

**Green  
Investment  
Bank**



**Financial  
Services**

**UK Green Investment Bank Financial Services Limited  
Pillar 3 Disclosure**

**July 2016**

## Contents

<b>1</b>	<b>BACKGROUND</b> .....	<b>3</b>
	OVERVIEW.....	3
	SCOPE OF REGULATION.....	3
	BASIS OF DISCLOSURE.....	3
<b>2</b>	<b>CAPITAL</b> .....	<b>4</b>
	CAPITAL RESOURCES.....	4
	CAPITAL SUMMARY.....	4
<b>3</b>	<b>THE RISK MANAGEMENT FRAMEWORK</b> .....	<b>5</b>
	KEY PRINCIPLES.....	5
	RISK APPETITE.....	6
	OPERATIONAL RISK.....	6
	CREDIT RISK WEIGHTINGS.....	6
	MARKET RISK.....	7
<b>4</b>	<b>REMUNERATION DISCLOSURE</b> .....	<b>8</b>

# 1 Background

## **Overview**

The purpose of this document is to outline the Pillar 3 disclosures on risk management and capital for UK Green Investment Bank Financial Services Limited (“GIBFS”, the “AIFM”, the “Manager”, the “Company” or “the Firm”).

GIBFS is a 100% owned by UK Green Investment Bank plc.

## **Scope of Regulation**

GIBFS is authorised by the Financial Conduct Authority (“FCA”) as a Full-scope UK Alternative Investment Fund Manager (“AIFM”) and is designated as a Collective Portfolio Management Investment firm (“CPMI firm”). GIBFS acts primarily as a discretionary investment manager, and does not hold client money or client assets.

## **Basis of Disclosure**

GIBFS is required to meet the requirement of the FCA’s Capital adequacy framework. This framework consists of three pillars:

- **Pillar 1**  
Capital Requirement calculated according to the FCA rules for limited licence firms;
- **Pillar 2**  
requires firms, and the FCA, to take a view on whether additional capital should be held against capital risks not covered by Pillar 1; and
- **Pillar 3**  
requires firms to publish certain details of their capital, risks and risk management process.

BIPRU 11 Disclosure (Pillar 3) requires that a firm subject to the provisions of the Directive must disclose the relevant information required under this rule unless the information is believed to be immaterial, proprietary or confidential.

The disclosures cover both the qualitative and quantitative requirements.

The disclosures in this document are made in respect of GIBFS in accordance with the BIPRU rule, to set out the key risks facing the Firm, how it manages those risks, and how it has satisfied itself that it has sufficient capital in respect of those risks.

## 2 Capital

### Capital Resources

The table below sets out the GIBFS capital resources as at 31 March 2016

	Issued Capital	£3,010k
	Retained Losses	£988k
	Total Tier 1 Capital	£2,020k

### Capital Summary

The table below sets out the results of GIBFS capital requirements as at 31 March 2016:

<b>Pillar 1 Requirements</b>		
<b><u>AIFMD/IPRU(INV) Requirement</u></b>		
1.	Base requirement set in regulation (EUR125k regulatory minimum plus 2bp of drawn capital over EUR250m)	£199k
2.	Fixed Overhead Requirements (FOR) based on 3 months of operations, excluding variable costs (bonuses)	£1,003k
3.	Higher of 1 and 2	£1,003k
4.	Add Professional Liability Requirement	£50k
5.	AIFMD/IPRU(INV) Requirement	£1,053k
<b><u>BIPRU/GENPRU Requirement</u></b>		
6.	Fixed Overhead Requirements (FOR) based on 3 months of operations, excluding variable costs (bonuses)	£1,003k
7.	Credit Risk + Market Risk	
8.	<i>Market Risk</i>	---
9.	<i>Credit Risk</i>	£696k
10.	<i>Total</i>	£696k
11.	<b><u>BIPRU/GENPRU Requirement</u></b>	£1,003k
12.	Pillar 1 requirement (higher of 5 and 11)	£1,053k
<b>Pillar 2 Requirements</b>		
13.	Pillar 2 – Capital to be held in relation to Operational Risk (based on a simple Monte Carlo analysis), no additional capital to be held against all other categories including market, liquidity and concentration risk, as the risks are limited and appropriately mitigated.	£580k
14.	Credit Risk (calculated as per Pillar 1)	£696k
15.	Pillar 2A requirement (sum of 13 and 14 above)	£1,276k
16.	Wind Down Scenario requirement (based on analysis of wind-down period and costs)	£1,132k
<b>Total Regulatory Capital Requirement</b>		
17.	Regulatory capital requirement (higher of 12, 15 and 16)	£1,276k
18.	Available capital (held as Core Tier 1 equity)	£2,022k
19.	Surplus regulatory capital (excluding Pillar 2B)	£746k

### 3 The Risk Management Framework

#### *Key Principles*

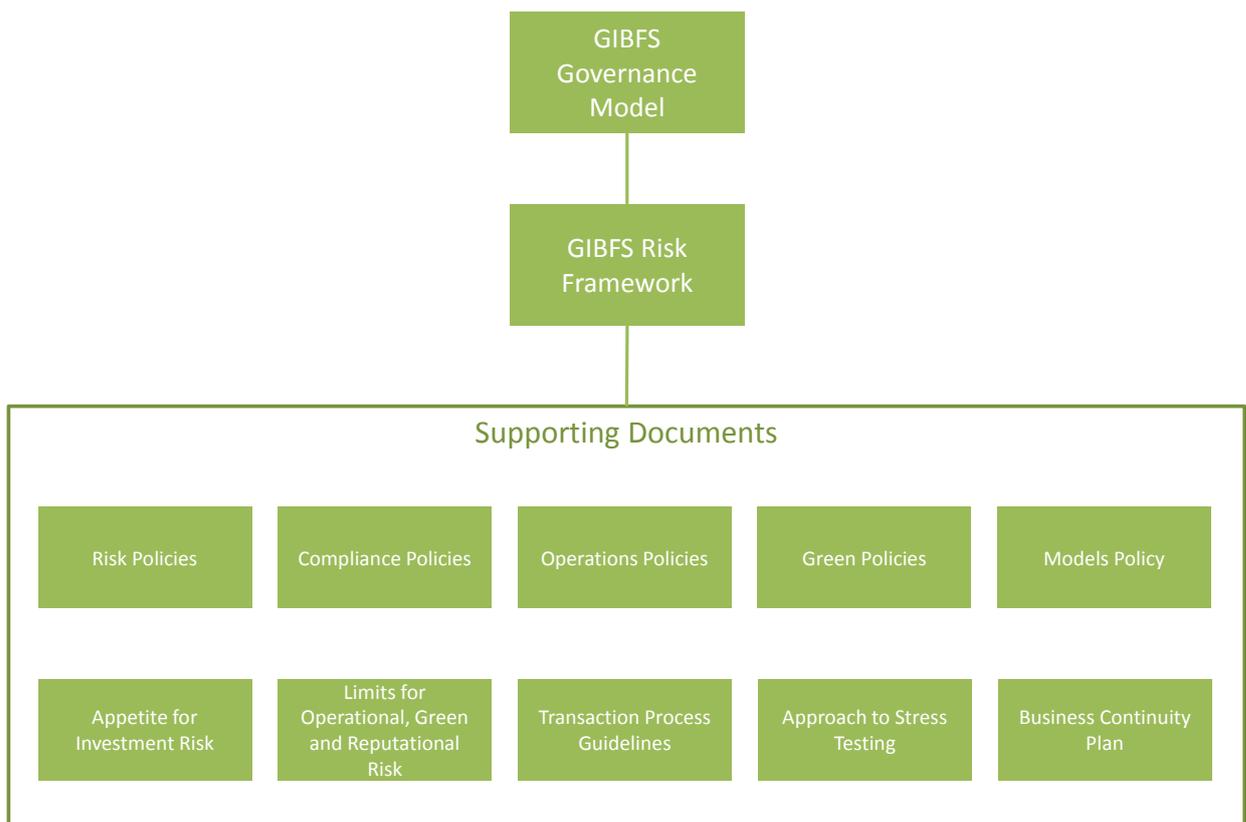
The Risk Management framework identifies and establishes a framework for managing the key risks affecting GIBFS in its capacity as an Alternative Investment Fund Manager and GIB Offshore Wind Function, and Alternative Investment Fund, within the meaning of the AIFMD.

It also serves to protect the AIFM itself so that it can continue to operate effectively in meeting its obligations to the AIF and investors. It has been designed so as to comply with relevant regulation. The Risk Management framework is designed to simultaneously protect the interests of the AIFM and investors, with priority given to investors in the event of a conflict.

The framework is given authority by means of approval by the Board of GIBFS. It is subject to a review and approval cycle consisting of:

- Review and revision of the framework by the Risk Officer of GIBFS as the framework owner on an annual basis, or more frequently if required by changes in the business, the wider market or regulation;
- Recommendation to the Board by the Risk Officer following any substantive revisions;
- Review and approval of the framework by the Board.

The framework underpins the GIBFS Governance Model and is itself underpinned by a range of supporting documentation, as follows:



The Board of GIBFS is accountable for approving all risk management structures applicable to the AIFM and AIF and ensuring they are sufficient to ensure compliance with the Risk Appetite established along with all relevant legal and regulatory responsibilities.

A fundamental requirement for adequate risk management is decision-making and operational independence between transaction; portfolio management functions and control functions designed to limit the risk taken and ensure that it is within Risk Appetite.

### ***Risk Appetite***

GIBFS maintains a Risk Appetite Statement (“RAS”), defining an appetite for risk for each of the main risk types. The RAS is used as the basis for developing risk limits at a more granular level and should be viewed as a strategic-level risk management tool while risk limits are an operational-level risk management tool. Authority to approve the RAS resides with the Board.

### ***Operational Risk***

In Pillar 1, operational risk is quantified based on the Fixed Overhead Requirement of the firm, which is equal to one quarter of the firm’s relevant fixed expenditure in its most recently audited annual report.

In Pillar 2A, Operational Risk is calculated using the most comparable information available on the likelihood and impact associated with different categories of operational risk event. A simple Monte Carlo analysis was then performed to quantify the worst-case outcome from combinations of such events at a conservative confidence interval.

The Wind Down Scenario was quantified based on reduced operating costs that would arise during a wind-down period, plus the cost of administration services that would arise during that period. Legal analysis confirmed no additional obligations or extensions of the wind-down period that would arise.

### ***Credit Risk Weightings***

For present purposes, credit risk is the risk arising from an event that causes an asset (including off-balance sheet positions) to lose value or become worthless.

As GIBFS is a Limited Licence firm it uses the simplified method of calculating risk weights. The risk weights used are in line with the rules in the FCA handbook under BIPRU 3.4 for the standardised approach. The projected types of exposures for GIBFS and the respective risk weightings are as in the table below:

<b>Exposure</b>	<b>Risk Weight</b>	<b>Reference</b>
Cash at Bank (assuming that the cash is held at a UK bank)	20%	BIPRU 3.4.31
Intangible (gross Evercore asset)	100%	BIPRU 3.4.126
Other Debtors	100%	BIPRU 3.4.126
Fixed assets	100%	BIPRU 3.4.126

***Market Risk***

Market risk is the risk that arises from fluctuations in the values of, or income from, listed securities, interest rates, exchange rates or the market prices of commodities.

As noted above GIBFS is not currently exposed to any direct market risk as no proprietary positions in financial investments have been taken. Similarly all GIBFS assets, liabilities and income streams are recorded in GBP and are not exposed to market risk factors.

(The Company's income is fees receivable from the UK Green Investment Bank Offshore Wind Fund. This income is impacted by the underlying performance of the assets of the fund which are affected by market variables.)

## **4 Remuneration Disclosure**

### **Remuneration Arrangements and Policy**

The Board of GIBFS does not consider it appropriate to have a separate remuneration committee due to the size and the nature of the Firm's business activities. The Board receives input from the GIB Group Remuneration Committee but maintains independent remuneration oversight for the Firm. As the Remuneration Committee oversees the group, they review remuneration packages and arrangements for compliance to the Principles and Code Provisions of the UK Corporate Governance Code. They are advised by Deloitte LLP.

The GIBFS Board reviews the packages and remuneration for compliance on AIFMD requirements.

The Firm's remuneration arrangements represent a combination of salary, bonus and carried interest incentive schemes that are designed to ensure the sustainability of the Firm and to align the interest of the Firm and its employees with those of its clients. Individual performance includes a consideration of financial and non-financial measures. There is no guaranteed variable remuneration and the Firm's remuneration policies and practices are designed to ensure compliance with the FCA Remuneration Code. All carried and variable remuneration is paid directly by the Firm or another group entity and is paid in accordance with the Remuneration Code, except where dis-applied in line with the Remuneration Code, and agreed by the GIBFS Board on at least an annual basis. All carried interest payable is deferred for a period of 3 years and is subject to performance conditions.

### **Code staff**

The Firm classifies those staff whose professional activities have a material impact on its risk profile as Code Staff in line with the FCA's Remuneration Code. The firm classifies 2 employees as Code Staff in the year ending March 2016. The aggregate remuneration paid to the Firm's Code Staff in this year was £510,061, comprising £440,000 in fixed remuneration and £70,161 in variable remuneration, paid under a Short Term Incentive Plan scheme. The variable remuneration paid in this year is not subject to a deferral period. No carried interest has been paid to date.