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3.8	Nina Swartz	Active	27.04.20	Updated document to reflect figures as at 31.12.2019
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Authority

Approved by	Date
NBKI Board of Directors	23.07.2020

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1. Overview

1.1 Background

The revised Basel Capital Accord has been implemented in the European Union via the Fourth Capital Requirements Directive (2013/36/EU) ("CRD IV") and the Capital Requirements Regulation (575/2013) ("CRR").

CRD IV and CRR came into force in the European Union on 1 January 2014 and define a framework of regulatory capital resources and requirements. Part 8 of CRR includes disclosure requirements known as "Pillar 3" which apply to banks and building societies. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

CRD IV also made changes to rules on corporate governance in banks, including remuneration, and introduced standardised regulatory reporting within the EU.

The framework consists of three "Pillars", as summarised below:

- **Pillar 1** defines minimum capital requirements which firms are required to maintain for Operational, Market and Credit risk.
- **Pillar 2** defines the supervisory review process which firms are required to maintain including a requirement to conduct an Internal Capital Adequacy Assessment Process (ICAAP)
- **Pillar 3** defines market discipline by developing a set of regulatory disclosure requirements that will give market participants transparency in relation to a firm's regulatory capital and risk exposures.

Key Metrics USD 000's as at 31.12.2019

Common Equity Tier 1 capital	Total Regulatory capital
403,328	403,328

Common Equity Tier 1 ratio	Total Capital ratio
27.99%	27.99%

Total RWAs	Leverage Ratio
1,440,960	14.53%

Liquidity Coverage Ratio	Net Stable Funding Ratio
419%	141%

1.2 Disclosure policy

Scope of disclosures

The Disclosures contained in this document cover the requirements of Pillar 3 as set out in the CRR and are based on financial data as at 31 December 2019. Other information, for example, organisation charts, are stated as at 1 June 2020.

Frequency, media and location

National Bank of Kuwait (International) PLC ("the Bank" or "NBKI") will publish all Pillar 3 related disclosures at least annually and more frequently where so required.

The frequency of disclosure will be reviewed should there be a material change in any approach used for the calculation of capital, business structure or regulatory requirements.

Pillar 3 disclosures should be read in conjunction with the Bank's Annual Report and Accounts ("ARA") for the stated period. The Bank's disclosures will be published on its website: www.nbk.com/london.

1.2.1 Approval and Verification

All Pillar 3 disclosures will be submitted for management approval at the Executive Management Committee (EMC) meeting, after review by all concerned stakeholders. Once the EMC approves the disclosures, presentation is made to the Audit and Risk Committee (ARC) and the Board of Directors for final approval prior to publishing.

1.3 Board responsibility for risk management and disclosures

A core objective for the Bank is the effective management of risk, and the responsibility for ensuring that risks are managed and controlled ultimately rests with the Bank's Board of Directors. The Board has ultimate responsibility for setting the strategy, risk appetite and risk control framework.

The Board considers that, as at 31 December 2019, it had in place adequate systems and controls with regard to the Bank's risk profile and strategy. Furthermore, the Board can confirm that the Bank remained within defined regulatory limits for risk exposure throughout the year for credit, operational and prudential risks.

Under CRR the Bank is required to ensure that its external disclosures portray its risk profile comprehensively. The Directors are satisfied that the Bank's external disclosures meet this requirement.

1.4 Regulatory Details

National Bank of Kuwait International ("NBKI") PLC, whose registered office is 13 George Street, London, W1U 3QJ, is registered in the United Kingdom, company number 02773743 and is authorised by the Prudential Regulation Authority ("PRA") and regulated by the UK Financial Conduct Authority ("FCA") and the PRA. Firm number on the FCA Register is 171532.

NBKI is fully owned by its Kuwaiti parent company National Bank of Kuwait S.A.K.P.

1.5 Relevant changes and developments

NBKI monitors regulatory and legislative developments on and on-going basis to ensure it is prepared for forthcoming regulatory change. In particular, the Company is closely monitoring the development of new European legislation that will amend the existing Capital Requirements Directive (CRD) and Regulation (CRR). The amending legislation is usually referred to as CRD 5 and CRR2.

The CRR 2 changes impacting NBKI are:

Binding Leverage Ratio: CRR 2 imposes a binding 3% Leverage Ratio requiring banks to maintain Tier1 Capital at least 3% of their non-risk weighted on and off- balance sheet assets.

Minimum Net Stable Funding Ratio ("NSFR"): CRR 2 requires banks to maintain minimum available stable funding at least 100% of their secured funding to ensure that asset exposure is broadly matched with stable funding sources.

Revised Market Risk Framework- Fundamental Review of the Trading Book ("FRTB"): CRR 2 introduces a reporting requirement for a revised and more risk sensitive approach for the calculation of market risk to reflect the Basel Committee's Fundamental Review of the Trading Book. Work on FRTB is ongoing within the EU in order to incorporate further Basel Committee revisions such that capital requirements will be introduced later in June 2023

Revised Basel Committee Standardised Approach for Counterparty Credit Risk ("SA- CRR"): CRR 2 implements the Basel Committee's revised and more risk sensitive standardised approach to calculate Counterparty Credit Risk for derivatives which provides better recognition for hedging, netting and collateral.

Other Developments impacting the NBKI are:

Brexit: NBKI are closely monitoring the preparations of HM Treasury and the Bank of England for the UK's withdrawal from the EU as the form of the future relationship with the EU will affect how the CRR applies to the Company and the form it will take.

Capital Buffers: - Institutions are required to comply with the requirements for a Countercyclical Capital Buffer ("CCyB") referred to in Title VII, Chapter 4 of CRD. On 11 March 2020 the Financial Policy Committee ('FPC') reduced the CCyb to 0% with immediate effect as a response to Covid-19 (Coronavirus). The rate has been 1% and had was due to reach 2% by December 2020. The FPC expects to maintain the 0% for at least 12 months, so that any subsequent increase would not take effect until March 2022 at the earliest.

The Capital Conservation Buffer ('CCoB') ensures that banks build up capital buffers in order to absorb losses without breaching minimum capital requirements. The CCoB is currently set a 2.5%.

Further information on capital buffers can be found in Section 4.1.

Disclosure of non-performing and forborne loans: - The EBA released its final report on guidelines on disclosure of non-performing and forborne exposures in December 2018 with the rules coming into force from 31 December 2019. The additional disclosures are within this document.

Transition away from LIBOR: - Following the decision by the PRA and FCA to discontinue the issuance of GBP LIBOR after the end of 2021 and substitute it with Sterling Overnight Indexed Average (SONIA) reference rates, the Bank has put in place a programme to manage the operational transition away from LBORs. The programme Steering Group monitors all activities and is sponsored at executive level.

2. Risk Management objectives and policies

2.1 Overview of the Risk Management framework

The aim of risk management within NBKI is to identify and assess current and potential risks in order to manage them effectively.

The Bank's business strategy is underpinned by a strong governance structure, led by the Board of Directors. The Board delegates day-to-day responsibility for risk management to executive management.

The Bank has systems, processes and internal control procedures, which form a cohesive risk management framework covering all material risks.

The Bank's governance framework is based on roles and responsibilities for risk management following the 'Three Lines of Defence' model (ref. to para 2.4.1). Each line of defence describes a specific set of responsibilities for risk management and control.

The Board's Risk Appetite Statement ("RAS") is made operational by the Bank's policies and procedures. The policies further define responsibilities for monitoring, reporting and escalating breaches of limits and tolerances, including those relating to conduct.

Risk monitoring is achieved using a series of tools including:

- Reporting of structured and challenged risk assessments
- Reviews of risk incidents and "near miss" events
- Key risk indicators and key performance indicators (KRI and KPI)

The Bank's risk appetite is aligned to its business plan and strategy, and is a key input into its Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).

- Key metrics are reported to senior management daily or monthly as appropriate.
- The EMC (Executive Management Committee) reviews any high risk issues monthly.
- All areas of risk are monitored quarterly in detail by the Board Audit and Risk Committee, that then presents a summary to the full Board highlighting any incidents and trends in key risk indicators.
- Capital and liquidity adequacy are monitored and reported to all relevant managers regularly (daily for liquidity) and are the subjects of a detailed status report for each quarterly Board meeting.

Senior management are supported by the internal audit function, which verifies independently the correct operation of systems and controls in practice.

2.2 Risk Appetite and Material Risks categories

NBKI's Risk Appetite Statement (RAS) underpins its business planning and is the key component of the Bank's Risk Management Framework ("RMF"). The risk appetite sets the context and the boundaries for activities and controls.

The risk appetite balances targeted profitability against the potential for adverse outcomes, including, but not limited to, financial loss. It is therefore at the centre of the Bank's activities, and provides the reference point for decisions about the development of the Bank, products and exposures, and the methods used to manage the attendant risks.

The Bank's risk appetite forms the basis of its business strategy and planning, which is reliant on appropriate risk management processes, risk parameters, position and/or exposure limits.

The Bank recognises that aggressive business strategies are associated with higher levels of risk and it takes a conservative approach by restraining its targets within its ability to confidently finance and manage its exposures.

NBKI's risk appetite is expressed using the risk categories set out below:

Material Risk Category	Risk Definition	Risk Appetite
Prudential Risk	The risk that the difference between the value of the bank's assets and its liabilities (each measured according to prudential standards) falls short of the minimum capital adequacy level prescribed by the bank's prudential regulator (UK PRA).	Conservative internal capital adequacy limits, and enhanced monitoring and forecasting of capital consumption.
Liquidity and Refinancing Risk	The risk that immediate financial demands cannot be met as they become due,	Conservative liquidity management, and daily reporting of multiple liquidity metrics.
Concentration Risk	The risk that the Bank's portfolio of assets or the funding that supports them is highly dependent on a small number of underlying risk factors or external parties.	Regular monitoring and stress testing, and disciplined underwriting and fund raising.
Conduct Risk	The risk that individuals behave in a manner that is within "the letter of the law" (including applicable internal policy), but that is nevertheless inconsistent with the values and expectations of NBKI or those of the broader society in which it operates.	A top down culture across all parts of the Bank which makes it clear to all staff that there is no tolerance of misconduct

2.3 The Risk monitoring framework

Risk Assessments

NBKI Risk Management works closely with all business and support areas to identify the end-to-end processes for each business activity and that then forms the basis for identifying key risks and controls.

Risk Management oversees the on-going assessment of the risks within the business areas on a rotational basis. The objective is to ensure that the risks in each business are comprehensively reviewed at least every eighteen months, and as circumstance change.

2.3.1 Risk Reporting

At the end of each assessment, a report is prepared for the Bank's senior management detailing the scope and objectives of the assessment and details of area where residual risks were not deemed to be acceptably controlled together with:

- The risk rating (High, Medium or Low)
- The impact
- The recommended action plan (including owner and target date)

2.3.2 Risk Mitigation

Any residual risk deemed as High or Extreme will be addressed immediately. Senior Management will agree on a remedial action plan and assign the management of that plan to an appropriate member of staff. All actions are monitored on a regular basis by the Operational Risk Committee and all high or extreme risks are reported individually and in detail to the Executive Management Committee, the Audit and Risk Committee and ultimately the Board.

Where a residual risk has been identified but rated as Medium or below, Senior Management will discuss how to mitigate the risk but may choose to accept the risk for a limited period of time. All identified risks, including associated remediation or acceptance, are reported in aggregate to EMC and to Board.

2.3.3 Qualitative Stress Testing and Scenario Analysis

In addition to the on-going risk management of business-as-usual processes, the Bank recognises that it is also exposed to additional risks from events beyond its control such as an economic downturn or external incidents. The Bank performs structured stress testing and to better understand, quantify, and prepare for the consequences of unplanned adverse events.

On at least an annual basis (as part of the ICAAP, ILAAP, and the Banks Recovery and Resolution Plan the Bank considers the possible stresses and scenarios that may have material impacts on the viability of the Bank's business.

Senior Management use this information to ensure that it has adequate capital and liquidity to support the Bank in adverse conditions, and also to ensure that the Risk Management Framework is sufficient to identify when the Bank is being exposed to such conditions and that the warning indicators are appropriate.

2.4 NBKI's approach to Risk Management

The governance structure is supported by the Risk Appetite Framework.

This is embedded in the business by way of policy statements, and further interpreted into the guidelines and processes that form the basis of day-to-day business.

This is supported by a strong risk management control framework which ensures that the frontline businesses are operating in accordance with both the objective limits and parameters laid down by the Board, and the more subjective ethos that the Bank operates in a manner that is fair to its employees, customers and the ultimate shareholder.

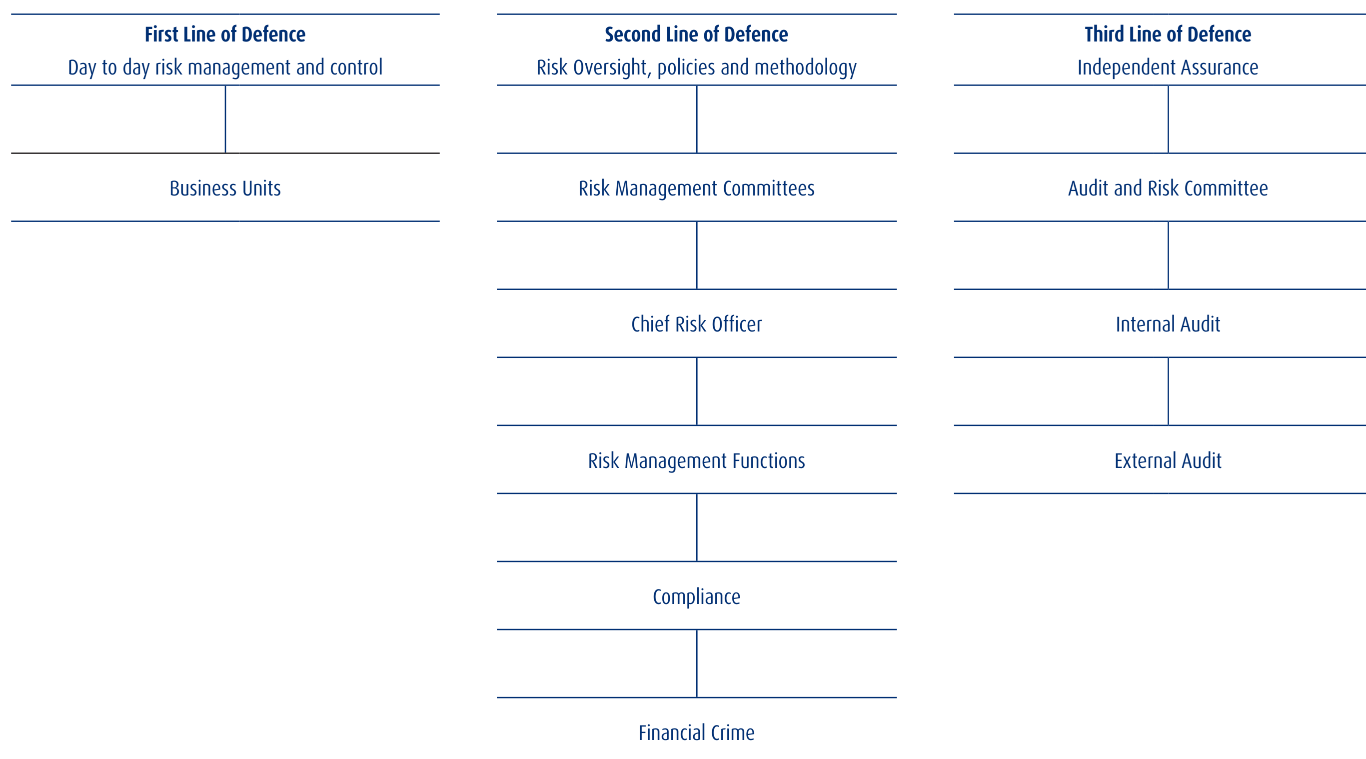
NBKI's overall risk framework is illustrated in the diagram below.

The NBKI risk management framework is explained in more detail by examining the following areas:

- The Three Lines of Defence
- The Governance Structure
- The Risk Monitoring Framework
- Stress Testing and Scenario analysis

2.4.1 The Three Lines of Defence

The governance framework is based on roles and responsibilities for risk management following the 'Three Lines of Defence' model. Each line of defence describes a specific set of responsibilities for risk management and control.



2.4.2 First Line of Defence

The first line of defence consists of the front line business units.

The Board of Directors establishes and communicates a clear set of policy boundaries and limits in keeping with the Bank's risk appetite, business strategy and financial targets. The business heads are responsible and accountable for ensuring compliance with these policies within their respective businesses and functions.

All employees are required to ensure the effective management of risks within the Bank's articulated risk appetite, according to the limits structure in place and the scope of their direct organisational responsibilities.

2.4.3 Second Line of Defence

The second line of defence comprises of the respective control functions. The control and risk functions, the Chief Risk Officer and the Risk Committees. These are responsible for ensuring that the risks are within the scope of the risk appetite statement.

Details of the specific responsibilities of the risk management committees are provided in the following sections.

2.4.4 Third line of defence

The third line of defence is the independent assurance provided by the Bank's Internal Audit (IA) function. Its role is defined and overseen by the Board Audit and Risk Committee.

Internal audit assesses whether appropriate controls are applied, assurance processes are in place, and encourages improvement over time.

All internal audit findings and follow-up action points are reported to the Executive Management Committee and the Board Audit and Risk Committee, which monitor the findings and ensure action points are addressed in a timely manner.

2.4.5 Stress Testing

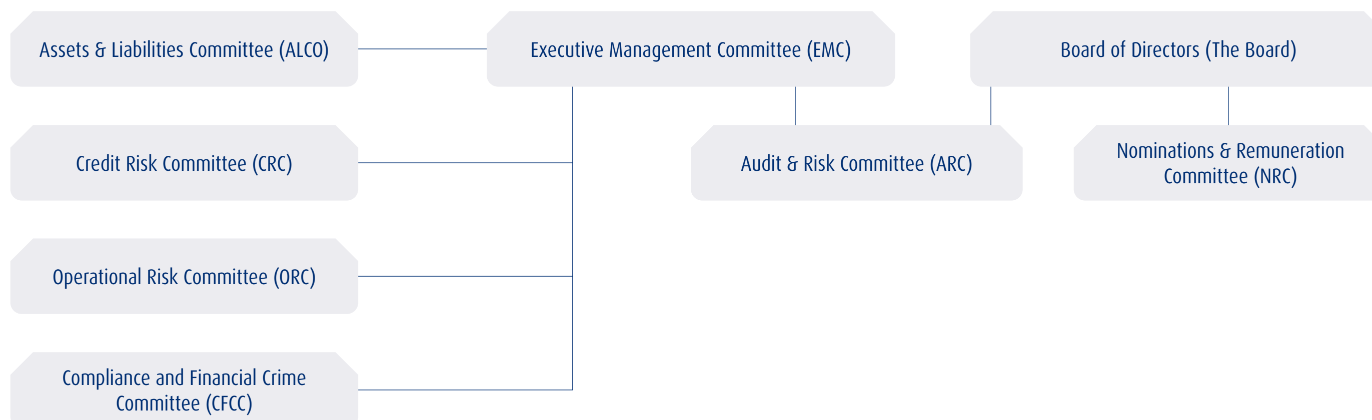
Stress testing is an important risk management tool, with specific approaches documented for the major regulatory exercises of the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process ("ILAAP") and Recovery and Resolution Plan ("RRP").

2.5 Governance structure

The Board is responsible for establishing the Bank's governance and control framework.

The Board delegates day to day responsibility for risk management to executive management, which exercises its oversight responsibility through the Executive Management Committee ("EMC") and its sub-committees.

The following chart outlines the Bank's Board and governance process through committees.



2.5.1 Board of Directors (The Board)

The Board has established two Board committees, which are the Audit and Risk Committee (ARC) and the Nominations and Remuneration Committee (NRC) which in turn rely on the Executive Management Committee (EMC) to be provided with the flow of information to be submitted to the Board.

Although the Board may delegate certain functions to its committees, it may not delegate its ultimate responsibility to ensure that an adequate, effective, comprehensive and transparent risk governance framework is in place. This is achieved by the following:

- The Board monitors the Bank's overall business performance and strategy.
- The Board ensures that financial statements accurately disclose the Bank's financial position.
- The Board ensures that the systems and controls framework is appropriate for NBKI's business and associated risks, and provides for the segregation of duties.
- The Board reviews and evaluates the performance of the Bank's executive management against risk tolerances and reflects that in their compensation.
- The Board carries out an annual strategy review by setting performance objectives and reviewing the performance of executive management by means of Key Performance Indicators.
- The Board ensures that appropriate and adequately resourced systems of risk management and control are in place, enabling them to evaluate all material risks and the aggregate risk exposure, and take decisions on mitigation options.

2.5.2 The Audit and Risk committee (ARC)

ARC undertakes the following roles and responsibilities on behalf of the Board:

- monitoring, reviewing and assessing the effectiveness of the Internal Audit function;
- reviewing and assessing management proposals regarding risk policy, business strategy, business plan, risk appetite, limits and monitoring metrics;
- monitoring the Bank's risk level, having regard to the Bank's risk appetite, business strategy and market conditions;
- overseeing compliance with regulatory requirements and good practice standards.

2.5.3 The Nomination and Remuneration committee (NRC)

NRC undertakes the following roles and responsibilities on behalf of the Board:

- providing recommendations to the Board, from time to time, for changes regarding the size and composition of the Board or any Board committee;
- overseeing succession for Board and senior management roles, including plans for handling emergency replacements due to unforeseeable vacancies;
- conducting an annual assessment of existing Board directors' training needs and designing a development/training plan accordingly;
- approving the framework for determining the policy and specific remuneration packages for executive management in such a way as to incentivise a culture of risk awareness and ethical behaviour;
- conducting an annual assessment of the Board's overall performance, including an evaluation of the structure, size and composition of the Board;

2.5.4 Management committees

The Managing Director ("MD") is responsible for establishing appropriate executive committee and sub-committees to assist with executive oversight and decision-making as part of management's day-to-day risk governance.

2.5.5 Executive Management Committee (EMC)

The Executive Management Committee is the most senior executive committee and is chaired by the Managing Director. It has the following responsibilities:

- executing the Board-approved business plan and budget, reporting to the Board on progress and escalating any significant risks or issues on a timely basis;
- ensuring delivery of best in class customer sales and service;
- ensuring that there are adequate and effective organisational structures, systems and controls polices and operational procedures;
- monitoring external developments across NBKI's footprint as well as internal risk issues arising, and taking appropriate actions to protect the reputation and franchise of NBKI (and the Group) as well as to mitigate potential financial losses;
- promoting the corporate culture set by the Board;
- providing leadership on key projects and challenges.

2.5.6 The risk committees

The table below provides a summary of the key roles and responsibilities of all risk-related executive sub-committees.

Committee	Risk responsibilities
Assets and Liabilities Committee (ALCO)	Market Risk Liquidity Capital Adequacy
Credit Risk Committee (CRC) and its sub-committee – Credit Approval Committee	Credit Portfolio Exposures Associated Concentration Risk Credit Approval
Compliance and Financial Crime Committee	Financial Crime (including, Bribery and Corruption, and Facilitating tax evasion) Money Laundering Fraud Risk Legal and Regulatory compliance
Operational Risk Committee	Operational Risk, including (but not limited to): Administration and premises Business Continuity management Operations Human Resources Information Technology

2.5.7 NBKI's business lines

- Private Banking
- Retail Banking
- Corporate and Institutional Banking (including trade finance)
- Treasury

NBKI's main business activities are noted below.

- Secured and unsecured corporate loans
- Corporate and institutional deposits
- Islamic deposits
- Letters of guarantee and letters of credit
- Interest Rate Derivatives (for hedging purposes only)
- Consumer current, call and notice accounts and time deposits
- Consumer lending including mortgages and personal loans
- Treasury (Asset and Liability Management)
- Foreign exchange
- Real Estate services
- Trust services.

NBKI's Operations

The key operational areas are set out below. It should also be noted that with the exception of payroll services, the provision of the "disaster recovery" facilities, Internal Audit and the processing of debit card transactions there are no significant outsourced operations.

The operations of the Bank are organised as follows:

- Operations including Treasury Operations
- Credit Administration
- Technology
- Finance (including Tax)
- HR
- Administration including premises
- Compliance
- Financial Crime (including AML)
- Risk Management
- Internal Audit (outsourced to BDO)

Organisation Charts

The organisation charts for NBKI provided in the Appendices document how business lines and operational areas report into executive management.

2.6 Internal Audit function

Internal Audit is an essential function for monitoring the Bank's risk management performance. This function has been outsourced to firm of auditors (not the Bank's statutory auditors).

Internal Audit provides an independent assessment of the design and implementation of the risk management process, and monitors its effectiveness in practice.

Its role is to monitor compliance with established risk management policies and procedures and, by reporting directly and independently to the Audit and Risk Committee, to provide an unbiased view of the state of the risk management framework.

In addition to routine checking of compliance with internal procedures and external reporting requirements, the Internal Auditor is responsible for reviewing the risk management process and assisting in the identification of risks and estimating the probability of their occurrence.

3. Principal Risks and related Tables

The key and principal risks assumed in the Bank's daily operations are outlined below:

- Credit risk (including concentration and residual risks)
- Market risk
- Liquidity risk
- Operational risk
- Business risk
- Interest risk in the banking book
- Group and cross border risks
- Conduct Risk
- Capital Risk

3.1 Credit Risk (including concentrations)

Credit risk arises in the normal course of business and is defined as the likelihood of a customer or counterparty being unable to meet their contracted financial obligations in full and as they fall due. Included is counterparty risk, relating to dealings with other banks and financial institutions, mainly through counterparty placements for the purpose of liquidity risk management.

The Bank's principal sources of credit risk are:

- exposures to banks, multilateral institutions and sovereigns in respect of foreign exchange and money market activities including the management of the Bank's liquid asset buffer;
- off-balance sheet exposures to bank and corporate counterparties in respect of obligations under trade finance transactions including letters of credit, guarantees and bonds; and
- loans and overdrafts to corporates, partnerships and private individuals arising from the Bank's commercial and real estate finance lending activities.
- Country risk is the risk that several obligors may not be able to meet their obligations for reasons associated with a shared, common geographic region. These reasons include political or economic changes in a country, or other actions by a government that may prevent the conversion of local currency into non-local currency and/or the transfer of funds outside the country.

3.1.1 Credit Risk Mitigation

In order to mitigate its credit and country risks, the Bank uses a number of credit risk mitigants;

- a concentration risk policy that prevents the risk of excessive exposure to individual countries, regions or sectors and to individual counterparties within those concentration limits and guidelines, based upon risk grades;
- limits that govern the amount, nature and tenor of exposure;
- holding suitable collateral for a significant portion of its exposures and employing other risk mitigants where possible. The Loan-to-Value (LTV) ratios are highly conservative in the range of 50-70% over the portfolios.
- back-to-back commitments from financial institutions of acceptable quality and security over the asset being financed, as well as guarantees;
- the purchase of securities of highly rated sovereigns and financial institutions issues are used for the diversification of the Liquidity Asset Buffer.

The following tables form the basis of the disclosures under each of the categories, in line with the regulatory requirements and NBKI's Policy. In many cases they are self-explanatory.

Table 1: NBKI's credit exposures under the standardised approach for each of the risk exposure classes as at 31 December 2019, as reported in the regulatory returns summarised by region of origin of the borrower. All figures in USD 000s.

	Asia	MENA	North America	Other	UK	Europe	Grand Total
Central Government	-	47,601	-	64,977	470,345	-	582,923
CIU	-	-	-	-	-	33,106	33,106
Corporate	-	130,804	188,493	45,782	162,014	3	527,096
Equity	-	-	-	-	883	-	883
High Risk	-	-	-	-	-	22,434	22,434
Institution	4,635	206,054	663	8,788	266,287	4,462	490,889
MDB	-	-	47,163	-	-	-	47,163
Real Estate	-	551,211	272,047	-	104,247	224,054	1,151,559
Other	-	25,604	-	-	69,277	-	94,881
Grand Total	**4,635**	**961,274**	**508,366**	**119,547**	**1,073,053**	**284,059**	**2,950,934**

The majority of real estate property is located in Prime Central London.

The exposure values in the table above have been adjusted by way of credit conversion factors ("CCF") for off balance sheet exposures in accordance with PRA rules. The values are before applying risk weightings and include off balance sheet commitments.

Under the standardised approach the Bank uses Fitch and Moody's ratings as approved External Credit Assessment Institutions (ECAI) across all its portfolios. The rating is mapped to the counterparty using internal ratings.

Table 2: Regional concentrations of credit risk mitigation (CRM) (USD 000s)

	MENA	North America	UK	Europe	Grand Total
Corporate	6,738	26,529	3,593	-	36,860
Institution	167	-	-	2,104	2,271
Grand Total	**6,905**	**26,529**	**3,593**	**2,104**	**39,131**

Table 3: Residual maturity of the Bank's exposures (USD 000s)

	1-3 Months	3-12 Months	1-5 years	More 5 years	Undated	Grand Total
Central Government	515,153	2,793	64,977	-	-	582,923
CIU	-	-	33,106	-	-	33,106
Corporate	158,308	157,927	181,797	-	29,064	527,096
Equity	883	-	-	-	-	883
High Risk	22,434	-	-	-	-	22,434
Institution	446,003	4,428	40,459	-	-	490,890
MDB	-	-	47,163	-	-	47,163
Real Estate	156,725	68,994	757,663	168,177	-	1,151,559
Other	94,882	-	-	-	-	94,882
Grand Total	**1,394,388**	**234,142**	**1,125,165**	**168,177**	**29,064**	**2,950,936**

Other credit risk concentration tables and information is contained within the Annual Financial Statements.

These include single counterparty exposures, geographic region exposures, industry sector concentrations, as well as credit quality per class of assets, including information on exposures that are past due and not impaired as well as exposures that are past due and impaired.

Table 4: Exposures after application of CCF and pre and post CRM risk transfers by credit quality step as reported to the PRA (and post impairment provisions)

Credit quality step analysis pre CRM (USD 000s)

	AAA to AA-	A+ to A-	BBB to BBB-	BB+ to BB-	B+ to B-	Unrated	Grand Total
Central Government	148,258	-	-	-	-	434,665	582,923
CIU	-	-	-	-	-	33,106	33,106
Corporate	3	96,000	77,007	103,137	31,736	216,943	524,826
Equity	-	-	-	-	-	883	883
High Risk	-	-	-	-	-	22,434	22,434
Institution	95,491	297,694	59,015	4,375	-	36,585	493,160
MDB	47,163	-	-	-	-	-	47,163
Real Estate	-	-	-	-	-	1,151,559	1,151,559
Other	-	-	-	-	-	94,882	94,882
Grand Total	**290,915**	**393,694**	**136,022**	**107,512**	**31,736**	**1,991,057**	**2,950,936**

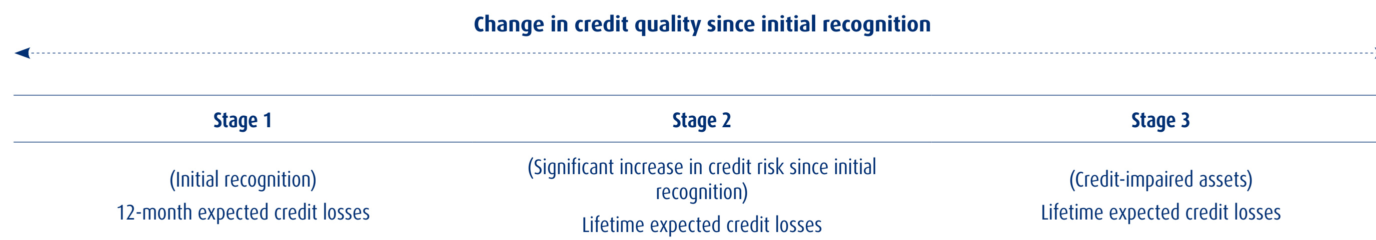
Credit quality step after Credit Risk Mitigation ("CRM") (USD 000s)

	AAA to AA-	A+ to A-	BBB to BBB-	BB+ to BB-	B+ to B-	Unrated	Grand Total
Central Government	148,258	-	-	-	-	434,665	582,923
CIU	-	-	-	-	-	33,106	33,106
Corporate	3	96,000	77,007	103,137	31,736	216,943	524,826
Equity	-	-	-	-	-	883	883
High Risk	-	-	-	-	-	22,434	22,434
Institution	95,491	297,694	59,015	4,375	-	36,585	493,160
MDB	47,163	-	-	-	-	-	47,163
Real Estate	-	-	-	-	-	1,151,559	1,151,559
Other	-	-	-	-	-	94,882	94,882
Grand Total	**290,915**	**393,694**	**136,022**	**107,512**	**31,736**	**1,991,057**	**2,950,936**

CRM includes cash collateral placed with the Bank by way of security, reverse repo transactions and eligible guarantees.

3.1.2 IFRS 9 Impairment

NBKI assesses all financial assets for impairment, NBKI uses IFRS 9 three stage Expected Credit Loss (“ECL”) approach for measuring impairment. The three stages under IFRS 9 are as follows: -



Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition) 12-month expected credit losses	(Significant increase in credit risk since initial recognition) Lifetime expected credit losses	(Credit-impaired assets) Lifetime expected credit losses

The ECL is measured on either a 12 month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses ae the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per “Definition of default and credit-impaired” above), either over the next 12 months (12M PD) or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Bank’s expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12 month or lifetime basis where 12 month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12 month and lifetime EADs are determined based on the expected payment profile which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment / refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking the current drawn balance and adding a “credit conversion factor” which allows for the expected drawdown of the remaining limit by the time
- of default. These assumptions vary by product type and current limit utilization band based on analysis of the Bank’s recent default data.

The 12 month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market / book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD’s are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD’s are influenced by collection strategies including contracted debt sales and price.

The assessment of SICR and the calculation of ECL both incorporated forward looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

Forward looking information is incorporated by NBKI in the form of macro-economic factors mainly UK GDP and Equity prices. Macro-economic factors operate based on the country of risk of the obligor.

Currently, NBKI is using three scenarios; base line scenario (scenario 1), stronger near-term growth (scenario 2) and moderate recession (scenario 3). Further information on IFRS 9 impairment can be found in note 26.1 of the ARA.

3.1.3 Forbearance

As part of the arrears management process the Bank will consider providing a forbearance facility to the borrower. The primary aim of providing a forbearance facility to a borrower is to enable the complete recovery of the debt through the full repayment of arrears. Where the circumstances of the borrower means that this primary aim is not achievable, the secondary aim is to recover the customer into a "sustainable terms" position on their debt. In all cases the provision of forbearance aims to minimise the risk of the borrower ultimately defaulting on their debt and losing their security.

NBKI recognises that each case will need to be analysed based on its own merits and the specific circumstances of the borrower. As such, this section provides a list of high-level principles that should be considered and followed during the arrears management and forbearance process rather than a step-by-step guide.

NBKI will try to avoid an overly deterministic approach in its assessment and a "one-size-fits-all" approach when dealing with customers in arrears, and instead it will consider the specific circumstances of the borrower.

As at 31 December 2019, NBKI did not have any forborne exposures or took possession of any collateral. Hence will only disclosing Template 3-Credit quality of performing and non performing exposures by past and Template 4- Performing and non performing and related provisions as prescribed by the Final Report on the Guidelines on disclosure of non performing and forborne exposures (EBA/GL/2018/10) issued on the 17th December 2018.

Table 5: Credit quality of performing and non-performing exposures by past due days USD 000

	Performing exposures			Non-performing exposures							
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	"Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Loans and Advances												
Central Banks	437,458	437,458										
Credit Institutions	559,597	559,597										
Other financial corporations	47,163	47,163										
Non-financial corporations	1,296,067	1,295,818	249			1,254						1,254
Debt securities												
General governments	145,465	145,465										
Off-balance-sheet exposures		-										
Credit institutions	78,643											
Non-financial corporations	143,949											
Total	**2,708,343**	**2,485,501**	**249**	**-**	**-**	**1,254**	**-**	**-**	**-**	**-**	**-**	**1,254**

Table 6: Performing and non-performing exposures and related provisions USD 000

	Gross carrying amount/nominal amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
	Performing exposures			Non-performing exposures		Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
		Of which stage 1	Of which stage 2		Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3
Loans and Advances											
Central Banks	437,458	437,458				1	1				
Credit Institutions	559,597	559,597				75	75				
Other financial corporations	47,163	47,163				9	9				
Non-financial corporations	1,296,067	1,245,654	50,413		1,254	2,689	1,169	1,521	-	-	124
Debt securities	-	-			-	-	-	-	-	-	-
General governments	145,465	145,465			-	6	6	-	-	-	-
Off-balance-sheet exposures		-									
Credit institutions	78,643	78,643			-	101	101	-	-	-	-
Non-financial corporations	143,949	143,949			-	479	479	-	-	-	-
Total	**2,708,343**	**2,657,930**	**50,413**	**-**	**1,254**	**3,361**	**1,840**	**1,521**	**-**	**-**	**124**

3.2 Credit valuation adjustment

The Company's regulatory capital charge for credit valuation was USD 105,215 as at 31 December 2019. (2018: USD 211,323).

CVA calculation is done based on the Standardised method, CRR Article 384.

CRD IV introduced a new regulatory capital charge to cover the risk of mark-to market losses on expected counterparty risk derivatives.

Table 7: Derivative Assets analysis

The table below reflects a comparison of derivative assets accounting balances and counterparty credit risk exposure as at:

As at 31 December 2019	Accounting USD 000s	Regulatory USD 000s
Gross positive Fair Value of contracts	12,863	12,863
Derivatives: Add-on Mark-to-Market Method		19,713
Net Derivatives Credit Exosure		**32,576**

3.3 Market Risk

Market risk is defined as the potential gain or loss on financial instruments caused by movements in market variables such as interest rates, foreign exchange rates or equity prices. This is a low risk area as trading activity is restricted to back-to-back foreign exchange forwards and small-scale foreign exchange day trading with tightly controlled position risk limits.

Fixed loans and other fixed securities are hedged by way of interest rate swaps. Further details of hedging strategies are set out in Note 2.20 of the Financial Statements forming part of the ARA for 2019.

3.4 Liquidity risk

Liquidity risk concerns the ability to generate sufficient cash flow (without incurring unacceptable losses) to meet all obligations and commitments as they fall due.

It is the Bank's policy to maintain adequate liquidity at all times. In accordance with this policy, the liquidity position is always maintained at conservative levels and within cautious risk appetite parameters.

Liquidity Coverage Ratio (LCR) is measured on a daily basis. This ratio aims to ensure that credit institutions maintain an adequate liquidity buffer to cover the net liquidity outflows under gravely stressed conditions over a period of 30 days. The LCR is an important regulatory ratio covering liquidity, as it provides essential information for the assessment of liquidity risk management and for decision-making processes of market participants.

The EBA has developed these guidelines (GL) to harmonise and specify the disclosures required under the general principles on liquidity and, in particular, on the LCR in the CRR. These GL apply to institutions that are within the scope of EBA Guidelines on disclosure requirements under Part Eight of Regulation (EU) (EBA/GL/2016/11) version 2 on harmonised disclosure formats. Although NBKI is not within this scope as it is neither an O-SII or G-SII identified by the PRA, the Bank has chosen to disclose the LCR on voluntary basis. This can be seen in Table 8. The LCR is comfortably above the minimum regulatory requirements and conforms to best practice standards.

Table 8: LCR Disclosure template and the template on quality information on LCR

	Total Weighted Value USD000s			
	Q1	Q2	Q3	Q4
Liquitidy Buffer	409,858	405,580	618,421	627,974
Total Net Cash Outflows	100,885	154,985	131,847	149,925
Liquidity Coverage Ratio	406.26%	261.69%	469.04%	418.86%

Table 9: The net liquidity gaps of the Bank (being the difference in contractual cash inflows from maturing assets, and outflows from maturing liabilities)

USD 000s	Up to 3 months	3 to 12 months	Over 1 year	Total
Assets	1,242,699	183,475	1,215,563	2,641,737
Liabilities	1,939,416	259,811	442,510	2,641,737

3.5 Operational risk

This is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Bank's policies and procedures, which are approved by the Board of Directors, are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank. Operational risk is managed by the Risk Management function, which ensures compliance with policies and procedures and monitors operational risk as part of overall risk management framework.

The Bank uses the Basic Indicator Approach to capitalise for operational risk, with the full assessment for capital purposes undertaken in the annual ICAAP.

3.6 Business risk

This is the risk of failing to achieve business targets due to inappropriate strategies, inadequate resources, or changes in the economic, regulatory or competitive environment.

This risk is managed through regular reviews of performance against key targets, with the assessment of internal and external business environment factors and management action as necessary.

Performance is reviewed regularly through the oversight of the Executive Management Committee.

3.7 Interest Rate Risk in the Banking Book (IRRBB)

This is the sensitivity of net interest income to movements in interest rates.

Alongside market risk, the potential impact of interest rate changes on profitability and capital resources is managed actively and monitored regularly and reported at ALCO.

Interest rate sensitivity

Interest rate sensitivity measures the effect of assumed changes in interest rates on the net interest income for one year, based on the interest bearing financial assets and financial liabilities held at the year end. This includes the effect of hedging instruments, but excludes loan commitments.

The sensitivity on equity is the impact arising from changes in interest rate on fair value of available for sale investments. Sensitivity to interest rate movements will be on a symmetric basis as financial instruments giving rise to non-symmetric movements are not significant. The effect upon profitability is discussed in the ARA.

3.8 Group and cross border risks

The implications of the Bank's involvement in an international banking and asset management group (and cross border issues) are considered as part of the annual overall risk and internal capital assessment process.

The Bank carefully monitors the regulatory environment with an emphasis on achieving full compliance with applicable regulations in each country where the Bank operates.

3.9 Conduct Risk

Conduct risk is the risk of causing unfair outcomes or detriment to the Bank's customers, regulatory censure and/or undermining market integrity as a result of the Bank's behaviour, decision making, activities or processes.

The Bank monitors and mitigates conduct risk by ensuring products, services, business processes and procedures are designed to consistently deliver fair customer outcomes which are subject to ongoing assurance, monitoring, testing and reporting where the Bank may be operating outside of risk appetite.

4. Capital (Own Funds)

Capital Risk

Capital risk is the risk that the Bank has insufficient capital to cover regulatory requirements and/or growth plans.

The Bank has an established ICAAP which is conducted in accordance with CRD IV and PRA requirements. The ICAAP examines various severe but plausible stress scenarios to calculate the levels of capital required to survive those scenarios.

The capital forecast forms an integral component of the annual budgeting process and is updated in line with changes to the Bank's business plan. The capital forecast estimates the impact of forthcoming regulatory changes (where possible) to help ensure the Bank is well positioned to meet them when implemented.

A key objective of the Bank is to maximise shareholders' value within optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and comply with the externally-imposed capital requirements.

Capital adequacy is monitored on a regular basis against both regulatory and internal capital requirements.

The Bank's regulatory capital and capital adequacy ratios are all materially above the prescribed minima required by the Prudential Regulatory Authority.

All capital is Common Equity Tier 1 (ordinary shares and retained earnings and reserves).

Table 10: The Banks's overall minimum capital requirement and capital adequacy position under Pillar 1.

Capital Requirements as per Financial Statements

As at 31 December 2019 / USD 000s		
Exposure Type	**RWA**	**Capital Requirement**
Central governments or central banks	-	-
Corporates	379,864	30,389
Institutions	97,043	7,763
Other items	161,791	12,943
Equity	883	71
Secured by mortgages on immovable property	671,585	53,727
Secured by mortgages on developmental properties	33,651	2,692
TOTAL	**1,344,817**	**107,585**
Operational Risk	94,828	7,586
Market Risk/Credit Valuation Adjustment	1,315	105
TOTAL	**96,143**	**7,691**
TOTAL Risk Weighted assets (RWA)	**1,440,960**	
Total Capital Requirements (A)		115,277
Total own funds (includes audited results) (B)		403,328
Excess of capital in place over total capital requirement		**288,051**

Table 11: Capital Structure/Resources

Composition of Regular Capital	**USD 000s**
Common Equity Tier 1 Capital before regulatory adjustments	424,157
Total Regulatory adjustments to Common Equity Tier 1	-20,829
Common Equity Tier 1 Capital (CET 1)	403,328
Additional Tier 1 Capital (AT1)	-
Tier 1 Capital (T1 =CET1+AT1)	403,328
Tier 2 Capital (T2)	-
Total Capital (TC =T1+t2)	403,328
Total Risk Weighted Assets	**1,440,960**
Capital Ratios and Buffers	
Common Equity Tier 1 (as a percentage of RWA)	27.99%
Tier 1 (as percentage of RWA)	27.99%
Total Capital (as percentage of RWA)	**27.99%**

Table 12: Capital Reconciliation to Financial Statements (Part 1)

As at 31 December 2019 / USD 000s	**Balance Sheet** as in published financial statements	**Under Regulatory** scope of consolidation
Assets		
Cash and cash equivalents	438,575	438,575
Deposits with banks	555,201	555,201
Loans and advances to banks	4,362	4,362
Loans and advances to customers	1,294,507	1,294,507
Investment securities	226,602	226,602
Investment in group entity	49,209	49,209
Fixed assets	53,095	53,095
Other assets	26,142	26,142
Total Assets	**2,647,693**	**2,647,693**
Liabilities		
Due to banks and other financial institutions	956,908	956,908
Customer deposits	1,205,720	1,205,720
CDs & other debt securities issued	-	-
Other liabilities	60,908	60,908
Total Liabilities	**2,223,536**	**2,223,536**
Equity		
Share capital	235,883	235,883
Retained earnings	185,650	185,650
Cumulative changes in fair values	2,624	2,624
Total Equity	**424,157**	**424,157**
Total Equity and Liabilities	**2,647,693**	**2,647,693**

Table 13: Capital Reconciliation to Financial Statements (Part 2)

Common Equity Tier 1 capital: instruments and reserves	**As at 31 December 2019 / USD 000s**
Capital instruments and the related share premium accounts	235,883
Retained earnings	185,650
Accumulated other comprehensive income (and any other reserves)	2,624
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**424,157**
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Additional value adjustments (negative amount)	(389)
Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	(23,605)
Transitional IFRS 9 adjustment	3,165
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(20,829)**
Common Equity Tier 1 (CET1) capital	**403,328**
Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
Tier 1 capital (T1 = CET1 + AT1)	**403,328**
Tier 2 (T2) capital: regulatory adjustments	
Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	
Tier 2 (T2) capital	-
Total capital (TC = T1 + T2)	**403,328**

4.1 Regulatory Capital buffers

Under CRD IV institutions are required to meet the following own funds requirements: a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6% and total capital ratio of 8%. These form the institution's Pillar 1 requirements. Pillar 2 covers risks that are not fully addressed by Pillar 1.

Alongside the minimum capital requirements, CRD IV requires institutions to hold capital buffers that can absorb losses in times of economic stress. To ensure that the same risks are not duplicated within the buffers, the Pillar 2 risk is assessed alongside other capital buffers, as described below.

Capital Conservation Buffer

The capital conservation buffer is designed to ensure that institutions build up capital outside of times of stress that can absorb losses if required. The requirement is 2.5% of RWA and is being phased in from 2016 in steps of 0.625% per annum to the full 2.5% value in 2019. As of 31 December 2019, the capital conservation buffer was 2.5% and therefore the requirement was USD 36.024 million.

Countercyclical Capital Buffer (CCyB)

The CCyB is designed to ensure that financial institutions to hold additional capital to reduce the build-up of systemic risk in a credit boom by providing absorbing capacity and acting as an incentive to limit further growth. Each institution's specific countercyclical buffer rate is a weighted average of the countercyclical capital buffers that apply in the jurisdictions where the relevant credit risk is located. As of 31 December 2019, NBKI had a weighted average CCyB rate of 0.207% and hence a CCyb buffer of USD 2.984 million.

Globally Systematic Important Financial Institutions (G-SIFIs)

G-SII buffer for financial institutions that are considered to represent higher risk to the global financial system, based on a number of key factors, are defined as globally systemically important institutions (G-SIIs). NBKI does not currently fit the criteria of G-SIIs and hence this buffer is not applicable.

5. Leverage

The Board has set a leverage limit which restricts the maximum exposure that the Bank may take both on and off balance sheet in relation to shareholders' funds and subordinated debt. The limit is set at a level which results in a leverage ratio significantly above the Basle III minimum of 3%. The Bank's Treasury area has primary responsibility for ensuring compliance with the limit which is monitored and reported on by the Bank's independent risk management function.

Table 17: Summary of reconciliation of accounting assets and leverage ratio exposures

	USD 000s
Total Assets as per Financial Statements	2,647,694
Adjustments for derivative financial instruments	12,863
Adjustments for off Balance sheet items	150,943
Leverage Ratio total exposure measure	2,811,500
Other off-balance sheet exposures	
Off Balance Sheet exposures at gross national amount	301,730
Adjustments relating to Credit Conversion Factors (CCF)	(150,787)
Off balance sheet exposures	150,943
Capital and total exposure measure	
Tier 1 capital	403,329
Leverage ratio total exposure	2,775,357
Leverage Ratio	14.53%

6. Transitional Adjustment IFRS 9

The EBA has published guidelines under Article 473 (a) of Regulation EU No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9. NBKI is applying the transitional arrangements and is therefore required to complete the transitional template below: -

As at 31 December 2019		USD 000s
Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	403,328
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	400,163
3	Tier 1 capital	403,328
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	400,163
5	Total capital	403,328
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	400,163
Risk-weighted assets (amounts)		
7	Total risk-weighted assets	1,440,960
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,440,960
Capital ratios		
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	27.99%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	27.77%
11	Tier 1 (as a percentage of risk exposure amount)	27.99%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	27.77%
13	Total capital (as a percentage of risk exposure amount)	27.99%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	27.77%
Leverage ratio		
15	Leverage ratio total exposure measure	2,775,357
16	Leverage ratio	14.53%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.42%

7. Remuneration and Governance

7.1 General

The Bank has considered FCA guidance on staff remuneration issued in May 2017 (PS17/10), in addition to the PRA Rulebook, the Remuneration Code ("the Code") and the Capital Requirements Regulation (Article 450).

This statement sets out the disclosures required under the requirements as they apply to the Bank. The Bank is classified as a Level 3 Bank under FCA guidance.

The Bank employed 141 members of staff as at 31 December 2019 (122 in 2018) in London.

The total staff costs of the Bank (as disclosed in the Note 7 of the 2019 Annual Report and Financial Statements) were USD 15m (USD 14.1m in 2018).

7.2 Nominations and Remuneration Committee

Governance of all matters related to remuneration within the Bank lies with the Nominations and Remuneration Committee (NRC), comprised of three non-executive Board members. The Committee is composed of its Chair, and two other non-executive Board members who possess the necessary skills to exercise the appropriate judgement. The Head of HR also attends the Committee.

The NRC is responsible for reviewing the Bank's remuneration policies to ensure compliance with the requirements outlined above. This includes reviewing the overall level of staff remuneration (including performance awards) in the context of the longer-term business performance of the Bank. It also includes ensuring that staff costs are appropriate in light of the Bank's current and prospective capital adequacy and ensuring that the Bank's remuneration policies do not give rise to unnecessary conduct risks in the execution of the Bank's strategy.

7.3 Performance Award Scheme

The Bank has in place a Performance Management Assessment (PMA) scheme to determine 'variable remuneration' as defined in the Code. Variable remuneration consists of discretionary cash bonuses which are based on individual performance and contribution assessment, subject to:

- The Bank's performance against the business plan prepared before the start of the year to which it relates.
- An individual's behaviours (as assessed against the Bank's values).
- An individual's achievement of their objectives (derived from their Performance Management Process score - an assessment scale).

Any amounts are payable in February following the year to which the award relates.

7.4 Material Risk Takers (MRT's)

As required under Article 92 (2) of CRD IV and section 3 of the remuneration part of the PRA rulebook, the Bank maintains a list of all Material Risk Takers (MRT).

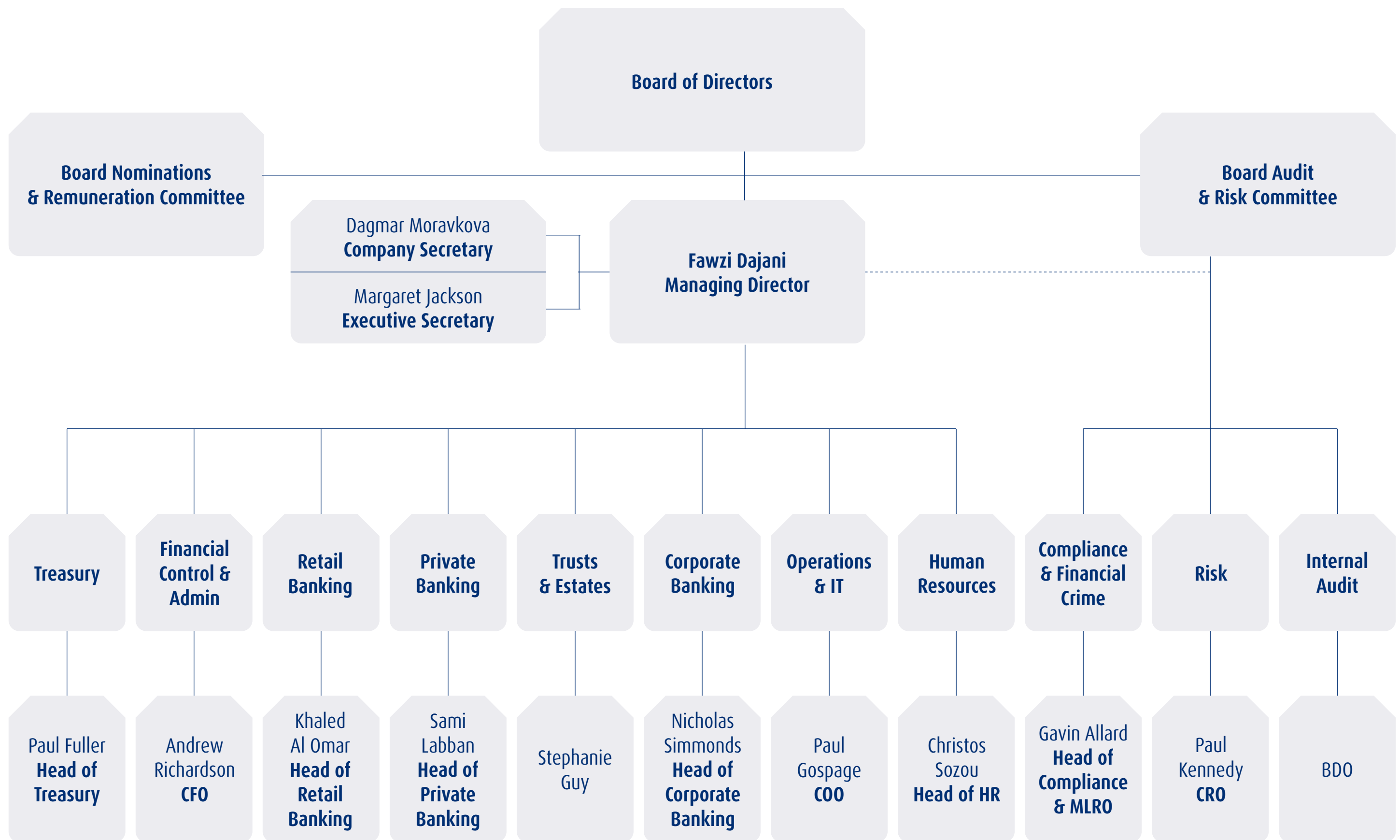
The Bank applies the definition of MRT's set out in articles 3-5 of Commission delegated regulation (EU) No. 604/2014, which supplements CRD IV. Only employees can come under this definition, not non-executive directors.

As at 1 June 2020, the Bank had 18 MRT's, of whom 6 were also classed as Senior Managers. All 18 of those MRTs were exempted from the requirements to defer any variable remuneration. This is because their remuneration is below de minimum threshold*.

Fixed remuneration relating to 2019 for MRT's was just under £2.1m and variable remuneration relating to 2019 was £448k.

* The de minimis provisions apply to those whose total annual remuneration is no more than £500,000 and whose variable remuneration is no more than 33% of total remuneration.

Appendix I - Structure Charts



Board of Directors
Board Nominations & Remuneration Committee
Board Audit & Risk Committee
Dagmar Moravkova
Company Secretary
Margaret Jackson
Executive Secretary
Fawzi Dajani
Managing Director
Treasury
Financial Control & Admin
Retail Banking
Private Banking
Trusts & Estates
Corporate Banking
Operations & IT
Human Resources
Compliance & Financial Crime
Risk
Internal Audit
Paul Fuller
Head of Treasury
Andrew Richardson
CFO
Khaled Al Omar
Head of Retail Banking
Sami Labban
Head of Private Banking
Stephanie Guy
Nicholas Simmonds
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