Pillar 3 Disclosures

As at 31st December 2017

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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:

- Pillar1 defines minimum capital requirements which firms are required to maintain for Operational, Market and Credit risk.
- Pillar2 defines the supervisory review process which firms are required to maintain including a requirement to conduct an Internal Capital Adequacy Assessment Process (ICAAP)
- Pillar3 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 000's as at 31.12.2017

Common Equity Tier 1 capital	Total Regulatory capital
USD 300,299	USD 300,299

Common Equity Tier 1 ratio	Total Capital ratio
17.74%	17.74%

Total RWAs	Leverage Ratio
USD 1,692,939	8.84%

Liquidity Coverage Ratio	Net Stable Funding Ratio
228.15%	137.71%

1.2 Disclosure policy

1.2.1 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 2017. Other information, for example, organisation charts, is stated as at 1 June 2018.

1.2.2 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.nbki.com/london.

1.2.3 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 2017, 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 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 has one overseas branch operating in Paris, France, which is additionally regulated by the Autorité de Contrôl Prudentiel et Résolution in France.

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

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 comprehensively current and potential risks in order to manage them effectively.

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

The Bank has effective systems, processes and internal control procedures, which form the basis of 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 2.3.1). Each line of defence describes a specific set of responsibilities for risk management and control.

The Bank's series of policies interpret the Board's Risk Appetite Statement ("RAS"). The policies further define responsibilities for monitoring, reporting and escalating breaches of limits, parameters and codes of 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" situations
- Key risk indicators and key performance indicators (KRI and KPI)

The Bank's risk appetite is aligned to its business plan and strategy, and embedded into its ICAAP.

- 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 by the ERC (Executive Risk Committee) using dashboard reports and 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 is 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 Risk Management Framework ("RFM"). The risk appetite sets the context and the boundaries for activities and controls.

The risk appetite balances targeted profitability against an acceptable level of potential 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 adopting overly aggressive business strategies creates higher risk of losses. It therefore takes a conservative approach to risk, ensuring a low risk profile by restraining its targets and limits within its ability to 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
Capital Risk	Inadequate capital to support the business and meet regulatory requirements	Conservative internal capital adequacy limits
Liquidity- Deposit Concentration Risk	Insufficient funds to meet obligations and liabilities	Conservative liquidity management
Conduct Risk	The risk that detriment is caused to the Bank, its clients or counterparties because of the inappropriate execution of NBKI's business activities	A top down culture across all parts of the Bank which makes it clear to all staff that there is no tolerance of misconduct
Business & Strategic Risk	Poor business and strategic planning that increase the risks across the whole business	A moderate target return on equity and assets

Material Risk Category	Risk Definition	Risk Appetite
Credit and Concentration Risk	Loss due to the failure of a counterparty to meet its obligations in accordance with agreed terms	Proportional risk limits for credit and concentration risk
Market Risk	Losses arising from market risk (including FX and interest rate movements)	Market risk limits restricted to that required for day-to-day hedging and cash management
Operational Risk	Loss arising from the failure of people, processes or technology or the impact of external events	Minimal operational risk, maintained by strong governance and risk management processes.
Risks in Stress Scenarios	Risk arising from stressed market and macro-economic conditions	Sufficient capital to support the core banking operations even under stressed conditions.

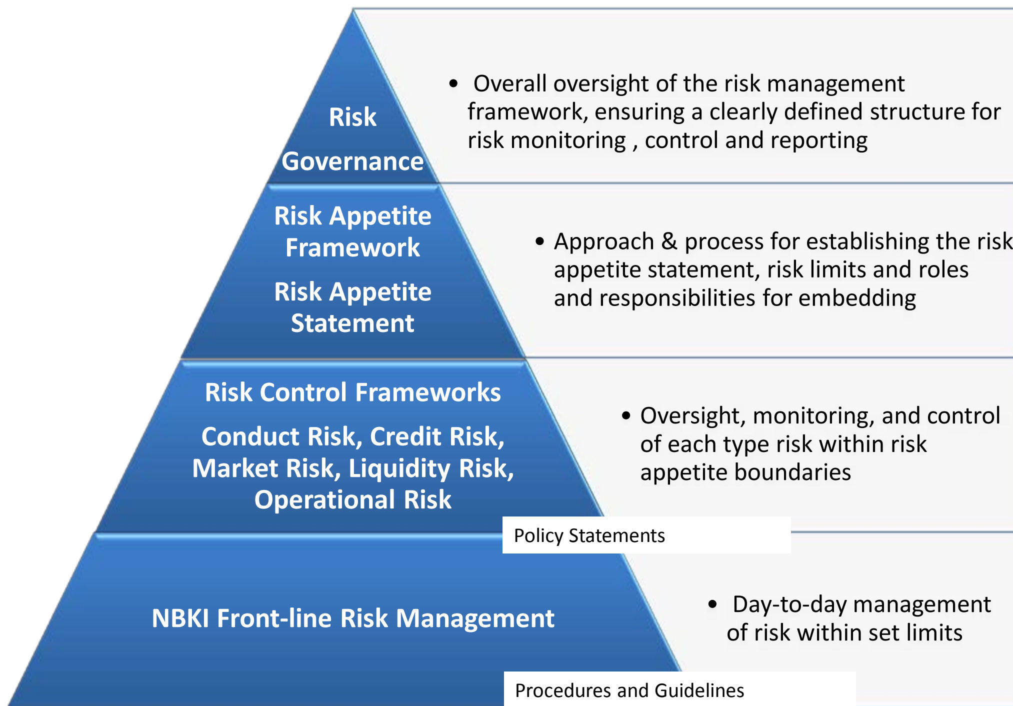
2.3 NBKI's approach to Risk Management

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 on the next page.

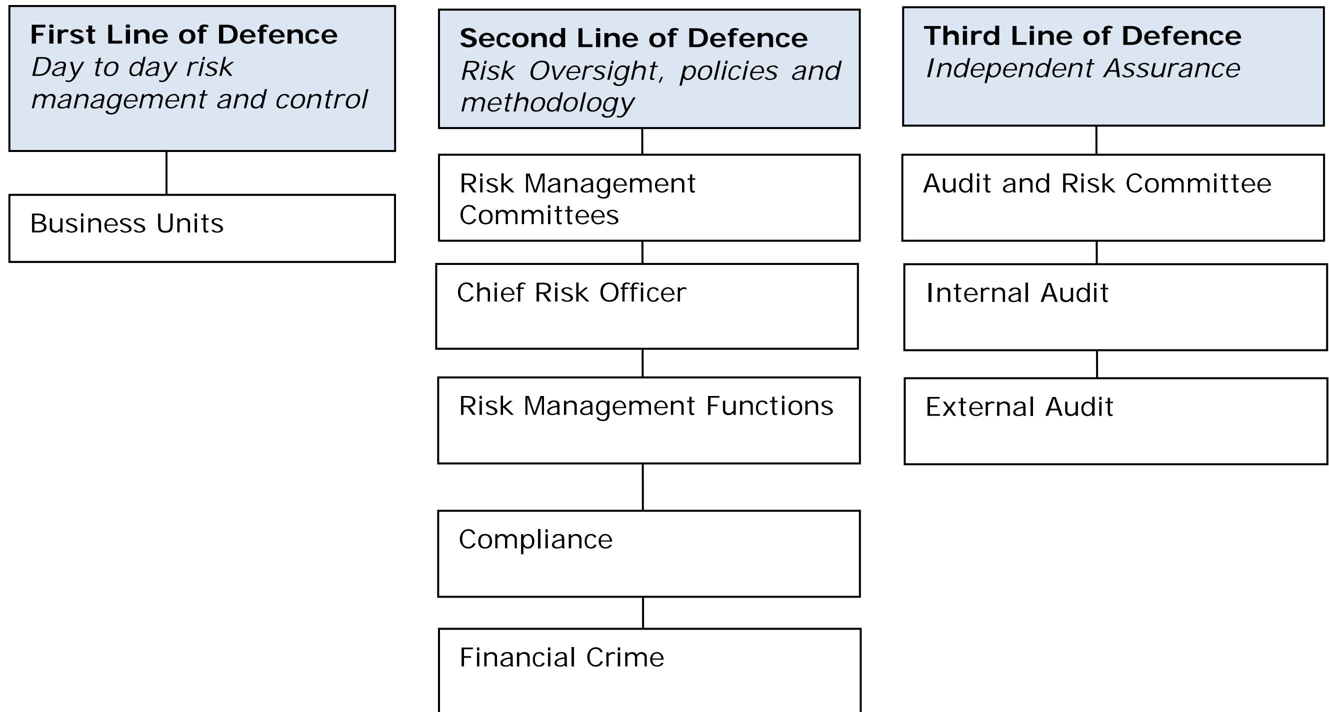


The NBKI risk management framework is explained in more detail by examining the following areas:

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

2.3.1 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.



2.3.2 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.

2.3.3 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.

2.3.4 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.

2.3.5 Stress Testing

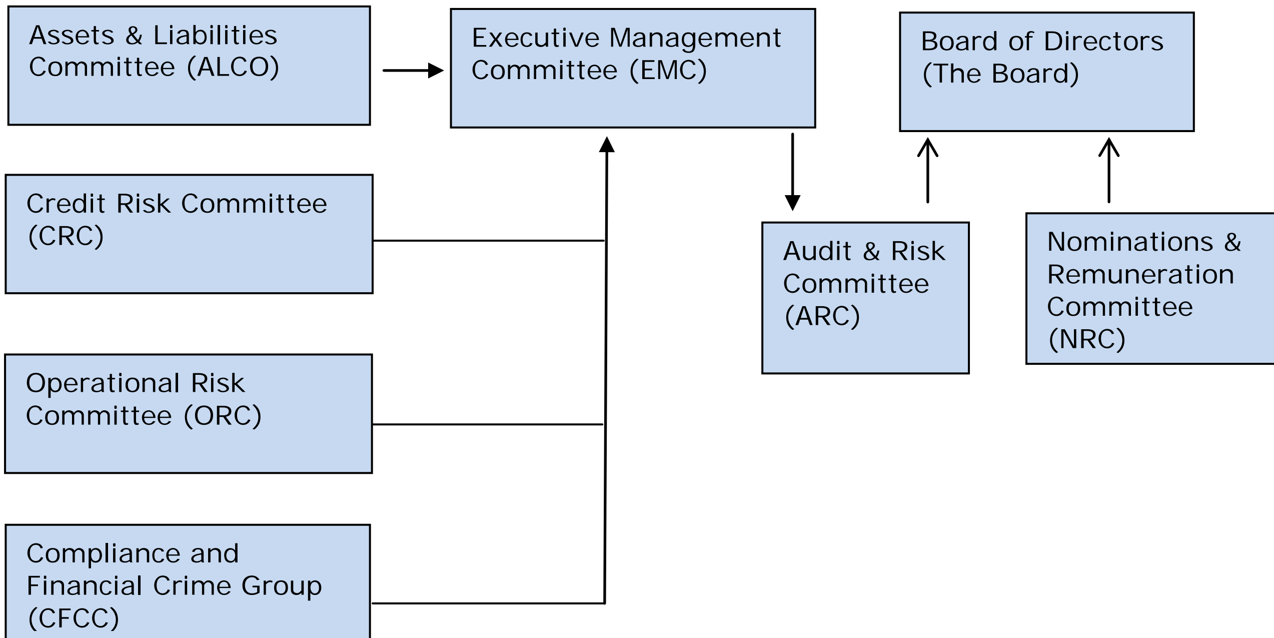
Stress testing is an important risk management tool, with specific approaches documented for the major regulatory exercises of the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (“ILAAP”) and Recovery and Resolution Plan (“RRP”).

2.4 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 Risk Committee (“ERC”) and its sub-committees.

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



2.4.1 Board of Directors (The Board)

The Board has established two sub-committees which are the Board Audit and Risk Committee (ARC) and the Board Nomination and Remuneration (NRC) who 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.

2.4.2 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.

2.4.3 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, including any employee share schemes, 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;

2.4.4 Management committees

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

2.4.5 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;
- monitoring external developments across NBKI's footprint (UK and Europe) 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.
- Reviewing matters escalated by the ERC and, where appropriate, escalating these to the Board Audit and Risk Committee.

2.4.6 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 Money Laundering Fraud Risk Regulatory compliance Legal and compliance
Operational Risk Committee	Operational Risk, including (but not limited to): Administration and premises Business Continuity management Operations Human Resources Information Technology

2.4.7 NBKI's business lines

London and Paris have similar business structures, with the business lines being:

- Consumer Banking, which includes Private and Retail Banking in London. Paris only has Private Banking.
- Corporate and Institutional Banking (including trade finance)
- Treasury (London only, but this also covers Paris)

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 (London and Paris)
- Credit Administration (London and Paris)
- IT Operations (London and Paris)
- Finance (including Tax) (London and Paris)
- HR (London and Paris)
- Administration including premises (London and Paris)
- Compliance (London and Paris):
- Financial Crime (including AML) (London only. In Paris Financial Crime is handled by Compliance)
- Risk Management (based in London and covering Paris)

- Internal Audit (outsourced and based in London but also covering Paris)

Organisation Charts

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

The resources within the Paris Branch all report into the Paris General Manager, who in turn reports to the NBKI Managing Director in London.

The front office business functions and support operations within Paris work closely with their equivalent units in London.

2.5 The Risk monitoring framework

2.5.1 Risk Assessments

NBKI Risk Management works closely with all the business and support areas to identify the end-to-end processes for each specific business activity and the associated controls and support functions. The end-to-end processes then form a basis for identifying the key risks and the associated 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 circumstances change.

The key steps are noted below:

- Control Effectiveness Assessment: The control assessment includes a systematic review of the identified controls, comprising both design effectiveness and operating effectiveness.
- Design Effectiveness: An assessment of how effective the control would be at reducing the associated risk(s), assuming the control operates as defined.
- Operating Effectiveness: An evaluation of the practical effectiveness of the control in operation.
- Residual Risk: Following the Control Effectiveness Assessment, Risk Management establishes the level of residual risk, categorized as High, Medium, Low, or Acceptable.

2.5.2 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)

2.5.3 Risk Mitigation

Any residual risk deemed as High 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 where appropriate, issues of high risk are raised at the Executive Risk Committee, the Executive Management Committee, the Audit and Risk Committee and ultimately the Board.

Where a residual risk has been ranked as Medium, Senior Management will agree how to mitigate the risk further, then the remediation plan will be treated in a similar way to the High Risk remediation plans described above. However the time frame may be longer.

For risks ranked as low, the Senior Management will decide if the risk is acceptable. If not, it will be addressed with an action plan, as stated above.

2.6 Qualitative Stress Testing and Scenario analysis

In addition to the on-going governance and risk management processes that manage business as usual, it is recognised that the Bank may be exposed to additional losses that might occur if an economic downturn or a risk event crystallises. To this end the Bank uses stress testing and scenario analysis as another tool in its Risk Management Framework.

Stress testing refers to shifting the values of individual parameters that affect the Bank's risk profile, taking into account the non-linear and endogenous nature of some risk drivers. Scenario analysis refers to examining the impact of a range of parameters varying at the same time as a consequence of an adverse incident or set of circumstances.

On at least an annual basis (as part of the ICAAP, ILAAP, and Recovery and Resolution Planning) the Bank considers the possible stresses and scenarios that may have material risk impacts.

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 sufficient. This is to ensure management have time to address any adverse conditions in a controlled manner.

Where appropriate, additional periodic stress testing will be undertaken. This is important for areas where there is higher concentration risk, for example, the Prime London Real Estate portfolio.

2.7 Internal Audit function

Internal Audit is an essential function for monitoring the Bank's risk management performance. This function has been outsourced to a 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.

2.8 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

2.8.1 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.

2.8.2 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 the 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 standard approach for each of the risk exposure classes as at 31 December 2017, 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
Corporate	-	544,008	49,492	50,081	140,975	256,155	1,040,711
Other	-	-	0	-	20,317	1,992	22,309
Central Governments	-	-	67,049	-	87,264	419,844	574,157
Institution	4,446	75,516	18,691	20,990	323,039	304,248	746,930
Equity	-	-	-	-	556	2	558
High Risk	0	0	0	44,223	1,590	0	45,813
MDB	0	49,575	0	0	0	0	49,575
Real estate	0	240,588	0	721,455	51,459	136,905	1,150,407
Grand Total	**4,446**	**909,687**	**135,232**	**836,749**	**625,200**	**1,119,146**	**3,630,460**

The majority of real estate property is located in London or Paris.

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)

	Asia	Europe	MENA	North America	Other	UK	Grand Total
Corporate	-	-	61,461	-	-	-	61,461
Grand Total	**-**	**-**	**61,461**	**-**	**-**	**-**	**61,461**

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

	1-3 months	3-12 months	1-5 years	More than 5 Years	Undated	Grand Total
Corporate	341,346	191,304	257,212	189,660	61,189	1,040,711
Other	22,309	-	-	0	0	22,309
Central Governments	491,878	15,230	0	67,049	0	574,157
Institution	680,344	47,000	19,375	45	165	746,929
Equity	558	0	0	0	0	558
High Risk	9,460	36,353	0	0	0	45,813
MDB	0	0	49,575	0	0	49,575
Real estate	61,449	191,280	664,833	232,846	0	1,150,408
Grand Total	**1,607,344**	**481,166**	**990,996**	**489,600**	**61,354**	**3,630,460**

Other credit risk concentration tables and information are 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-AA-	A+-A-	BBB+-BBB-	BB+-BB-	B+-B-	Unrated	Grand Total
Corporate	1,331	303,088	67,261	127,356	95,837	413,354	1,008,227
Other	0	0	0	0	0	22,309	22,309
Central Governments	574,157	0	0	0	0	0	574,157
Institution	55,393	538,671	122,350	17,500	0	13,790	747,704
Equity	0	0	0	0	0	558	558
High Risk	0	0	0	0	0	77,523	77,523
MDB	49,575	0	0	0	0	0	49,575
Real estate	0	0	0	0	0	1,150,407	1,150,407
Grand Total	**680,456**	**841,759**	**189,611**	**144,856**	**95,837**	**1,677,941**	**3,630,460**

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

	AAA-AA-	A+-A-	BBB+-BBB-	BB+-BB-	B+-B-	Unrated	Grand Total
Corporate	1,331	360,869	67,261	127,356	70,265	413,629	1,040,711
Other	-	-	-	-	-	22,309	22,309
Central Governments	574,157	-	-	-	-	-	574,157
Institution	55,393	538,171	122,350	17,500	-	13,516	746,930
Equity	-	-	-	-	-	558	558
High Risk	-	-	-	-	-	45,813	45,813
MDB	49,575	-	-	-	-	-	49,575
Real estate	-	-	-	-	-	1,150,407	1,150,407
Grand Total	**680,456**	**899,040**	**189,611**	**144,856**	**70,265**	**1,646,232**	**3,630,460**

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

2.8.3 Credit valuation adjustment

The Company's regulatory capital charge for credit valuation was USD 303,375 as at 31 December 2017. (2016: USD 177,701).

CVA Calculation is done on the basis of 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 5: 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 2017	**Accounting**	**Regulatory**
	USD 000s	**USD 000s**
Gross positive Fair Value of contracts	1,600	1,600
Derivatives: Add-on Mark-to-Market Method		15,917
Net Derivatives Credit Exposure		**17,517**

2.8.4 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 2017.

2.8.5 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 a 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 6. The LCR is comfortably above the minimum regulatory requirements and conforms to best practice standards.

Table 6: LCR Disclosure template and the template on quality information on LCR

	Total weighted value (USD 000's)				
		Q1	Q2	Q3	Q4
1	LIQUIDITY BUFFER	486,076	532,812	544,402	625,046
2	TOTAL NET CASH OUTFLOWS	167,529	189,144	215,538	273,963
3	LIQUIDITY COVERAGE RATIO (%)	290.14%	281.70%	252.58%	228.15%

Table 7: The net liquidity gaps of the Bank (being the difference in contractual cash inflows from maturing assets, and outflows from maturing liabilities)

USD $M	Up to 3 months	3 to 12 months	Over 1 year	Total
Assets	1,543,393	314,268	1,167,384	3,025,045
Liabilities	2,048,700	658,811	317,534	3,025,045

2.8.6 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.

2.8.7 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.

2.8.8 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.

2.8.9 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.

2.8.10 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.

Cross border risk refers to anomalies (e.g. regulatory differences) which might arise between the London and Paris operations and create practical difficulties.

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

2.8.11 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.

3. 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 their prescribed minima required by the Prudential Regulatory Authority.

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

Table 8: The Banks's overall minimum capital requirement and capital adequacy position under Pillar 1

Capital Requirements as per Financial Statements

$000s	**31/12/2017**	
Exposure Type	**RWA**	**Capital Requirement**
Central governments or central banks	-	-
Corporates	574,305	45,944
Institutions	177,593	14,207
Other items	19,587	1,567
Equity	558	45
Secured by mortgages on immovable property	744,759	59,581
Secured by mortgages on developmental properties	91,309	7,305
	1,608,111	**128,649**
Operational Risk	81,036	6,483
Market Risk	3,792	303
	84,828	**6,786**
TOTAL Risk Weighted assets (RWA)	**1,692,939**	
Total Capital Requirements (A)		135,435
Total own funds (includes audited results) (B)		300,299
Excess of capital in place over total capital requirement		**164,864**

Table 9: Capital Structure/Resources

Composition of Regular Capital	$000s
Common Equity Tier 1 Capital before regulatory adjustments	300,619
Total Regulatory adjustments to Common Equity Tier 1	(320)
Common Equity Tier 1 Capital (CET 1)	300,299
Additional Tier 1 Capital (AT1)	-
Tier 1 Capital (T1 =CET1+AT1)	300,299
Tier 2 Capital (T2)	-
Total Capital (TC =T1+t2)	300,299
Total Risk Weighted Assets	**1,692,939**
Capital Ratios and buffers	
Common Equity Tier 1 (as a percentage of RWA)	17.74%
Tier 1 (as percentage of RWA)	17.74%
Total Capital (as percentage of RWA)	**17.74%**

Table 10: Capital Reconciliation to Financial Statements

	Balance Sheet as in published financial statements	Under Regulatory scope of consolidation
Item		
	31/12/2017	*31/12/2017*
	US$000	*US$000*
Assets		
Cash and cash equivalents	366,212	366,212
Deposits with banks	982,433	982,433
Loans and advances to banks	17,500	17,500
Loans and advances to customers	1,383,302	1,383,302
Investment securities	260,417	260,417
Fixed assets	1,682	1,682
Other assets	13,499	13,499
Total assets	**3,025,045**	**3,025,045**
Liabilities		
Due to banks and other financial institutions	1,356,327	1,356,327
Customer deposits	1,303,904	1,303,904
CDs & other debt securities issued	15,000	15,000
Other liabilities	49,195	49,195
Total liabilities	**2,724,426**	**2,724,426**
Equity		
Share capital	150,083	150,083
Retained earnings	147,582	147,582
Cumulative changes in fair values	2,954	2,954
Total equity	**300,619**	**300,619**
Total equity and liabilities	**3,025,045**	**3,025,045**

Table 11: Capital Reconciliation to Financial Statements

Common Equity Tier 1 capital: instruments and reserves (1)		31 Dec 2017 USD 000
1	Capital instruments and the related share premium accounts	150,083
2	Retained earnings	147,582
3	Accumulated other comprehensive income (and any other reserves)	2,954
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**300,619**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(320)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	(320)
29	**Common Equity Tier 1 (CET1) capital**	300,299
38	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)	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	300,299
Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	
58	**Tier 2 (T2) capital**	-
59	**Total capital (TC = T1 + T2)**	**300,299**

3.1 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 accessed alongside other capital buffers, as described below.

3.1.1 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 2017, the capital conservation buffer was 1.25% and therefore the requirement was USD 21.162million.

3.1.2 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 2017, NBKI had a weighted average CCyB rate of 0.000828 and hence a CCyb buffer of USD 14,024.

3.1.3 Globally Systematic Important Financial Institutions (G-SIFIs)

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

4. Securitisation

The Bank has not participated in securitisations to date.

5. Non trading book exposures in Equities

The Bank does not have any exposures in this category.

6. Impairment and Provisions

6.1 Summary of accounting policy

The Bank's accounting policy for the determination of impairments is set out in Note 2.7 of the Notes to the Financial Statements in the 2017 Directors' Report and Financial Statements.

6.2 Impairment of Financial Assets carried at amortised cost

The impairment provision as at 31 December 2017 was $15,267,000 (2016: $386,000)

The 2017 impairment comprises $15,000,000 specific provisions and $267,000 collective provisions. The movements in impairment provisions are shown in Note 13 of the 2017 Directors Report and Financial Statements.

7. 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 12: Summary of reconciliation of accounting assets and leverage ratio exposures

Total Assets as per Financial Statements	3,025,045
Adjustments for derivative financial instruments	17,655
Adjustments for off Balance sheet items	353,398
Leverage Ratio total exposure measure	3,396,098
Other off-balance sheet exposures	-
Off Balance Sheet exposures at gross national amount	607,800
Adjustments relating to Credit Conversion Factors (CCF)	(254,402)
Off balance sheet exposures	353,398
Capital and total exposure measure	
Tier 1 capital	300,299
Leverage ratio total exposure	3,396,098
Leverage Ratio	8.84%

8. IFRS 9

EBA has published guidelines on uniform disclosures under Article 473(a) of Regulation EU no 575/2013 as regards the transitional period of mitigating the impact of the introduction of IFRS 9 on own funds. These guidelines apply from 20 March 2018. NBKI is applying transitional arrangements and therefore will be required to complete the quantitative templates in the 31 December 2018 Pillar 3 documents.

9. Remuneration and Governance

9.1 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 96 members of staff as at 31 December 2017 (89 in 2016) in London and 20 in Paris.

The total staff costs of the Bank (as disclosed in the Note 7 of the 2017 Annual Report and Financial Statements) were USD 14m (USD 12.8m in 2016).

9.2 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 the Chairman, and two other non-executive Board members who possess the necessary skills to exercise the appropriate judgement. The Head of HR acts as Secretary to 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.

9.3 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 contribution towards the 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.

9.4 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.

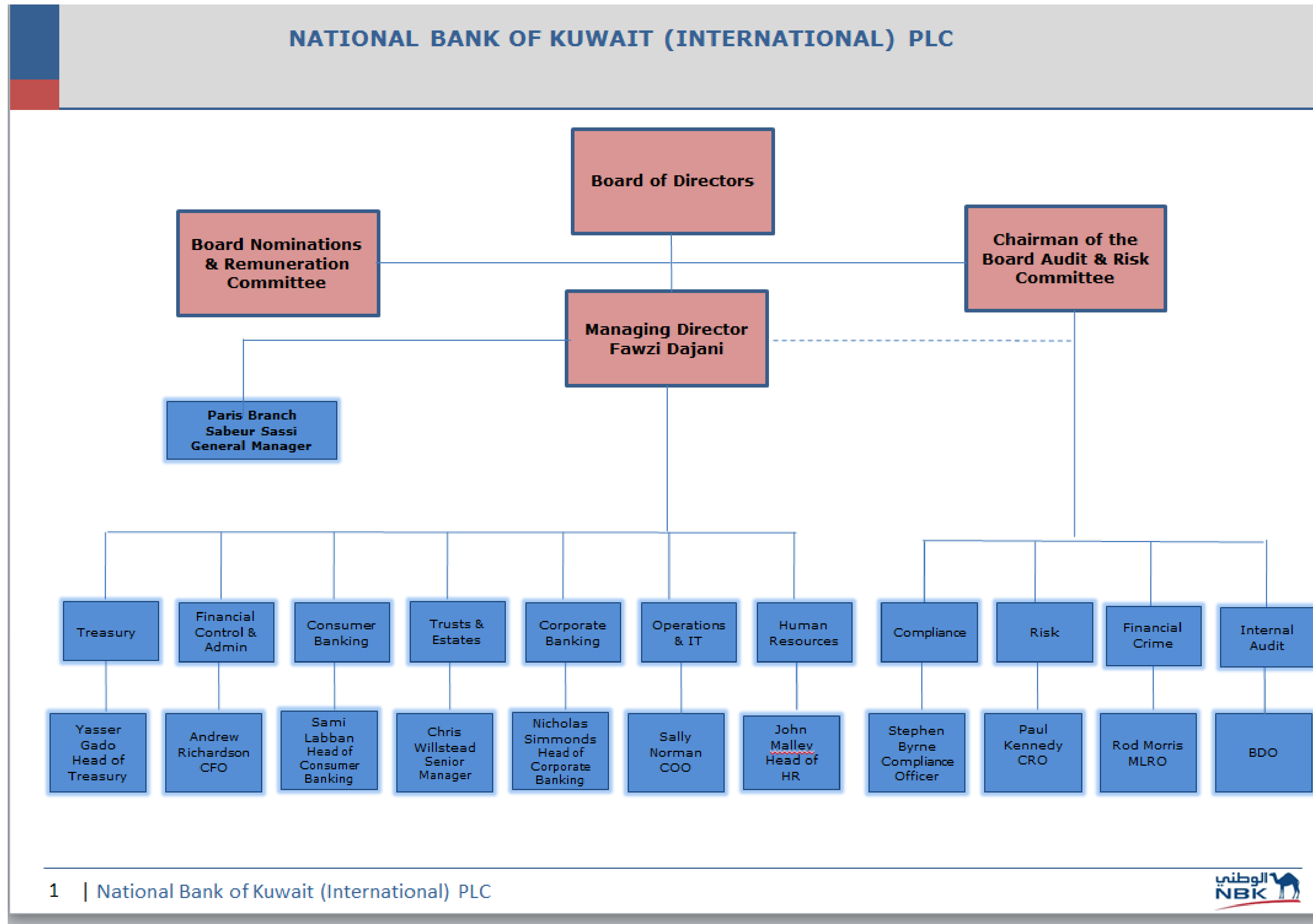
As at 1 June 2018, the Bank had 20 MRT's, of whom 6 were also classed as Senior Managers. All 20 of those MRTs were exempted from the requirements to defer any variable remuneration. This is because their remuneration is below de minimis threshold[*].

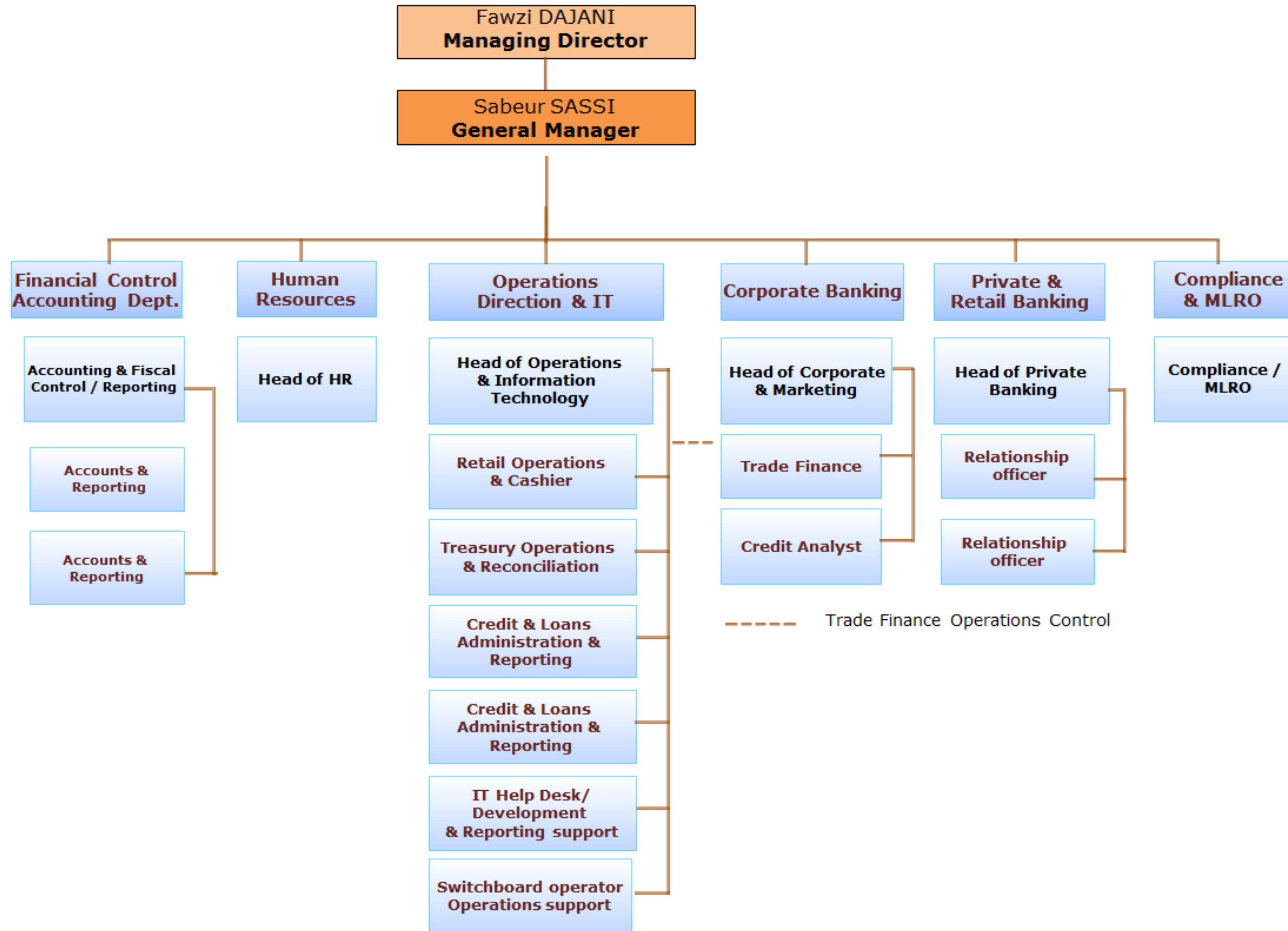
Fixed remuneration relating to 2017 for MRT's was £2m and variable remuneration relating to 2017 was £307k.

[*] 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.

10. Appendices

Appendix I - Structure Charts


NATIONAL BANK OF KUWAIT (INTERNATIONAL) PLC
Board of Directors
Board Nominations & Remuneration Committee
Chairman of the Board Audit & Risk Committee
Managing Director Fawzi Dajani
Paris Branch Sabeur Sassi General Manager
Treasury
Financial Control & Admin
Consumer Banking
Trusts & Estates
Corporate Banking
Operations & IT
Human Resources
Compliance
Risk
Financial Crime
Internal Audit
Yasser Gado Head of Treasury
Andrew Richardson CFO
Sami Labban Head of Consumer Banking
Chris Willstead Senior Manager
Nicholas Simmonds Head of Corporate Banking
Sally Norman COO
John Malley Head of HR
Stephen Byrne Compliance Officer
Paul Kennedy CRO
Rod Morris MLRO
BDO
1 | National Bank of Kuwait (International) PLC
الوطني NBK


National Bank of Kuwait (International) PLC - Paris
Fawzi DAJANI
Managing Director
Sabeur SASSI
General Manager
Financial Control Accounting Dept.
Human Resources
Operations Direction & IT
Corporate Banking
Private & Retail Banking
Compliance & MLRO
Accounting & Fiscal Control / Reporting
Accounts & Reporting
Accounts & Reporting
Head of HR
Head of Operations & Information Technology
Retail Operations & Cashier
Treasury Operations & Reconciliation
Credit & Loans Administration & Reporting
Credit & Loans Administration & Reporting
IT Help Desk/ Development & Reporting support
Switchboard operator Operations support
Head of Corporate & Marketing
Trade Finance
Credit Analyst
Head of Private Banking
Relationship officer
Relationship officer
Compliance / MLRO
Trade Finance Operations Control