are carefully reviewed. A reverse stress test scenario is deliberately designed to determine which combination of stress factors would cause DBUK's business model to become unviable. Management have input to the stress models and the final ICAAP is challenged and subject to comprehensive review before approval by EXCO and the Board. At the highest level DBUK uses the ICAAP as a mechanism for keeping capital requirements under ongoing review both to ensure compliance with regulatory requirements but also to understand the risk and capital implications of any changes to the strategy.

Specifically, it uses the ICAAP for three primary purposes:

a) Capital planning;
b) For identifying risks inherent within the business model; and
c) To assist in the management and mitigation of those risks on an ongoing basis.

The ICAAP is formally presented to, and challenged by, the Board on an annual basis.

4.3 Pillar 1 minimum capital requirement

The table below shows the overall minimum capital requirement under Pillar 1. For credit risk the Pillar 1 requirement is based on 8% of the risk weighted exposure amount for each exposure class.

Minimum Capital requirements				
	31 December 2015		**31 December 2014**	
	Total Risk Weighted Assets	**8% Own funds requirement**	Total Risk Weighted Assets	8% Own funds requirement
	£'000	**£'000**	£'000	£'000
Credit and counterparty credit risk	**72,586**	**5,807**	62,083	4,967
Central governments or central banks	842	67	-	-
Regional governments or local authorities	-	-	-	-
Public Sector entities	-	-	3,208	257
Institutions	13,539	1,083	57,491	4,599
Corporates	57,071	4,566	236	19
Retail	25	2	39	3
Other items	1,109	89	1,109	89
Market risk	59	5	49	4
Operational risk	6,601	528	3,362	269
Total Pillar 1 capital requirement	79,246	6,340	65,494	5,240

5 Risk measurement, mitigation and reporting

5.1 Credit risk

Credit risk is defined as the possibility of loss arising from the failure of a customer or counterparty to meet its obligations under a contract. Credit Risk for the bank arises principally from lending, trade finance and trade services, purchases of securities and money market operations. The bank manages credit risk exposures within the risk appetite defined by the Board.

The Chief Risk Officer (CRO) and the CEO are responsible for developing policies and procedures for the management of all forms of credit risk within the Bank. CRO is responsible for ensuring that this policy is updated and reviewed at least annually by the Board Credit Committee and noted by the Board, which is the body that retains overall responsibility for setting risk appetite. The Executive Credit Committee is responsible for assessing and monitoring the credit risk management of DBUK, for making recommendations for changes and improvements and for escalating issues to the Board Credit Committee as appropriate.

The Bank has adopted the Standardised Approach to Credit Risk. Ratings are provided by Fitch and from internal rating procedures for non-Credit Rating Agency rated counterparties.

5.1.1 Minimum capital requirement for credit risk

The following table illustrates the total minimum capital requirement for credit risk using the standardised approach at 8% of total risk weighted assets by exposure class as at 31 December 2015.

31 December 2015 Total credit risk by exposure class					
Exposure classes	Capital requirement	Exposure value before credit mitigation	Credit mitigation	Exposure value after credit mitigation	Individual impairment
	£'000	£'000	£'000	£'000	£'000
Central governments or central banks	67	12,293	-	12,293	-
Regional governments or local authorities	-	-	-	-	-
Institutions	1,083	60,338	-	60,338	-
Corporates	4,566	300,759	258,573	42,186	-
Retail	2	25	-	25	-
Other items	96	1,329	-	1,329	-
Total minimum capital requirement	5,814	374,744	258,573	116,171	-

31 December 2014 Total credit risk by exposure class					
Exposure classes	Capital requirement	Exposure value before credit mitigation	Credit mitigation	Exposure value after credit mitigation	Individual impairment
	£'000	£'000	£'000	£'000	£'000
Central governments or central banks	-	3,207	-	3,207	-
Regional governments or local authorities	257	3,208	-	3,208	-
Institutions	4,599	304,532	143,291	161,241	-
Corporates	19	31,336	31,100	236	-
Retail	3	39	-	39	-
Other items	89	1,147	-	1,147	-
Total minimum capital requirement	4,967	343,469	174,391	169,078	-

Note: Due to implementation of Act on Equivalence under Regulation (EU) No 575/2013 (CRR) from 1 January 2015, exposures to financial institutions established in a third country which is not subject to the supervisory and regulatory requirements equivalent to those applicable in the EEA (European Economic Area) are classified as exposures to corporates.

5.1.2 Geographic distribution of credit risk

The table below illustrates the geographical distribution of credit exposures by exposure class and is stated before offset of mitigation in the form of cash collateral.

31 December 2015 Geographic distribution of credit risk					
	UK	AFRICA	EUROPE	OTHER	TOTAL
	£'000	£'000	£'000	£'000	£'000
Central governments or central banks	-	842	-	11,451	12,293
Institutions	26,937	-	7,732	25,669	60,338
Corporates	-	294,944	-	5,815	300,759
Retail	25	-	-	-	25
Other items	1,329	-	-	-	1,329
Total	**28,291**	**295,786**	**7,732**	**42,935**	**374,744**

31 December 2014 Geographic distribution of credit risk					
	UK	AFRICA	EUROPE	OTHER	TOTAL
	£'000	£'000	£'000	£'000	£'000
Central governments or central banks	-	-	-	3,207	3,207
Public sector entities	-	3,208	-	-	3,208
Institutions	24,378	231,596	7,490	41,068	304,532
Corporates	-	29,320	-	2,016	31,336
Retail	39	-	-	-	39
Other items	1,147	-	-	-	1,147
Total	**25,564**	**264,124**	**7,490**	**46,291**	**343,469**

5.1.3 Maturity analysis of credit risk

The analysis of residual maturity by exposure class, before offset of mitigation in the form of cash collateral, is illustrated in the table below.

31 December 2015 Residual maturity analysis of credit risk					
	On demand	Less than 1 year	Greater than 1 but less than 5 years	Greater than 5 years	Total £'000
	£'000	£'000	£'000	£'000	£'000
Central governments or central banks	-	12,293	-	-	12,293
Institutions	13,569	42,694	4,075	-	60,338
Corporates	1,885	211,640	42,209	45,025	300,759
Retail	-	16	9	-	25
Other items	1,040			289	1,329
Total	**16,494**	**266,643**	**46,293**	**45,314**	**374,744**

31 December 2014 Residual maturity analysis of credit risk					
	On demand	Less than 1 year	Greater than 1 but less than 5 years	Greater than 5 years	Total £'000
	£'000	£'000	£'000	£'000	£'000
Central governments or central banks	-	3,207	-	-	3,207
Public sector entities	-	3,208	-	-	3,208
Institutions	86,642	201,112	16,778	-	304,532
Corporates	-	31,336	-	-	31,336
Retail	-	22	17	-	39
Other items	858	-	-	289	1,147
Total	**87,500**	**238,885**	**16,795**	**289**	**343,469**

5.1.4 Credit quality step analysis

The Bank calculates credit risk using the standardised approach and the primary external credit assessment institution (ECAI) that the Bank uses to calculate credit risk is Fitch. The following table illustrates exposure values associated with each credit quality step:

31 December 2015 Credit quality step analysis			
Exposure class	**Fitch Ratings**	**Exposure value**	**Exposure value after credit mitigation**
		£'000	**£'000**
Central governments or central banks	AAA to AA-	11,451	11,451
Central governments or central banks	B+ - B-	842	842
		12,293	12,293
Institutions	AAA to AA-	1,203	1,203
Institutions	A+ to A-	4,635	4,635
Institutions	BBB+ to BBB-	39,628	39,628
Institutions	Unrated	14,872	14,872
		60,338	60,338
Corporates	BBB+ - BBB-		
Corporates	B+ to B-	240,763	30,839
Corporates	Unrated	59,996	11,347
		300,759	42,186
Retail	Unrated	25	25
Other items	Unrated	1,329	1,329
TOTAL		**374,744**	**116,171**

31 December 2014 Credit quality step analysis			
Exposure class	**Fitch Ratings**	**Exposure value**	**Exposure value after credit mitigation**
		£'000	**£'000**
Central governments or central banks	AAA to AA-	3,207	3,207
Public sector entities	Unrated	3,208	3,208
Institutions	AAA to AA-	4,930	4,930
Institutions	A+ to A-	23,004	23,004
Institutions	BBB+ to BBB-	65,281	65,281
Institutions	B+ to B-	187,267	46,328
Institutions	Unrated	24,050	21,698
		304,532	161,241
Corporates	Unrated	31,336	236
Retail	Unrated	39	39
Other items	Unrated	1,147	1,147
TOTAL		**343,469**	**169,078**

5.1.5 Counterparty credit risk

Counterparty credit risk (CRR) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default. CRR is derived from a capital calculation related to derivative instruments and financing transactions such as asset loans and repos. The risk takes into account the immediate replacement cost of the defective counterparty, as well as the risk of potential future variation of this exposure. Foreign exchange settlement risk can arise from counterparty default, operational problems, market liquidity constraints and other factors.

DBUK encounters counterparty credit risk from its derivatives portfolio in the form of forward foreign exchange transactions which are used to hedge exposures in the banking book. The CRR mark to market method is used to measure exposures which are marked-to-market (the replacement cost of the contract). The potential future credit exposure is calculated by multiplying the notional principle or underlying values by appropriate regulatory set percentage. These totals are added together to arrive at the total exposure value which is then multiplied by a set percentage to obtain the required CRR. There is no use of netting or offset from collateral in calculating the derivatives CRR.

As of 31 December 2015, the Banks capital requirement under CRR was £3,506 based on exposure values of £219,146.

5.1.6 Impairment

At 31 December 2015 DBUK had no impaired exposures and no allowances for impairment. The Board Credit Committee has approved an Impairment Provisioning Policy which is contained in the credit policy of DBUK. An exposure is considered impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and the loss event(s) has an impact on the estimated future cash flows. Impairment occurs if the estimated recoverable amount of an exposure is lower that its relevant carrying amount.

The criteria the Bank will use to determine if there is objective evidence of impairment loss includes:-

- Non-payment of principal or interest
- The borrower experiencing cash flow from operations difficulties
- Violation of covenants
- Bankruptcy
- Adverse performance compared to projections
- Decline in earnings
- Deterioration in borrowers competitive position
- Deterioration in collateral value
- Investment rating downgrade
- Broker or analyst reports

The impairment loss provision is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate. Provisions on a portfolio basis may be raised where there is evidence of impairment to the portfolio but where it has not been possible to identify evidence of individual impairment. The calculation of the loss provision must be made in accordance with the requirements of International Financial Reporting Standards and the level of loss provision will be agreed by EXCO for recommendation to the Board Audit & Risk and Credit Committees.

5.1.7 Credit risk mitigation

To minimize the risk of credit loss to the Bank in the event of decline in credit quality or delinquency, DBUK seeks to take collateral wherever possible. Absolute legal title in the name of Diamond Bank (UK) Plc is the requirement for all items pledged as security for credit facilities. The guiding principles behind collateral acceptability are adequacy and prospect of timely realisation.

5.1.8 Asset encumbrance

Asset encumbrance arises from collateral pledged against secured funding and other collateral obligations. The Bank has no repo transactions at this time and no other encumbered assets.

Disclosure on asset encumbrance 31 December 2015				
Template F32.01 (AE-ASS)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
	£'000	£'000	£'000	£'000
Loans on demand	-	-	14,403	-
Debt securities	-	-	25,990	25,990
Loans and advances other than loans on demand	-	-	309,316	-
Other assets	-	-	1,351	-
Total	**-**	**-**	**351,060**	**25,990**

Disclosure on asset encumbrance 31 December 2014				
Template F32.01 (AE-ASS)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
	£'000	£'000	£'000	£'000
Loans on demand	-	-	15,466	-
Debt securities	-	-	12,785	12,386
Loans and advances other than loans on demand	-	-	288,151	-
Other assets	-	-	2,185	-
Total	**-**	**-**	**318,587**	**12,386**

5.2 **Market risk**

Market risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives will be adversely affected by changes in the level or volatility of markets rates or prices such as interest rates, equity prices and foreign exchange rates. Assets are invested at market rates within the constraints of the Bank's risk appetite approved by the Board. The treasury department monitors market risk on a daily basis and reports to ALCO monthly. The Bank's exposure to Market Risk is limited as the Bank does not have a trading book. Assets are invested at market rates within the constraints of the Bank's risk appetite as approved by the Board. Market risk is further divided into the following:

5.2.1 Interest rate risk in the non-trading book

Interest rate risk is the risk that changes in interest rates will result in reduced income and/or higher financing costs from the Bank's interest bearing financial assets and liabilities. During the year to 31 December 2015 the Bank held interest-bearing liabilities in the form of short term deposits from group entities, the Central Bank of Nigeria (CBN) and wholesale bank counterparties. Interest rate risk arises at the bank where the interest re-pricing date for assets is different to the re-pricing date for liabilities. Treasury and ALCO monitor interest rate risk through an interest rate risk management tool which is used to analyse the interest rate risk across different maturities and currencies. Interest re-pricing dates are used to determine the maturity time-band for the assets and liabilities. The Bank aims to match the re-pricing characteristics of assets and liabilities where possible. In the event mismatches occur these are monitored and appropriate mitigants put in place if deemed necessary.

Interest rate sensitivity analysis has been performed on the net cash flow for individual currencies at the reporting date and a movement of 100 basis points upwards/downwards has been assumed for the calculation of the impact on the Bank's profit.

Sensitivity to banks earnings on standard parallel 100 basis point increase / (decrease)in yield curve		
	100 basis point increase	100 basis point decrease
	£'000	£'000
USD	(625)	625
GBP	4	(4)
EUR	(2)	2
Other currencies	0	0

5.2.2 Foreign exchange risk

Foreign currency risk arises due to the extent of the Bank's foreign currency assets not matched by foreign currency borrowings in the same currency. All material foreign exchange risks are hedged through forward foreign exchange transactions and monitored on a daily basis through the Bank's risk management reporting systems.

The table below shows the impact on the profit and loss account, pre-tax, at 31 December 2015 of foreign currency weakening/strengthening by 4% against sterling, with all other variables held constant.

31 December 2015 Impact on P&L of foreign currency movement + or - 4%						
	Euros	US Dollar	Canadian Dollar	Swiss Franc	Renminbi	Japanese Yen
	£ equiv	£ equiv	£ equiv	£ equiv	£ equiv	£ equiv
Net foreign currency (FCY) exposure	11,385	29,036	6,132	1,672	4,536	7,709
Impact on P&L of 4% increase in FCY	**455**	**1,161**	**245**	**67**	**181**	**308**
Impact on P&L of 4% decrease in FCY	**(455)**	**(1,161)**	**(245)**	**(67)**	**(181)**	**(308)**

Using the FX Position Risk requirements (PRR) approach, the pillar 1 allocation for market risk is calculated as 8% of the maximum permitted short term foreign currency open position. The table below indicates the amount of capital required under the foreign currency PRR method.

31 December 2015 Total market risk				
	All positions		Own funds requirement	Total risk exposure amount
	Long	Short		
	£'000	£'000	£'000	£'000
Total	**392,083**	**392,024**	5	**59**
Total	392,083	392,024	5	59

5.3 Operational risk

Operational risk is the potential loss caused by inadequate or failed processes, system failure, human error, improper conduct or external events. The Bank's business is dependent on the ability to process a large number of transactions efficiently and accurately. To mitigate this risk, the Bank has implemented risk controls and loss mitigation actions, including the use of key risk indicators that are monitored monthly at EXCO and integrated into recovery and resolution planning work. Incident reporting is established within the bank highlighting operational losses or potential losses and these are reported at Board level. The Bank has robust business continuity plans which are regularly tested and a firm focus on cybercrime and training. The Board Audit & Risk Committee is responsible for ensuring that appropriate testing and challenge is conducted to confirm the adequacy of all controls, systems and risk management frameworks in place.

DBUK has adopted the basic indicator approach for operational risk and the regulatory capital allocation is based on the Basic Indicator Approach (BIA) outlined in Article 316 of the CRR, which is 15% of three-year average of the sum of gross operating income.

6 Remuneration Policy

REMUNERATION DISCLOSURES: YEAR ENDING 31 DECEMBER 2015

In accordance with financial services regulatory requirements, the Bank is required to make the disclosures set out below. Under the UK Remuneration Code, the Bank is classified as a proportionality tier 3 level firm and as such has adopted a proportioned approach to remuneration policy, dis-applying certain provisions where appropriate, in accordance with FCA guidance.

DETERMINING THE REMUNERATION POLICY

The Bank's Board, upon advice and guidance of the Remuneration and General Purposes Committee (RGPC), is responsible for determining the Remuneration Policy. The RGPC is a sub-committee of the Board and was established to support the Board with technical expertise in respect of Remuneration, Human Capital Management, Capital Expenditure and Business Planning. The responsibilities of the RGPC include to:

- Determine the Remuneration Policy of the Bank and making recommendations to the Board on the structure of remuneration;
- Oversee the annual remuneration arrangements of the Bank's staff, receiving proposals from the Executive for annual increments and variable remuneration, making recommendations to the Board in respect of the remuneration of new Directors and secondees and the performance related pay award of the CEO;
- Monitor the terms under which the Bank employs its staff, the governing legislation, the Bank's employment and remuneration practice in the UK market and to conduct an annual review of the Employee Handbook.
- Nominate for Board approval, individuals whom it has evaluated as Approved Persons or Senior Managers (as defined in accordance with FCA/PRA regulations).
- Monitor arrangements for the secondment of staff to and from the Parent Bank and other Group Companies.

The RGPC convenes at a minimum on a quarterly basis and comprises three members, with a non-executive director serving as chairman. The RGPC is supported by the Risk, Compliance and Human Resource (HR) departments. Other Board members, senior employees or external advisors are invited to attend meetings, as and when required.

REMUNERATION POLICY

The Remuneration Policy is set in line with the Bank's strategy and a view to future sustainability. It aims to ensure compliance with the remuneration requirements of the UK Remuneration Code as set out in Chapter 19A of the Prudential Regulatory Authority's (PRA) Senior Management Arrangements, Systems and Controls Sourcebook, and the related guidance issued by the PRA. The general principles of the remuneration policy are to:

- Align remuneration with Bank strategy and values;
- Establish an appropriate remuneration framework , linked to the achievement of business goals within the risk tolerance of the Bank;
- Recognise the capabilities and achievements of employees, rewarding and incentivising good performance. Attract and retain high potential employees who are able to contribute to the achievement of Bank objectives, at a market competitive and affordable rate;

- Ensure strong governance;
- Ensure that the Bank's remuneration packages are non-discriminatory and promote equal pay.

In applying these principles, the Bank takes into consideration, its size, scope and complexity of its activities. The RGPC annually reviews the Bank's remuneration policies to ensure compliance with the Code. Additionally it has confirmed the rules for use within the Bank for the identification of Code Staff as required under principle 12 of the Code.

LINK BETWEEN PAY AND PERFORMANCE

The Bank endeavours to provide a competitive remuneration package taking into account external market rates, the employee's role and level of responsibilities as well as considering affordability. Base pay is supplemented by a discretionary annual performance award, performance related pay (reviewed twice yearly), pension contribution, flexible benefits allowance and other core benefits such as private medical insurance.

The Bank uses a balanced scorecard approach to deliver its strategic objectives. In addition, the Bank has published Core Standards of Behaviour (CSB) outlining the behaviours required to drive effective performance within the Bank's risk appetite. All employees are formally appraised twice yearly against SMART objectives, that feed directly into their departments scorecard; and against the Bank's CSB Informal discussions also take place throughout the course of the year. The Bank takes into account both ratings when determining variable remuneration and whilst variable pay is performance related, individual objectives are not directly aligned to the payment of a performance award.

REMUNERATION FRAMEWORK

The remuneration framework is set by the RGPC, with input from the control functions and the Head of HR. The recommendations made by the RGPC are ratified by the Board. No individual is involved in any decisions as to their own remuneration.

Non-Executive Directors: The remuneration of the independent non-executive (INED) and the non-executive directors (NEDs) consists of fixed remuneration only and is set by the Chairman and the Executive Directors of the Board. Market practice, the scope and complexity of their roles are taken into account when setting their remuneration.

Executive Directors: The remuneration of the Bank's Executive Directors (ED's") is approved by the Chairman, INED and NED's, the composition of which is a mix of fixed and discretionary variable remuneration, in cash. ED remuneration is structured in the same way as all employees (see below).

Employees: Bank employees receive a mix of fixed and discretionary variable remuneration, in cash. Total compensation is benchmarked to market, taking account of the skills and knowledge required for the performance of the role.

1. **Fixed Remuneration**: Comprises of base pay and cash allowances not linked to performance.

2. **Variable Remuneration:** On completion of a probationary period, employees become eligible to participate in the Bank's performance award and performance related pay schemes as summarised below:
    - **Performance Awards**: The levels of individual awards are influenced by a combination of the level of Bank and individual performance. Performance awards are paid annually
    - **Deferred Performance Awards:** As a proportionality level 3 firm the Bank is not required to defer vesting portions of variable remuneration into financial instruments.

However, the Remuneration Policy does provide for cash deferral arrangements for high performing employees. Deferred performance awards vest after three years and may increase or decrease in line with the performance of the Bank.

- **Performance Related Pay (PRP):** This award is based on individual performance and achievement of the Bank's Core standards of Behaviour (CSB). It is awarded as a percentage of base pay and is reviewed twice yearly (in line with employee performance reviews).PRP is paid monthly.

All variable remuneration is entirely discretionary and is conditional upon the Bank achieving adequate, sustainable results and on the individual's contribution to achieving those results. The Board and RGPC may exercise its discretion to make adjustments to the performance award pool having considered the size of the pool against Bank performance. Awards can go up or down in line with Bank and individual performance. Claw back may also be applied to any unpaid deferred awards made. The amount of the claw back is at the discretion of the Board with input and advice from the control functions.

QUANTITATIVE DISCLOSURES (ALL)

Total Remuneration	
Average Headcount	35.5
Fixed remuneration	3,827,230
Variable remuneration	325,734
Deferred cash award	20,110

QUANTITATIVE DISCLOSURES (CODE STAFF)

Total Remuneration	
Number of Code Staff	13
Fixed remuneration	1,138,914
Variable remuneration	194,483
Deferred cash awards	10,668

The Bank is required to complete an annual High Earners Return to the FCA to advise them of staff whose remuneration is over €1m (€500,000 as at 31.12.2015). The Bank does not have any staff who qualify as high earners under the FCA definition and therefore a nil return has been submitted for 2015.