National Bank of Kuwait (International) PLC
بنك الكويت الوطني (إنترناشيونال) بي.إل.سي

Pillar 3 Disclosures

As at 31st December 2016

Contents

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 allow market participants to have access to a firm's regulatory capital and risk exposures in order to promote transparency.

Key Metrics

Common Equity Tier 1 capital
USD 296.33m

Total Regulatory capital
USD 296.33m

Common Equity Tier 1 ratio
22.73%

Total Capital ratio
22.73%

Total RWAs
USD 1,304m

Leverage Ratio
11.38%

Liquidity Coverage Ratio
535.89%

Net Stable Funding Ratio
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 2016. Other information, for example, organisation charts, is stated as at 15 September 2017.

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.

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 2016, 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 Scope of application

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.

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 highrisk issues monthly.
- All areas of risk are monitored quarterly by the ERC 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 modest target return on equity and assets
Credit & 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	Market risk limits restricted to that

Material risk category	Risk definition	Risk appetite
	FX and interest rate movements)	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 a 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

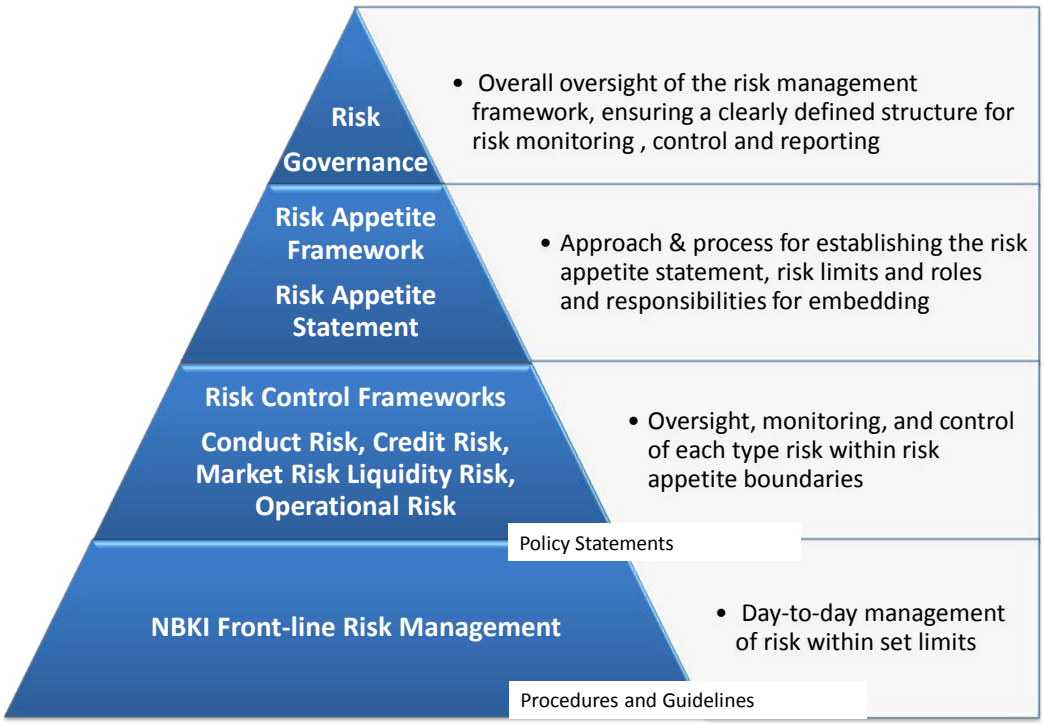
2.3 NBKI's approach to Risk Management

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.

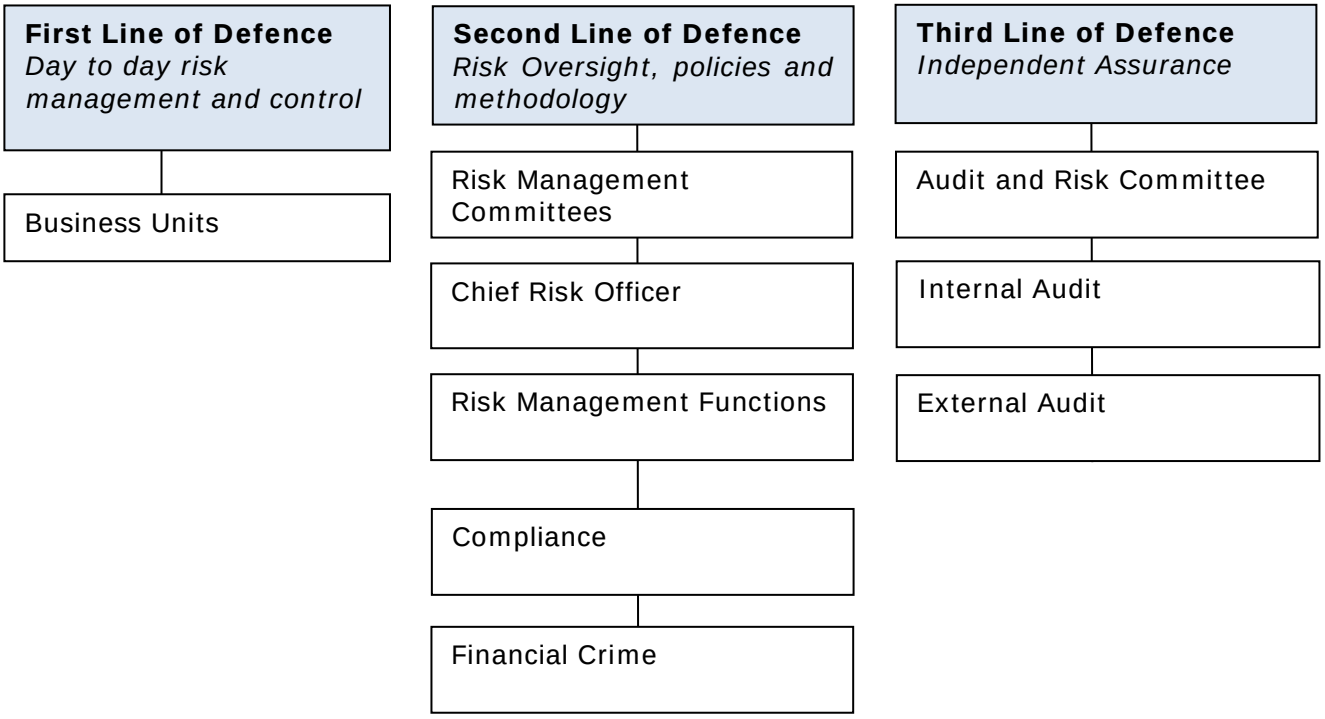


The NBKI risk management framework is explained in more detail by examining the following areas:

- 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.



2.3.1.1 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.

2.3.1.2 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.

2.3.1.3 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 Risk Committee and the Board Audit and Risk Committee, which monitor the findings and ensure action points are addressed in a timely manner.

2.3.1.4 Stress Testing

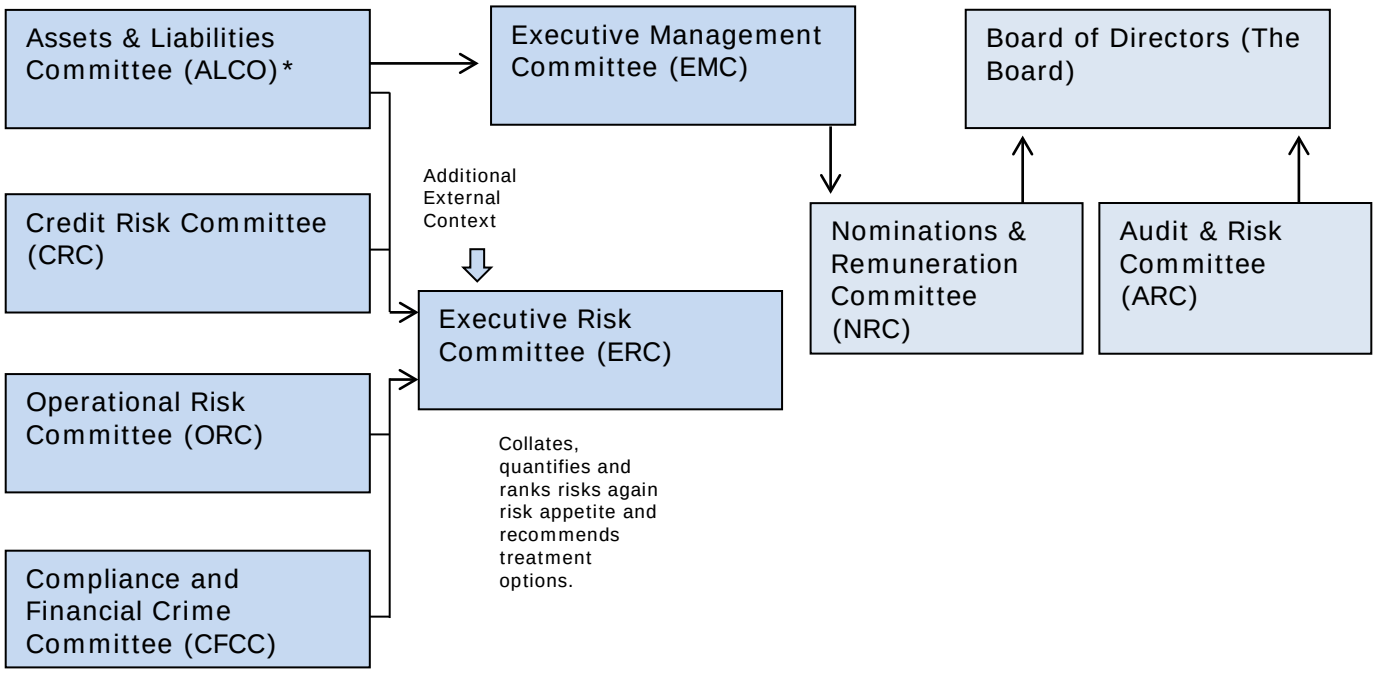
Stress testing is an important risk management tool, with specific approaches documented for the major regulatory exercises of the ICAAP, Individual Liquidity Adequacy Assessment Process ("ILAAP") and Recovery and Resolution Plan ("RRP").

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.



*ALCO reports to EMC on financial performance and ERC on liquidity risk.

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;
- preparing a plan for the succession and replacement of executive officers, including their replacement in the event of an emergency or other unforeseeable vacancy;
- 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 Executive Risk Committee (ERC)

This committee has the following responsibilities:

General

- Ensuring that all businesses are operating according to the highest standards of regulatory and compliance practices as defined by internal policies and procedures and external regulations.
- Monitoring strategic and business risks to ensure that appropriate mitigating actions are being taken and there are 'no surprises' and ensuring that conflicts between business and risk strategies are identified and resolved
- Providing a single point of reference on all matters relating to reputation risk and ensuring that there are processes in place to anticipate, manage and report reputational risk issues.
- Escalating to the EMC significant matters regarding NBKI's approach to governance and risk management.

Review of key risk-related documents

- Carrying out a high level review of the ICAAP and ILAAP before recommendation to the Audit and Risk Committee. This includes reviewing the key risk assumptions contained in the ICAAP and ILAAP as they pertain to the business strategy and stress scenarios.
- Carrying out a high level review of the RRP (recovery plan and resolution pack) before recommendation to the Audit & Risk Committee.
- Carrying out a high level review of any significant proposed changes to the Risk Appetite Framework, the Risk Appetite Statement or key risk-related policies before recommendation to the Audit and Risk Committee.

Risk management oversight

- Ensuring that the various risk sub-committees are exercising proper oversight of market, credit, operational and regulatory risk.
- Receiving regular reports from key second line of defence departments summarising key risk-related matters in their area.

- Considering any matters escalated by the risk sub-committees or by management in first, second or third line of defence functions.

2.4.7 Other management 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 compliance
Operational Risk Committee	• Operational Risk, including (but not limited to): • Administration and premises • Business Continuity management • Operations • Human Resources • Information Technology

2.4.8 NBKI's business lines

London and Paris follow the same business structure, with the business lines being:

Consumer Banking, which includes Private Banking in London and Paris and Retail Banking in London only

- 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)
- 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 circumstance 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 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 2016, as reported in the regulatory returns summarised by region of origin of the borrower.

USD 000	Asia	MENA	N. America	Other	UK	Europe	Grand Total
Corporate		339,202	52,177	16,439	107,632	316,900	832,350
Other	-	-	-	-	16,429	1,968	18,397
Central Gov			68,770		193,602	170,527	432,899
Institution	12,639	40	8,149	24,317	283,864	179,471	508,480
Equity	-	-	-	-	396	2	398
High Risk	-	-	-	21,000	46,063	26,082	93,145
MDB	-	189,118	-	-	-	-	189,118
Real estate	-	188,639	-	266,716	18,107	310,011	783,473
Grand total	**12,639**	**716,999**	**129,096**	**328,472**	**666,093**	**1,004,961**	**2,858,260**

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 000	Asia	MENA	N. America	Other	UK	Europe	Grand Total
Corporate		31,857					31,857
Other		-					
Central Gov		-					
Institution		-					
Equity		-					
High Risk		-					
MDB		-					
Real estate		-					
Grand total		**31,857**					**31,857**

Table 3: Residual maturity of the Bank's exposures

USD 000	Maturity Banding up to 1 month	1 - 3 months	3- 12 months	1 -5 years	over 5 years	Undated	Grand Total
Corporate	96,345	150,142	269,229	184,277	112,148	20,209	832,350
Other	18,397	-	-	-	-	-	18,397
Central Gov	154,623	98,414	111,092	-	68,770	-	432,899
Institution	372,904	97,035	38,263	-	120	158	508,480
Equity	398	-	-	-	-	-	398
High Risk	44,726	-	26,825	17,350	4,244	-	93,145
MDB	53,734	94,824	-	40,560	-	-	189,118
Real estate	23,222	5,970	80,145	481,755	192,381	-	783,473
Grand Total	**764,349**	**446,385**	**525,554**	**723,942**	**377,663**	**20,367**	**2,858,260**

Other credit risk concentration tables and information is contained within the ARA, pages 33, 34 and 35.

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

	Ratings						
USD 000	AAA- AA-	A+ - A-	BBB - BBB-	BB+ - BB-	B+ - B-	unrated	Grand Total
Corporate	5	192,148	70,945	121,505	52,177	395,570	832,350
Other	-	-	-	-	-	18,397	18,397
Central Gov	432,579	-	-	-	-	320	432,899
Institution	25,957	455,335	27,188	-	-	-	508,480
Equity	-	-	-	-	-	398	398
High Risk	-	-	-	-	-	93,145	93,145
MDB	189,118	-	-	-	-	-	189,118
Real estate	-	-	-	-	-	783,473	783,473
Grand Total	**647,659**	**647,483**	**98,133**	**121,505**	**52,177**	**1,291,303**	**2,858,260**

Credit quality step after Credit Risk Mitigation ("CRM")

	Ratings						
USD 000	**AAA- AA-**	**A+ - A-**	**BBB - BBB-**	**BB+ - BB-**	**B+ - B-**	**unrated**	**Grand Total**
Corporate	5	263,039	71,269	121,505	52,177	322,427	830,422
Other	-	-	-	-	-	18,397	18,397
Central Gov	432,580	-	-	-	-	320	432,900
Institution	25,958	456,991	27,188	-	-	271	510,408
Equity	-	-	-	-	-	399	399
High Risk	-	-	-	-	-	93,145	93,145
MDB	189,118	-	-	-	-	-	189,118
Real estate	-	-	-	-	-	783,471	783,471
Grand Total	**647,661**	**720,030**	**98,457**	**121,505**	**52,177**	**1,218,430**	**2,858,260**

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

Table 5: Derivative exposures

	Positive fair value *US$ 000*	*Negative fair value* *US$ 000*	*Notional* *US$ 000*
Interest rate swaps (held as fair value hedges)	333	14,660	165,640
Forward foreign exchange contracts	24,982	4,607	1,288,003
	25,315	19,267	1,453,643

2.8.3 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 2016.

2.8.4 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 is comfortably above the minimum regulatory requirements and conforms to best practice standards.

Table 6: 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 1 months*	*Up to 3 months*	*3 to 12 Months*	*Over 1 year*	*Total*
Assets	677	406	352	881	2,316
Liabilities	(1,018)	(279)	(705)	(314)	(2,316)

2.8.5 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 process.

2.8.6 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.

2.8.7 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.

2.8.8 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.

2.8.9 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.

2.8.10 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 7: The Banks's overall minimum capital requirement and capital adequacy position under Pillar 1

$000s	31/12/2016	
Exposure Type	**RWA**	**Capital Requirememt**
Central governments or central banks	-	-
Corporates	531,356	42,508
Institutions	117,486	9,399
Other items	16,090	1,287
Equity	399	32
Secured by mortgages on immovable property	480,657	38,453
Secured by mortgages on developmental properties	85,759	6,861
	1,231,747	98,540
Operational Risk	69,532	5,563
Market Risk	2,221	178
	71,753	5,741
TOTAL Risk Weighted assets (RWA)	1,303,500	
Total Capital Requirements	104,280	
Total own funds (includes audited results)	296,328	
Excess of capital in place over minimum requirement (Total Capital requirement)	192,047	

Table 8: Capital Structure / Resources

Table 8: Capital Structure/Resources

Composition of Regular Capital	$000s
Common Equity Tier 1 Capital before regulatory adjustments	296,328
Total Regulatory adjustments to Common Equity Tier 1	-
Common Equity Tier 1 Capital (CET 1)	296,328
Additional Tier 1 Capital (AT1)	-
Tier 1 Capital (T1 =CET1+AT1)	296,328
Tier 2 Capital (T2)	-
Total Capital (TC =T1+t2)	296,328
Total Risk Weighted Assets	1,303,500

Capital Ratios and buffers	
Common Equity Tier 1 (as a percentage of RWA)	22.73%
Tier 1 (as percentage of RWA)	22.73%
Total Capital (as percentage of RWA)	22.73%

Table 9: Capital Reconciliation to Financial Statements – Steps 1 and2

Item	Balance Sheet as in published financial statements	Under Regulatory scpoe of consolidation
	31/12/2016	*31/12/2016*
	US$000	*US$000*
Assets		
Cash and cash equivalents	118,825	118,825
Deposits with banks	803,221	803,221
Loans and advances to banks	20,000	20,000
Loans and advances to customers	953,390	953,390
Investment securities	383,596	383,596
Fixed assets	1,628	1,628
Other assets	34,642	34,642
Total assets	2,315,302	2,315,302
Liabilities		
Due to banks and other financial institutions	847,345	847,345
Customer deposits	1,134,454	1,134,454
Other liabilities	36,698	36,698
Total liabilities	2,018,497	2,018,497
Equity		
Share capital	150,083	150,083
Retained earnings	144,195	144,195
Cumulative changes in fair values	2,527	2,527
Total equity	296,805	296,805
Total equity and liabilities	2,315,302	2,315,302

Table 10: Capital Reconciliation to Financial Statements – Step 3

	Common Equity Tier 1 capital: instruments and reserves ([1])	31 Dec 2016 USD 000	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
1	Capital instruments and the related share premium accounts	150,083	26 (1), 27, 28, 29, EBA list 26 (3)
2	Retained earnings	144,195	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	2,527	26 (1)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	296,805	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(477)	34, 105
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	(477)	
29	**Common Equity Tier 1 (CET1) capital**	296,328	
45	**Tier 1 capital (T1 = CET1 + AT1)**	296,328	
Tier 2 (T2) capital: regulatory adjustments			
58	**Tier 2 (T2) capital**	-	
59	**Total capital (TC = T1 + T2)**	296,328	

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 2016, the capital conservation buffer was 0.625% and therefore the requirement was USD 8.166 million.

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 2016, NBKI had a weighted average CCyb rate of 0.001453% and hence a CCyb buffer of USD 18,939.

3.1.3 G-SII buffer

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-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 (Notes to the Financial Statements) of the 2016 Directors Report and Financial Statements.

6.2 Impairment of Financial Assets carried at amortised cost

The impairment provision as at 31 December 2016 was $386,000 (2015: $477,000).

The 2016 impairment comprises $17,000 specific provisions and $369,000 collective provisions. The movements in impairment provisions are shown in Note 13 of the 2016 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 11: Summary of reconciliation of accounting assets and leverage ratio exposures

$ 000s	$ 000
Total Assets as per Financial Statements	2,315,302
Adjustments for derivative financial instruments (Add on Mark to Market)	14,010
Adjustments for off Balance sheet items	273,610
Leverage Ratio total exposure measure	**2,602,922**
Other off-balance sheet exposures	
Off Balance Sheet exposures at gross national amount	522,160
Adjustments relating to Credit Conversion Factors (CCF)	(248,550)
Off balance sheet exposures	273,610
Capital and total exposure measure	
Tier 1 capital	296,328
Leverage ratio total exposure measure	2,602,922
Leverage Ratio	**11.38%**

8. Remuneration and Governance

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 2016 (89 in 2015) in London and 20 in Paris.

The total staff costs of the Bank (as disclosed in the Note 7 of the 2016 Annual Report and Financial Statements) were USD 11.9m (USD 11.2m in 2015).

8.1 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 has reviewed 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.

8.2 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.

8.3 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.

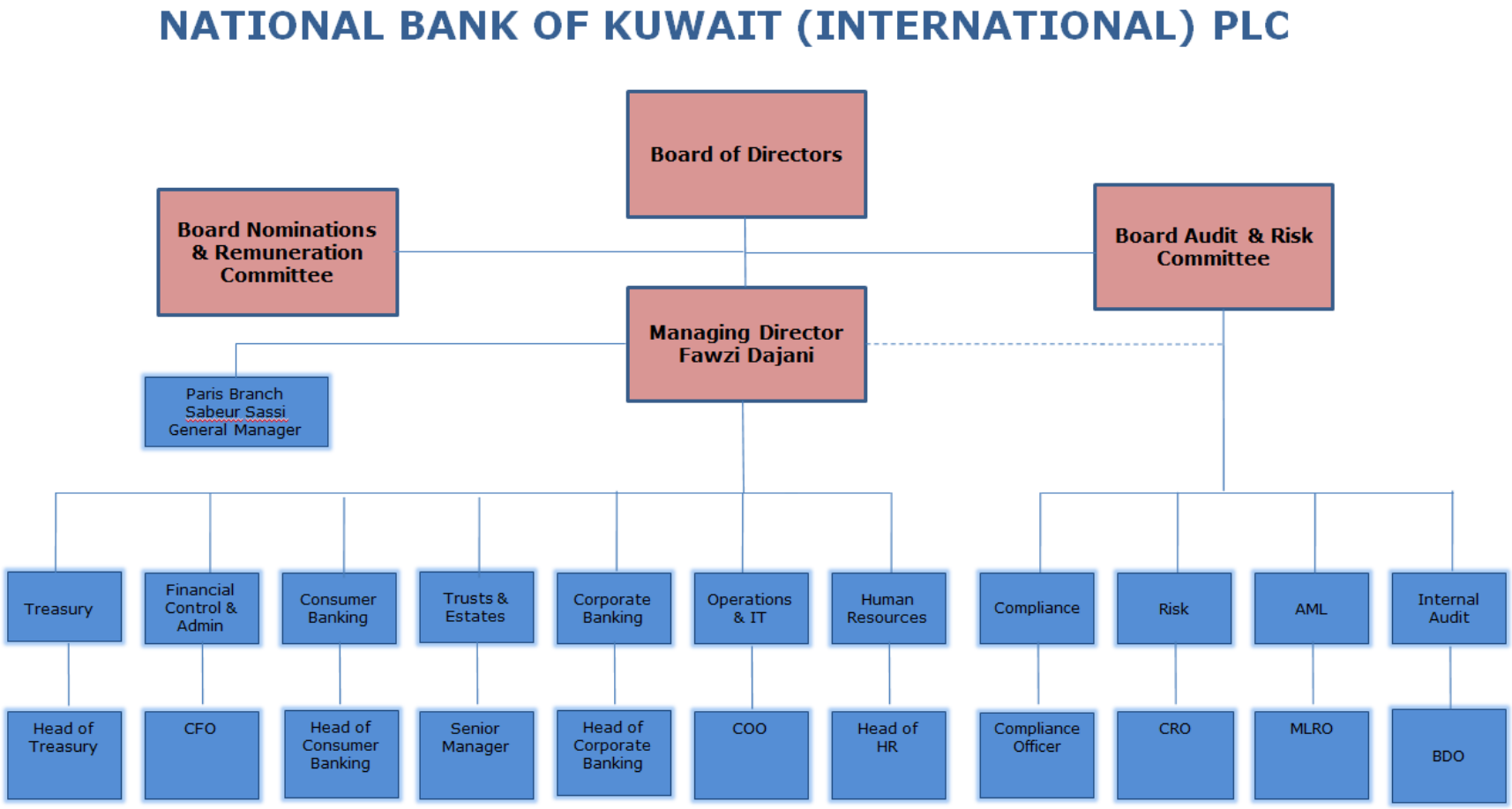
As at 31 December 2016, the Bank had 20 MRT's, of whom 6 were also classed as Senior Managers. All 20 of those MRTs were exempted from the requirements to defer any variable remuneration. This is because their remuneration is below the de minimis threshold[*].

Fixed remuneration relating to 2016 for MRT's was £2m and variable remuneration relating to 2016 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.

9. Appendices

Appendix I - Structure Charts



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