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1. Overview

1.1 Background

NBKI is regulated under UK Capital Requirements Regulation (CRR) and the associated binding technical standards that were created by the European Union (Withdrawal) Act 2018. The CRR has subsequently been amended by a number of statutory instruments and is split across the Prudential Regulatory Authority (PRA) rulebook and primary legislation.

The aim of CRR is to promote safety and soundness across the financial system. The framework consists of three "Pillars", as summarised below:

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

These Pillar 3 disclosures are prepared and presented in accordance with the Disclosure (CRR) part of the PRA Rulebook.

The Bank's core lines of business are Retail Banking, Private Banking, Commercial Real Estate and Corporate Banking. NBKI is predominantly a relationship Bank focusing on servicing the needs of the Group's core client base, Gulf Co-operation Council (GCC) countries, in the UK market. The client base of the Bank is predominantly GCC-based Institutions and individuals with Banking and financing needs in the UK in addition to UK-based Corporates operating in the MENA region.

NBKI has a conservative approach to risk. It does not have a trading book and therefore does not take proprietary trading positions. The Bank does not seek FX risk but does run limited exposure due to organic mismatches between lending, funding, and capital. The Group has no appetite for significant losses or volatility from Market risk. In the lending book, the vast majority is secured against either commercial or retail real estate with exposure limited to a maximum LTV of 75% retail and 65% commercial. The unsecured lending book is restricted to high quality financial institutions, corporates and a very limited amount of retail lending.

A key change to the basis of preparation of NBKI financial statements is the change of functional currency. The functional currency of the Bank has changed from USD to GBP to better reflect most of the loan assets. However, until the Bank changes its core Banking system to reflect this change, the impact of functional currency is estimated using a workaround methodology and the Bank's presentational currency will continue to be USD. The financial statements are therefore adjusted using the spot rate at year end to USD for presentational purposes.

Table 1: Key metrics USD 000's as at 31.12.2021

Common Equity Tier 1 capital	Total Regulatory capital
432,220	432,220
Common Equity Tier 1 ratio	**Total Capital ratio**
21.81%	21.81%
Total RWAs	**Leverage Ratio**
2,034,858	12.74%
Liquidity Coverage Ratio	**Net Stable Funding Ratio**
227%	114%

1.2 Disclosure policy

Scope of disclosures

The Disclosures contained in this document cover the requirements of Pillar 3 as set out in the CRR and are based on financial data as at 31 December 2021. All other information, for example, organisation charts, are also as at 31 December 2021 unless otherwise stated.

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: Disclosures (nbk.com)

Approval and Verification

All Pillar 3 disclosures will be submitted for management approval at the Executive Management Committee (EMC) meeting. Once the EMC approves the disclosures, presentation is made to 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 2021, it had in place adequate systems and controls with regard to the Bank's risk profile and strategy. Furthermore, the Board can confirm that the Bank remained within defined regulatory limits for risk exposure throughout the year.

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

1.4 Regulatory Details

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

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

1.5 Organisation Chart

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

1.6 Relevant changes and developments

NBKI monitors regulatory and legislative developments on and on-going basis to ensure it is prepared for forthcoming regulatory change.

The PRA's policy statement (PS) 22/21 published in October 2021 introduced new UK rules on disclosures, which became effective from 1 January 2022 and are incorporated in the PRA rulebook. PS22/21 also introduced changes affecting a number of areas including definition of capital; counterparty credit risk; large exposures; liquidity coverage ratio; net stable funding ratio; reporting; and disclosure.

The main changes impacting NBKI are:

- **Minimum Net Stable Funding Ratio ("NSFR"):** CRR 2 requires Banks to maintain minimum available stable funding at least 100% of their secured funding to ensure that asset exposure is broadly matched with stable funding across the Bank
- **Revised Basel Committee Standardised Approach for Counterparty Credit Risk ("SA- CRR"):** CRR 2 implements the Basel Committee's revised standardised approach to calculate Counterparty Credit Risk for derivatives which provides better recognition for hedging, netting and collateral
- **Binding Leverage Ratio**: CRR 2 imposes a binding 3% Leverage Ratio requiring Banks to maintain Tier1 Capital at least 3% of their non-risk weighted on and off- balance sheet assets.

Other Developments impacting the NBKI are:

- **Capital Buffers:** - Institutions are required to comply with the requirements for a Countercyclical Capital Buffer ("CCyB")
- **The Capital Conservation Buffer ('CCoB')** ensures that Banks build up capital buffers in order to absorb losses without breaching minimum capital requirements. The CCoB is currently set a 2.5%
- **Transition away from LIBOR:** - Following the decision to discontinue the issuance of GBP LIBOR after the end of 2021 (and other currencies) and substitute it with Sterling Overnight Indexed Average (SONIA) reference rates, the Bank has completed its transition away from GBP LIBOR. The transition of a small number of USD LIBOR reference rates is expected to complete in 2023

1.7 Impact of COVID-19

COVID-19 has impacted throughout the global economy and on NBKI and its customers. The Bank has taken COVID-19 stresses into consideration and applied government guidelines not to downgrade both businesses and individuals as the stress in their finances was caused by COVID-19. The Bank was able to operate within its current capital requirements without having to utilise its buffers. The Bank has applied the amendments to the IFRS 9 transitional adjustments.

2. Risk Identification & Management

Effective risk management plays a key role in the execution of NBKI's strategy of providing universal Banking products and services to customers from Kuwait and other GCC countries. Risk taking is an inherent part of Banking and, within an effective risk management framework, NBKI aims to generate stable and sustainable returns for its shareholders. The Board and senior management seek to ensure that the risks the Bank is taking are clearly identified, measured, managed, monitored and reported and that the Bank's resources are capable of withstanding both expected and unexpected levels of risk performance. This section provides an overview of NBKI's Risk Management Framework (RMF) and high-level approach to managing risk across the Bank.

2.1 Overview of the Risk Management Framework (RMF)

The RMF outlines the Bank's approach to assessing risk and how that relates to the pursuit of its business objectives, and the associated accountabilities of Bank executives and officers. The RMF exists to ensure that NBKI's management of risk is consistent and comprehensive, and that it is effective at maintaining NBKI's risk exposure within the stated appetite of the NBKI Board. Figure 1 sets out the core elements of the RMF.

Figure 1: Key elements of NBKI risk management framework (RMF)

The development of the RMF is aligned to international risk management standards such as COSO ERM and ISO 31000[1] and has also taken regulatory frameworks such as Basel, into account.

2.2 Risk Management Objectives and Strategy

NBKI has clearly defined risk management objectives and a strategy to deliver them. Its risk appetite is formulated to support and maintain financial soundness, confidence from stakeholders and operational resilience. This will ensure that the following strategic risk objectives are met:

- Fair outcomes for customers by designing and selling clear and transparent products that consistently meet customer needs.
- A positive reputation and confidence amongst all its stakeholders including customers, employees, shareholder and regulators.
- Sustainability and on-going viability through effective capital and liquidity management.
- Operational stability and resilience including through the Bank's third-party providers; and
- Manage the risk appetite in line with the Bank's strategic plan and direction.

NBKI's risk strategy actively selects customers, products and policies to deliver an acceptable risk adjusted level of return. The Bank intends to adopt a selective approach to the formulation of its risk appetite, designing out risk from a number of areas of the business, thus creating headroom to deploy its risk appetite in areas that are strategically relevant.

2.3 Risk Appetite

NBKI's Risk Appetite Framework is the overarching structure through which the Bank sets individual risk appetites for each key risk. It also sets out how performance is monitored against risk appetite. Risk Appetite Statement ("the RAS") exists to ensure that the approach that NBKI ("the Bank") takes to managing risk is consistent and comprehensive, and to enable the Bank to pursue its business objectives within clear risk limits set by the Board. The RAS is structured in line with the Bank's key risk sources and the material components of the organisation that may be impacted by a risk. For completeness, the RAS is aligned to NBKI's material Risks, represented by the Risk Taxonomy in table 6.

For each of the key risks outlined in NBKI's risk taxonomy, a qualitative RAS has been defined which represents the acceptable levels of risk defined by the Board. These levels are defined in terms of high-level "portfolio" measures of risk, with more detailed limits defined in specific risk policies (e.g., credit policy for transactional lending limits).

The risk appetite framework is comprised of the following:

- Overarching Risk Appetite Statement. This is the primary statement outlining the Bank's approach to risk-taking in pursuit of the Bank's business strategy
- Individual Risk Appetite measures. The articulation of the type and level of specific risks that the Bank is willing to take, tolerate or avoid (for each Key Risk defined in the Bank's risk taxonomy)
- Risk Capacity assessment metrics, limits and tolerances. The maximum level of risk the Bank can assume before breaching constraints determined by regulatory capital or liquidity needs
- Risk quantitative or qualitative measures that allocate the Bank's aggregate risk appetite statements to individual business activities. These may be expressed in terms of minimising (those risks the Bank should avoid), maximising (those risks the Bank like to take), or optimising (those risks the Bank should tolerate and control)
- Risk Profile assessment. The point in time assessment of the Bank's risk exposures compared to risk appetite.

1 COSO is an organisation that published the Internal control integrated framework and ISO 31000 is an international standard for a risk management framework.

Risk Appetite Pillars

Table below shows an overview of the overarching RAS including a description of each of the risk appetite pillars that support it and the potential metrics that could be used to confirm, on a regular basis, that the Bank is operating within its stated risk appetite.

Table 2: Overarching risk appetite statement structure

Overreaching Risk Appetite Statement			
NBKI aims to achieve a conservative to moderate risk profile through prudent and reputable management of a universal banking business model with diversification across geographies, asset classes and portfolios, a deep understanding of its GCC client base and continued stable and sustainable growth.			
Target Credit Rating			
Credit rating in line with NBKI's closest peers and UK bank average (A-)			
Risk appetite pillars			
P1	**P2**	**P3**	**P4**
Capital Adequacy	**Stable Earnings Growth**	**Liquidity and Funding**	**Efficient Operating Model**
Maintain sufficient capital, quantity and quality, to cover existing projected risks in extreme but plausible scenarios. As a minimum, the Bank's capital resources will be maintained above the minimum total capital requirements.	NBKI will only accept risks that provide a return commensurate with the risk, that NBKI has the capability and available resources (financial and human) to manage and that supports stakeholder confidence in the Bank.	Be an agile, sustainable UK Retail and Corporate bank that has stable and efficient access to funding and liquidity and is able to withstand appropriate liquidity related stress with relevant liquid asset holdings.	To achieve operational efficiency, have moderate appetite for risks inherent in operations and accepts that operational risk cannot be fully eliminated and applies a cost/benefit approach to limit its exposure with a focus on protecting its earnings, information assets, customer service and reputation.
1. CET1 ratio 2. Leverage ratio	1. Earnings volatility 2. Return on Capital 3. Return on RWA 4. Cost to income ratio 5. CET1 Buffer reduction from FX 6. Earnings loss from interest rate shock 7. Credit losses & quality of assets	1. Loan to deposit ratio 2. LCR 3. NSFR 4. Encumbered credit assets	1. Maximum acceptable loss 2. Control quality 3. Compliance activity 4. Error rates

RAS Governance

Accountability for the effectiveness of NBKI's risk management framework rests with the Board. The Board is also accountable for ensuring that the RAS remains consistent with the Bank's strategy and business targets, with its overall capacity to take on risk, and with the risk appetite of its parent entity NBK Group.

The Board is also responsible for ensuring that the structure of business performance measures, and of staff compensation and incentives, promotes adherence to the RAS, and that the Board's expectations around risk culture and conduct are well communicated and embedded. If a RAS threshold/ EWI is breached, then a clear plan of action/escalation should be taken to remedy the situation. NBKI has established the FRC which meets should EWI thresholds be breached to consider what actions are required to ensure the Bank does not breach its risk appetite.

Table 3: Differing threshold levels and the expected actions to be taken when a metric is breached

	Escalation Pathway		
Actions and Impacts	**Under Review EWI**	**Outside Appetite**	**Over Tolerance**
Ad Hoc Risk Reduction Initiatives	Optional	Mandatory	Superseded by Recovery Plan
Convene Appropriate Resilience Committee	Mandatory if EWI breaches exceed prescribed threshold	Mandatory	
Invoke Recovery Plan	Decision of the Resilience Committee		Mandatory
Engagement with Board	Immediate if Recovery Plan is invoked, otherwise timing of communication is at discretion of the Resilience Committee. At minimum, Board must be informed of risk threshold breaches and management responses at next scheduled meeting		Immediate
Impacts on Business Growth	Dependent on risk response, but typically minor	Dependent on risk response, and in some cases may become material	Significant, and growth may halt or reverse for some time to preserve longer-term viability

RAS Measurement Methodology and Monitoring

Each of the risk measures defined in the Summary RAS are associated with at least two Board-endorsed threshold levels; an "appetite" and a "tolerance", where tolerance represents a higher level of risk than appetite. For some measures the Board may also specify a third (lower) threshold; a non-zero "target" level, reflecting the Board's desire to take on sufficient risk to ensure that the Bank achieves its business goals.

In addition to the Board-endorsed thresholds, each risk measure may be associated with two further threshold levels; an absolute maximum "risk-taking capacity" level that lies above tolerance, and an early warning indicator (EWI) level that is set below appetite.

In circumstances of increasing risk, the crossing of these levels triggers an escalating sequence of management actions.

Risk reporting to Board includes the last available positions against all Board-defined risk thresholds, together with a summary of the changes in those positions in the period since the previous report. That summary highlight risk measures that have crossed lower-level monitoring thresholds between reporting periods (for example, from "Acceptable" to "Under Review") even if those transitions were subsequently reversed.

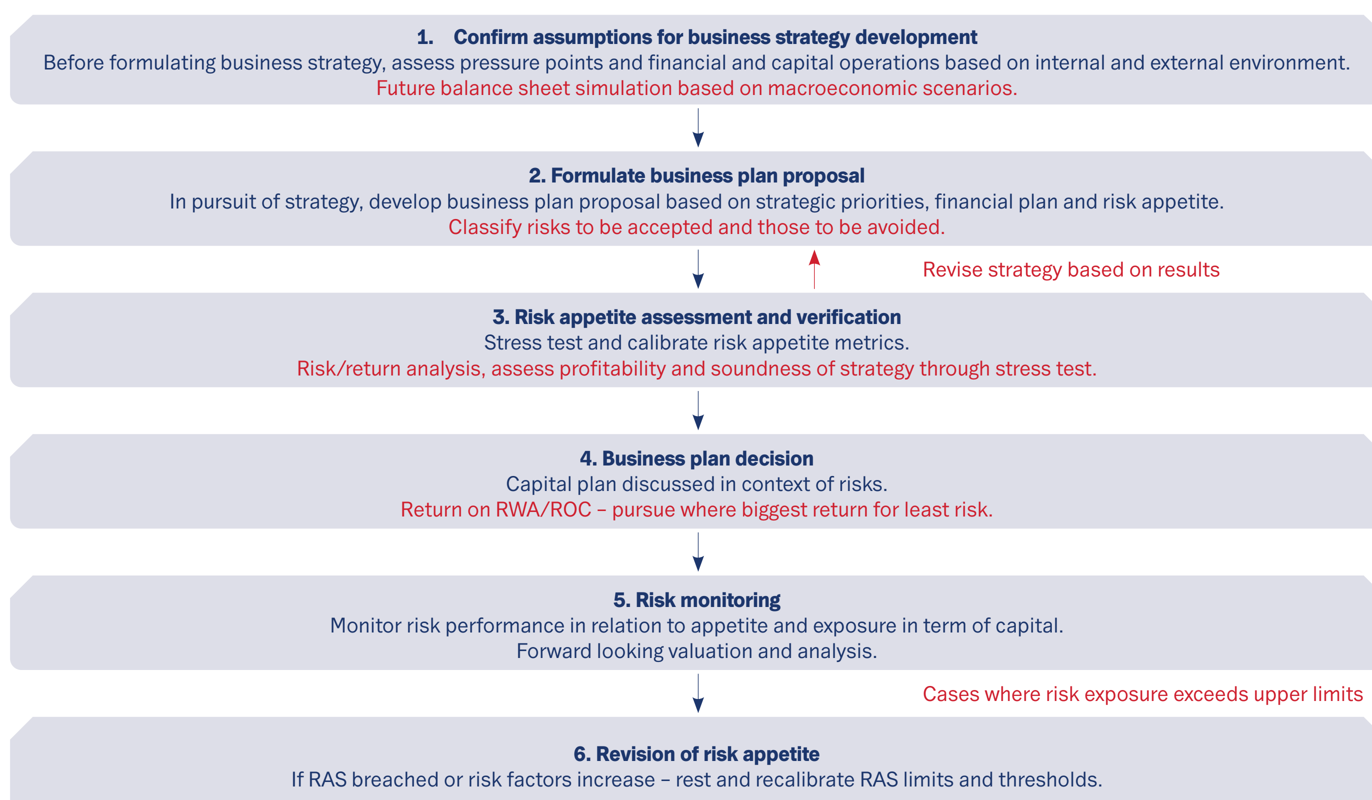
Table 4: Threshold description

Threshold	State	Description
Risk-Taking Capacity	Unsustainable	The Bank is no longer viable from either an economic or a regulatory perspective.
Board Risk Tolerance	Over Tolerance	Actions to reduce risk are prioritised above all growth or revenue generating activities. The breach of the risk tolerance is notified to Board members immediately, and outside of the normal meeting cycle. The appropriate resilience committee (financial or operational) convened to execute the recovery plan.
Board Risk Appetite	Outside Tolerance	Management must initiate a plan to return associated risk level to within appetite. Board is informed of the appetite breach and the plan to address. The appropriate resilience committee (financial or operational) must be convened to determine if the recovery plan should be invoked. If not invoked, the Bank may still be able to write new business, however risk-taking and growth will be reduced.
Early Warning Indicator (EWI) Threshold	Under Review	Increasing management attention as appetite level is approached. Breaches of several EWIs may, in aggregate, trigger the convening of the appropriate resilience committee (financial or operational). If convened, the resilience committee will assess if risk-reduction actions are needed. Board will be informed formally if the resilience committee has met, and of the committee's decision.
Board Risk Target (Optional, default is zero)	Acceptable	Risk metric is within the agreed acceptable range.
	Under Target	Potentially too little risk is being taken in relation to the Bank's economic objectives.

Process for Developing and Managing Risk Appetite

Alongside this definition of the Bank's risk appetite framework NBKI recognises that to truly embed risk appetite within the organisation it is and will remain committed to hire and retain appropriately skilled people, in the right roles, which put in place processes and policies that support the setting of risk appetite as follows:

Figure 2: Risk appetite setting



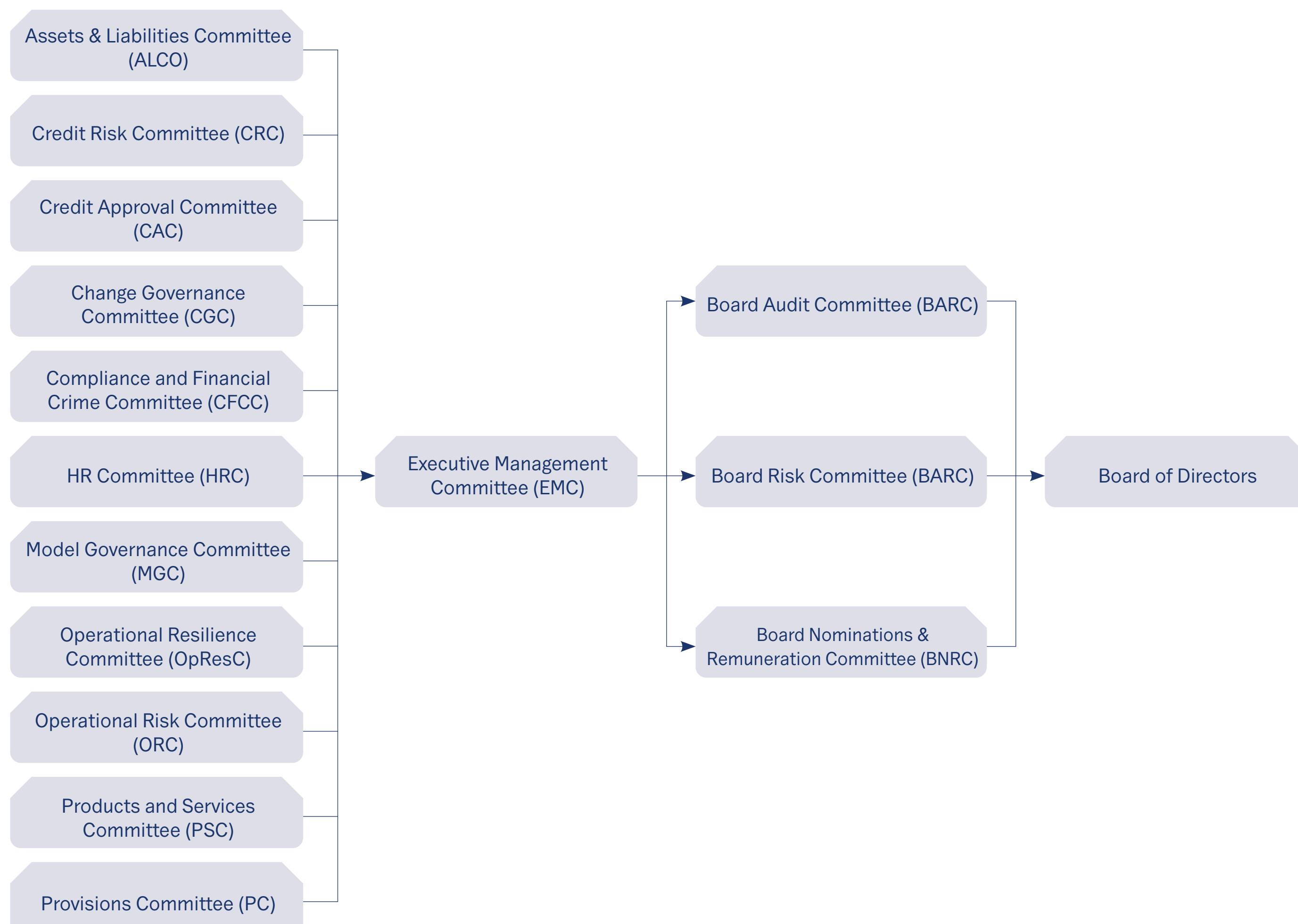
2.4 Risk Architecture

Risk governance and oversight

NBKI's risk governance is the architecture within which risks are identified, assessed, managed, monitored and reported. The Board looks to senior management to ensure that the risk management framework and risk governance structure is applied in practice and operates robustly.

The Board employs the following committee structure to enable it to undertake its risk management function efficiently and effectively. Details of the roles and responsibilities for each committee is outlined below.

Figure 3: Risk governance structure focused on risk second line oversight



Risk Governance and Accountability

Accountability for the effectiveness of NBKI's risk management framework rests with the Board. The Board is also accountable for ensuring that the RAS remains consistent with the Bank's strategy and business targets, with its overall capacity to take on risk, and with the risk appetite of its parent entity, NBK Group.

The Board delegates authority for the day-to-day operation and maintenance of the framework to the Executive Management Committee (EMC), and the risk oversight of EMC to the Board Audit and Board Risk committees (BAC and BRC respectively).

EMC may delegate parts of its risk management responsibilities to other executive committees or to individual Bank officers, however EMC remains accountable for ensuring that those responsibilities are discharged in line with the requirements of the RMF and RAS.

Committees or Bank officers may only authorise actions expected to change NBKI's risk profile to the extent of the risk-taking authority that has been delegated to them. Exceeding delegated risk-taking authority constitutes a compliance incident and must be reported to EMC.

Table 5: Frequency of key governance meetings within NBKI

Context	Governance Committee / Meeting	Frequency
Business as Usual	Board + Risk & Audit Sub-Committees	Quarterly
	Executive Management Committee (EMC)	Monthly
	Asset & Liability Committee (ALCO)	
	Credit Risk Committee (CRC)	Quarterly
	Credit Provisions Committee (CPC)	
	Compliance and Financial Crime Committee (CFCC)	Quarterly
	Operational Risk Committee (ORC)	Monthly
	Balance Sheet Management (BSM)	Ad hoc
	Credit Approval Committee (CAC)	x2 per Week
Recovery	Financial Resilience Committee (FRC)	Ad hoc
	Operational Resilience Committee (BCC)	Quarterly / Ad hoc

Board

The Board is ultimately responsible for setting the Bank's risk appetite statement and must ensure that this is accurately reflected in the Bank's business plan, ICAAP, ILAAP and RRP.

The Board is responsible for defining risk policy (via the risk appetite statement), the management risk committee structure and terms of reference, and must approve any significant amendments and any developments having a potentially significant impact on the Bank's risk profile.

The Board of Directors receives quarterly management reports on all major risk areas for review and approval. The Board has delegated the day-to-day responsibility for implementing and maintaining the Bank's risk management framework to NBKI's Executive Management Committee (EMC).

Board Risk Committee

This committee is responsible for oversight of the risk management framework, including the risk appetite statement (RAS), ICAAP, ILAAP, Recovery Planning, Resolution Planning, stress and scenario testing, significant operational risks, and relevant policy drafting and approval processes.

Board Audit Committee

This committee is responsible for oversight of the internal control environment, the independence of the Internal Audit function, the annual Internal Audit plan, and review of and compliance with the Internal Audit Reports.

Executive Management Committee (EMC)

EMC is responsible for oversight of the content and implementation of relevant risk policy statements, and for the efficient conduct of its associated sub-committees.

EMC is also responsible for ensuring that risk policies are reviewed and updated regularly in line with changes to the operating and risk environment, and for reviewing any errors or agreed exceptions to policy. It monitors the implementation of the RMF and supports the Board by reviewing key documents ahead of the Board Risk Committee and providing challenge to them.

More specifically EMC is responsible for:

- Assigning defined risk responsibilities to specific business and support risk owners
- Providing a forum for identifying and challenging the most significant risks, trends and failings as they affect the business of NBKI and agreeing suitable risk mitigation plans for any identified failings with risk owners
- Reviewing and validating the adequacy of risk management systems & controls and metrics for monitoring risk management performance and ensuring that proposals for consideration by the CMEC and the Board are consistent with risk appetite.

Assets and Liabilities Committee (ALCO)

ALCO supports the Board by undertaking operational ownership of the balance sheet for capital management and liquidity management. It has a primary objective of ensuring long term balance sheet robustness and viability. ALCO reviews, challenges and approves the ICAAP, ILAAP and Recovery Plan for recommendation to the Board via EMC. Responsibilities are:

- Maintaining oversight of the Bank's market risk management
- Ensuring the effective implementation of Board approved polices and limits for capital, liquidity, interest rate and foreign currency risks, including concentrations
- Ensuring compliance with approved strategy and all internal and regulatory limits, and monitoring such limits
- Escalating any significant asset/liability risk management issues on a timely basis to the EMC and, if necessary, to the Board, notifying the CFO, CRO and Group ALM where appropriate
- Ensuring the efficient deployment of capital and liquidity resources and use of limits.

Credit Risk Committee (CRC)

CRC and its two sub-committees (Credit Approvals Committee and Provisions Committee) are responsible for:

- To provide oversight of the Bank's credit risk management performance
- To provide the Board with guidance on the wholesale, retail Banking and treasury, credit portfolios, including portfolio limits and composition, as appropriate
- To ensure that effective procedures are in place for monitoring and controlling wholesale retail and treasury credit risk, meeting the Bank's risk appetite compliance standards set by internal credit policies and external regulatory requirements
- To monitor developments in the structure and risk profile of the Bank's entire credit portfolios, so that appropriate action can be taken promptly to mitigate actual or potential changes in risk profile
- To escalate any significant credit issues to senior committees and NBK Group
- To identify problem accounts and monitor the Bank's watchlist
- To make recommendations on provisions in relation to impairments and ECL staging.

Operational Risk Committee (ORC)

ORC is reports to EMC and is responsible to the Board of Directors for the following:

- Promoting and sustaining a culture of operational risk management discipline and anticipation in the Bank and escalating any significant issues to the EMC promptly and (if necessary) to the Board
- Ensuring the ongoing adequacy and effectiveness of methods for identifying, assessing, monitoring, controlling and reporting operational risk and that these conform to applicable external regulatory standards
- Providing a forum for management review, assessment and mitigation of the most significant operational risk events and trends
- Overseeing the risk associated with the development of proposed new products and services.

Operational Resilience Committee (Op Res)

The role of the Operational Resilience Committee is to ensure that NBKI has in place and operates effectively, appropriate and robust business continuity procedures, controls and business processes, and to operate effectively and securely within a governed and regulated framework.

The Operational Resilience Committee is a sub-committee of the Executive Management Committee (EMC) and is the decision-making body for issues relating to operational resilience, business continuity activities, including, information security, operational risk management, and service performance under delegated authority from the EMC.

Financial Crime & Compliance Committee

This committee is responsible for:

- Overseeing the management of the Compliance and MLRO functions and ensuring that approved policy, in line with all applicable regulations is implemented and monitored effectively
- Overseeing the arrangements for compliance monitoring, regulatory reporting and responding to regulatory and audit recommendations for rectifying any identified deficiencies
- Reporting formally any identified compliance failures to the EMC
- Ensuring that effective manuals are in place and are regularly reviewed with regard to Compliance and Financial Crime.

2.5 Risk Taxonomy, Frameworks & Policies

NBKI's financial objectives are to satisfy its obligations to creditors and depositors, and to deliver stable long-term returns to the Bank's parent investor NBK Group consistent with a high degree of confidence in the preservation of their funds.

NBKI has a conservative appetite for risk and therefore the Bank targets moderate and sustainable levels of growth and investor returns. NBKI generates revenue by supplying basic Banking products and services to businesses and individuals, and the Bank focuses heavily on customers and transactions that have a connection to the Middle East region.

NBKI has defined Strategic Risk Objectives for each key risk as a part of the Risk Management Framework risk taxonomy.

Table 6: Shows the NBKI level 1 risk taxonomy

Level 1 Risk	Definition	Risk Framework & Policies	Risk Objectives	How is it Managed
Business & Strategic Risk	The current or prospective negative impact on earnings, capital or reputation arising from adverse strategic decisions, improper implementation of decisions or a lack of responsiveness to industry, economic or technological changes. Also, from changes in business parameters such as volumes, margins and costs.	– Stress Testing Policy – Business & Strategic Risk Management Policy* – Emerging Risk Policy* – Model Governance Policy	To maintain profitable operations and reduce volatility of earnings to the maximum possible extent. Also, to control exposure that might lower profit or may lead the Bank to fail.	– NBKI offers products & services required by the Bank's target market and aim for stable earnings enabling the formation of capital reserves, organic growth and reasonable return on capital in the long term. – Processes are being established that will ensure primary source of credit risk, should provide appropriate return for the level of risk assured.- – The Bank monitors the efficiency of its operations. – Stress testing is used as a way to assess the Bank's resilience to an adverse event and to adjust its policies and procedures accordingly to address any identified areas of vulnerability
Liquidity & Funding Risk	The risk that NBKI could fail to meet its obligations as they fall due, including having the right type and quantity of funds, in the right place, at the right time and in the correct currency.	– Liquidity and Funding Policy – Stress Testing Policy – ILAAP – Model Governance Policy	The Bank aims to keep adequate liquidity buffer to meet short-term funding requirements and maintain stability of longer-term funding	– Funding and liquidity risk are managed from a centralised Treasury function and monitored by metrics such as the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). – Where possible, NBKI funds retail loans from customer deposits and sets a limit on available but undrawn limits to ensure any expected drawdowns can be funded from deposits. – NBKI maintains at all times, a pool of High-Quality Liquid Assets that is sufficient to cover the Bank's financial obligations as they fall due, even in times of stress and without access to new funding. – The Bank strives to diversify its borrowing in terms of currencies, maturities, instruments and investor types in order to avoid excessive reliance on individual markets and funding sources.
Capital & Solvency Risk	The risk that NBKI has insufficient capital to cover regulatory requirements and/or the growth plans of the business.	– Capital Management Policy – Stress Testing Policy – Model Governance Policy – ICAAP	NBKI›s objective is to optimise the capital structure of the Bank and efficiently utilise its capital resources in order to generate appropriate returns for its shareholder and maintain a buffer above the PRA prescribed regulatory minimum.	– Stress testing is used to obtain a forward view on the sufficiency of the Bank›s capital base. Stress testing is a prudent way for the Bank to identify its key vulnerabilities to market forces and assess how to effectively manage those risks should they emerge. – Capital forecasting and capital planning – Monitoring of structural FX risk due to mismatches between lending, funding, and capital. – New product approval process includes assessment of impact on capital.

Level 1 Risk	Definition	Risk Framework & Policies	Risk Objectives	How is it Managed
Operational Risk	The risk of loss, whether direct or indirect, to which NBKI is exposed due to inadequate or failed internal processes or systems, human error or external events; it includes a number of sub-risks such as Model Risk, Third Party Risk, Technology Risk, Change Risk, Information Security Risk, People Risk and Reporting Risk.	– Operational Risk Management Framework and Policy – Model Governance Policy – Third Party Risk Management Policy – Information Security Policy – HR Policies	Avoid manual processes and interventions that increases the risk inherent in business operations, enhance the control environment to minimise the probability of low frequency and high-impact events (i.e. 'tail' events).	– Reporting and monitoring of risk events, near misses, KRIs – RCSA process and regular review of operational risk registers – Contributing to the change agenda from an operational risk perspective – Operational risk scenario analysis
Compliance, Legal & Regulatory Risk	The risk of financial loss, reputational damage and/ or regulatory censure arising from failing to comply with existing / future regulatory or legislative / legal / contractual requirements, and/or arising from changes to existing regulatory or legislative requirements that negatively impact the existing strategy / business model of the Bank.	– Compliance Policy – Code of Conduct Policy – Legal Policy*	NBKI looks to minimise to the largest extent possible, any deliberate or systemic breaches of applicable laws and regulations, contractual obligations and seeks to avoid inadvertent regulatory errors and omissions by maintaining robust control processes. In the event that regulatory / legal breaches are identified, NBKI will promptly remediate the situation and where necessary, ensure that the Bank's regulators are notified on a timely basis.	– Horizon scanning for regulatory changes – Compliance Monitoring Programme – Key risk indicators are monitored and reported – Contract reviews
Conduct Risk	The risk that products or services result in poor outcomes for customers as a result of inappropriate culture, internal practices, decision making, conflicts of interest or poor product governance.	– Conduct Risk Policy – Code of Conduct – Risk Event Policy	Through the management of conduct risk, NBKI promotes a culture of integrity and high ethical standards. The Bank fosters an atmosphere where constructive challenge is a natural part of discussions on risk-taking, risk awareness and risk culture.	– Mandatory training – Application of HR processes such as performance management – Key risk indicators are monitored and reported
Financial Crime	Financial crime risk is the risk of legal or regulatory sanctions, material financial loss or loss to reputation as a result of the Bank's activities being used by criminals for the purposes of theft, money laundering, terrorist financing, bribery and corruption and fraud.	– Anti-Money Laundering Policy – KYC Policy – Fraud Policy – Anti-Bribery and Corruption Policy	To prevent the Bank's products and/ or services, internal activities being used to facilitate the commission of a crime for financial gain.	– Customer on-boarding processes – CDD checks and ongoing monitoring – Sanctions checks – Risk rating customers – Mandatory training – 2-week mandatory leave

2.6 Risk Operating Model

The Bank's RMF is founded on the Three Lines of Defence accountability model, which is summarised below

Table 7: Three lines of defence (LOD)

	1st Line of Defence	2nd Line of Defence	3rd Line of Defence
	The Business	**Risk & Compliance**	**Internal Audit**
Oversight	The Board supported by the Executive Committee and its sub-committees	The Board Risk Committee supported by ALCO and supported by ALCO, Credit Risk Committee and Operational Risk Committee	The Board Audit sub- committee supported by Internal Audit and the External Audit (NBK Group)
Function	Ownership, responsibility and accountability for risks and controls	Monitors and facilitates the implementation of effective risk management. Provides oversight and challenge, support, and advice	Provides assurance of (i) 1LoD and 2LoD risk management (ii) regulatory interpretation and reporting
Unit	Retail Bank, Private Bank, Corporate Bank and Treasury	Risk, Compliance, Financial Crime, Legal and Financial Control	Internal Audit, NBK Group Internal Audit, Independent 3rd Parties
Embedding	The Board, via the CEO delegates to business line heads day-to-day responsibility for risk management, regulatory compliance, internal control and conduct in running their business areas	The Board Risk sub- committee delegates to the Chief Risk Officer day-to-day responsibility for oversight and challenge to provide assurance on the management of risk	Internal Audit and External Audit execute independent reviews to test controls are working effectively and remain up to date within current regulation

Risk Monitoring and Reporting

The monitoring and control of risk is a fundamental part of the management process. All senior management are involved in the implementation of the RMF and in monitoring its application.

Risk monitoring ensures that the selected risk management approach is working effectively, the key requirements of which include:

- Monitoring risk exposures on a regular basis, with the frequency depending upon the materiality of the risk.
- Monitoring principal risks and invoking actions as necessary.
- Agreeing corrective action plans with business areas where the risk monitoring outcomes demonstrate that the risk management approach is not operating as intended.
- Risk reporting provides the Board, EMC and senior management with an accurate, timely and clear account of the current risk exposure and helps to highlight any risks to the achievement of business objectives.

Reporting requirements for each of the key risks are set out in the individual risk policies and standards. These are further supported by subordinate policies where necessary. Such reporting includes:

- Regular reporting of key metrics (key risk indicators etc.) and other measures for monitoring control effectiveness and risk exposures against appetite
- Escalation and reporting of policy breaches and significant control weaknesses
- Material issues and incidents, including near miss and loss events
- Progress reporting on control remediation and action plans designed to bring risk exposures back within appetite.

Risk Culture

Risk culture is the shared values, attitudes, competencies, and behaviour that shape and influence governance practices and risk decisions. Risk culture pertains to the Bank's risk approach and is critical to sound risk management governance.

To promote a sound risk culture:

- The Board establishes the tone at the top by promoting risk awareness within a sound risk culture. Expectations are conveyed to all staff that they are responsible for ensuring the Bank operates within the established risk appetite and limits
- The Board Risk Committee ensures that material risks and risk-taking activities exceeding risk appetite are recognised, escalated and addressed in a timely manner
- A strong risk culture is the guiding basis for the entire risk management governance, and each building block of the governance structure is built upon this
- Appropriate risk metrics (KRIs) are developed to track and monitor elements of the Bank's risk culture
- All relevant stakeholders are made aware of the key elements of risk management and how it should be managed. This forms part of NBKI's Risk Management Training and Communications Plan.

2.7 Frontline Risk Management

Business lines assess and manage risks to which they are exposed. They have primary responsibility for defining, identifying, measuring, monitoring, managing and controlling risks within their area of accountability. They are required to establish effective governance and control frameworks that are compliant with the Bank's policies, their legal and regulatory obligations, and market best-practice, and which ensure that the Bank remains within its defined and acceptable risk appetite.

Risk management processes and standard operating procedures

The risk management processes described below outline the key ways in which risk management is conducted across NBKI frontline business units.

The processes and procedures support compliance with risk policies and seek to identify the risks to which NBKI is exposed across each of the key risk types, as identified in the risk taxonomy in table 6. The risk identification process requires in-depth knowledge of the Bank's strategic objectives, business objectives and operational processes and includes a detailed review of the risk factors that could impact NBKI. Consideration is given to the potential impact upon elements such as the balance sheet, profit and loss, customers, employees, reputation, regulators, and other stakeholders.

Risk measurement

Risk measurement quantifies the risks to the business and allows the selection of the appropriate means to manage the risk and enables appropriate resources to be dedicated to risk management.

Risk Control Self-Assessment (RCSA)

The RCSA methodology is one of the key risk management processes across NBKI. All business areas are required to complete self-assessment to identify and assess the non- financial risks to which they are exposed. The activity is supported by the second line of defence through the provision of tools, training and guidance.

NBKI's key control population, as identified through the RCSA process, is subject to an attestation process to ensure that there is a robust control environment in operation. As the Bank enhances its local Operational Risk Management capabilities, key control testing will be introduced to provide wide coverage of assurance to the design and operation effectiveness of key controls.

Key and Emerging Risk Register

NBKI's key risks are current, emerged risks that have arisen across any of the risk categories and have the potential to have a material impact on the Bank's financial position, reputation, or on the sustainability of the business model and which may form and crystallise within a year. 'Emerging risks' are those with potentially significant, but uncertain, outcomes which may form and crystallise beyond a one-year horizon, and which could have a material impact on NBKIs ability to achieve its long-term strategy.

The identification and monitoring of these risks are integral to the risk management framework and informs business planning activities. It also ensures that risk strategies and activities are appropriately focused upon addressing these concerns. The key mechanism for reviewing emerging risks is the CRO Report which is produced quarterly.

2.8 Financial Risks from Climate Change

It is now widely recognised that the financial risks from climate change can have a material impact on the Banking sector. NBKI is exposed to climate-related risks in its own operations and, above all, to the climate-related risks of its clients and the companies in which it invests. Consequently, NBKI seeks to provide its clients and other stakeholders with information enabling them to assess the adequacy of the Bank's approach to climate change and the Bank's ability to manage the associated risks and opportunities. This is the first year the Bank has reported using the recommendations of the Financial Stability Board Taskforce on Climate-related Financial Disclosures (TCFD)[2] and the Bank acknowledges that there is further work required to ensure that the information provided is comprehensive and aligns fully to the TCFD recommendations.

Governance

There is a sound governance framework in place with regards to managing climate change risk. Like the governance of all other risks that the Bank manages, the Board is ultimately responsible for ensuring that Climate Financial Risk is managed and controlled. The Board Risk Committee ensures that this responsibility is fulfilled. At a management level this oversight is performed on an ongoing basis by the Executive Committee supported by the Financial Resilience Working Group (FRWG)[3]. The SMF4 statement of responsibilities also includes climate change risk.

There is frequent interaction between the Risk team, the Board and the Risk Committee in addition to periodic reporting of the climate change implementation plan. In addition, the Terms of Reference for the Board have been updated to reflect their responsibility for effective oversight of climate risk in the context of ESG. This has been supplemented with Board training on the financial risks arising from climate change so that the Board has the knowledge and skills to appropriately challenge senior management on their approach to managing this risk.

Climate risk is recognised as both a stand-alone risk (a temporary position to provide focus on its management) and as a cross cutting risk. Governance of Climate Risk will be further enhanced in 2022 through several actions including the formulation of a Board-approved Climate Risk Policy Framework. NBKI will continue to align the Climate Risk Framework with relevant NBKI governance arrangements.

Strategy

In 2021 the Bank established a Climate Risk Strategy approved by the Board, which is aligned to the Bank's overall Strategy 2021 – 2026. This aligns to the regulatory expectations on climate risk, as set out in the PRA Supervisory Statement SS3/19 'Enhancing Banks' and insurers' approaches to managing the financial risks from climate change'.

In 2021, as part of the NBKI Climate Strategy, the NBKI Board made the following strategic high-level commitments and supporting high level actions:

2 Details of the TCFD Framework information requirements is outlined in Appendix III

3 The FRWG was established to consider key risks that can impact the bank's financial resilience and considers stress scenarios, management actions if key financial ratios are breached and factors related to the financial risks from climate change

Figure 4: NBKI climate change strategic commitments and summary actions

Build climate change into NBKI's culture & decision	We are also setting ourselves the challenge of reducing the climate impact our financing activities and to do what is necessary to achieve alignment with the 2015 Paris agreement. To do this, we plan to quantify our climate impact and set sector-specific targets. We will integrate the financial and non-financial risks arising from climate change into our RMF.
Making our own operations climate positive	We will assess the carbon footprint of our existing operations and set appropriate targets for reducing this for reducing this overtime. This includes developing the capability to measure and manage our carbon footprint
Help limit the impact of high risk activities	Consider lending and underwriting strategies for limiting activity in sectors that are carbon intensive and how these limits might change if clients have a credible transition plan that aligns with the 2015 Paris agreement
Support the transition to a low carbon economy	Support our customers to increase their energy efficiency and incentivise purchasing of the most energy efficient properties and set a target for the % of our loan book that should have an EPC rating of C or higher. Build incentives into our products for clients that can demonstrate a credible approach to transitions as reflected in ESG ratings, for example.

Going forward in 2022 and beyond, NBKI will build on these commitments and establish a product strategy incorporating Climate Financial Risk, which will consider both the risks and opportunities arising from this risk.

In 2021, as part of the 2021 ICAAP, climate change was incorporated into the one of Bank's stress test scenarios used to test the resilience of NBKI's strategy and business model. Two scenarios were also embedded into the Climate Risk Model built to assess the financial impact of climate change on the Bank's credit risk profile. There is a plan to further enhance this capability by applying a more robust climate change scenario process to test the resilience of key risk types and to further quantify the range and size of climate related risks and opportunities of NBKI's customers and how these impact its risk profile.

Risk Management

NBKI formalized its overall approach to climate risk management during 2021 and is continuing to develop plans to further integrate climate risk into the Bank's risk management framework through existing policies, processes and controls for its key risks. This was achieved by the incorporation of climate risk into the Bank's risk management framework, and it is recognised as both standalone risk (temporary to provide attention to its management) and as a cross cutting risk with an initial focus on credit risk which was deemed to be most materially impacted. There is also a qualitative risk appetite statement in place, approved by the Board during 2021, as a starting point for the further development of climate risk capabilities. A Climate Change Policy Framework and quantitative risk appetite statements will be developed during 2022. This is in addition to the planned enhancement of climate change risk assessment which will be expanded across to other risk types and thereby provide a business-wide risk assessment of how climate risk will impact the Bank's activities, and its stakeholders.

During 2021 the Bank built a climate risk model to assess and quantify all credit risk that may materially impact the Bank's capital or earnings and to ensure capital and cash flows adequacy over a medium-term horizon. The model considers both Transition and Physical risks and includes an assessment of climate sensitive industries and geographies as well as EPC ratings and flood risk. There are plans to align the climate change risk modelling infrastructure to the development of a climate change scenario analysis framework and NBKI's existing risk models. This will be augmented by a climate change risk data strategy.

Metrics and Targets

Metrics are measures of assessment commonly used for assessing, analysing, and tracking risks. A group of metrics will generally be used to build a dashboard that management can review on a regular basis to maintain assessments risk progression and risk appetite performance.

During 2021, NBKI started to informally[4] track metrics such as Property Energy Performance Certificates per rating, ESG ratings on stakeholders, and exposure to high risk industries. It plans to formalize these during 2022 as part of the Bank's risk appetite statement and start to build a dashboard that management can review on a regular basis to maintain assessments of risk progression and risk appetite performance.

Setting out metrics is dependent on the Bank carrying out a risk assessment of climate impacts based on access to relevant data. This will form part of the development of a Climate Risk Data Strategy previously mentioned.

In 2021 the Bank indicated that it would adhere to the Paris Agreement and its goal to limit global warming to well below 2 degrees preferably to 1.5 degrees Celsius, compared to pre-industrial levels by 2050.

Whilst the Bank is aware that quantifying its climate impact is key to achieving the Paris Agreement goals, it still needs to set out the timeline and roadmap to achieve this target on a short, medium and long-term basis.

4 These were included in Risk Committee and Board reports for illustrative purposes

NBKI does not exceed the threshold but has decided to opt in and report in line with the Streamlined Energy and Carbon Reporting (SECR) requirements. The report categorises GHG emissions into Scope 1 (Direct emissions), Scope 2 (Energy Indirect) and Scope 3 (other indirect) to calculate the total energy consumption and GHG emissions. In 2021 overall energy consumption increased over 2020 which is a reflection of an increase in the number of employees returning to the office. In November 2021, the Bank ended its operations at the Portman Square premises and combined all its operations in the George Street premises to maximise efficiency. This has not impacted the organisation's consumption in 2021, due to the move occurring late in the reporting period. Summary of the SECR report is available within the annual report and accounts.

3. Pillar 1 Capital

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. Pillar 1 defines minimum capital requirements which firms are required to maintain for Credit, Operational and Market risk.

3.1 Operational Risk

NBKI calculates its Pillar 1 capital requirements for operational risk using the Basic Indicator Approach ("BIA"). This uses the average annual gross income for the last three years from the audited financial statements. multiplied by 15%.

Table 8: Pillar 1 operational risk capital requirement as at 31 December 2021

Annual Gross Income ($m)			Three-Year	Capital	Equivalent
2018	2019	2020	Average	@ 15%	RWA
61.5	58.5	43.6	54.5	8.2	102.2

3.2 Market

NBKI defines market risk as the risk of incurring a loss of value due to adverse changes in market prices (such as interest rates, equity prices, foreign exchange rates). Banks should calculate Pillar 1 capital requirement for:

- Position held in trading book, and
- Positions held in the Banking book (i.e. non-trading book positions) subject to FX and commodity risk.

According to the CRR, the Banks should calculate Pillar 1 capital to account for risk of encountering losses due to changes in market prices/revaluation risk of its trading book portfolio. NBKI does not have any positions held with a trading intent as per CRR 4(85) and has no intention of establishing a trading book. NBKI does not invest in commodities, so it is not susceptible to commodity risk.

NBKI has an open FX position and the analysis provided below shows the net short and long positions in each currency summed to show the overall net position as at 30 June 2021. The net open FX position is considerably below the 2% of own funds as per CRR Art 351. Therefore, no Pillar 1 capital is calculated for FX risk.

No additional Pillar 1 capital is therefore required for market risk.

3.3 Credit Risk (including concentrations)

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

The Bank's principal sources of credit risk are:

- exposures to Banks, multilateral institutions and sovereigns in respect of foreign exchange and money market activities including the management of the Bank's liquid asset buffer;
- off-balance sheet exposures to Bank and corporate counterparties in respect of obligations under trade finance transactions including letters of credit, guarantees and bonds; and
- loans and overdrafts to corporates, partnerships and private individuals arising from the Bank's commercial and real estate finance lending activities.

Country risk is the risk that several obligors may not be able to meet their obligations for reasons associated with a shared, common geographic region. These reasons include political or economic changes in a country, or other actions by a government that may prevent the conversion of local currency into non-local currency and/or the transfer of funds outside the country.

3.4 Credit Risk Mitigation

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

limits that govern the amount, nature and tenor of exposure.

- 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
- holding suitable collateral for a significant portion of its exposures and employing other risk mitigants where possible. The Loan-to-Value (LTV) ratios are highly conservative in the range of 50-70% over the portfolios
- back-to-back commitments from financial institutions of acceptable quality and security over the asset being financed, as well as guarantees

- the purchase of securities of highly rated sovereigns and financial institutions issues are used for the diversification of the Liquidity Asset Buffer
- The following tables form the basis of the disclosures under each of the categories, in line with the regulatory requirements and NBKI's Policy. In many cases they are self-explanatory.

Table 9: NBKI's credit exposures under the standardised approach for each of the risk exposure classes as at 31 December 2021, as reported in the regulatory returns summarised by region of origin of the borrower (USD 000s).

	Asia	MENA	North America	Other	UK	Europe	Grand Total
Corporate		479,846		2	292,207	157,417	929,472
Other					64,096	43,766	107,862
Central Gov		59,042	61,391		731,687		852,120
Institution	4,330	1,309	4,295	124	169,318	74,904	254,280
Equity					1,218		1,218
High Risk				2,273	19,762		22,035
CIU				39,599			39,599
Real estate		275,247		230,201	187,189	666,947	1,359,584
Covered bonds					50,406		50,406
Exposure in default		221				17,888	18,109
Grand Total	**4,330**	**815,665**	**65,686**	**272,199**	**1,515,883**	**960,922**	**3,634,685**

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

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

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

Table 10: Regional concentrations of credit risk mitigation (CRM) (USD 000s)

	MENA	UK	EUROPE	Grand Total
Corporate	19,258	-	3,132	22,390
Institution		274	176	451
Grand Total	**19,258**	**274**	**3,308**	**22,841**

Table 11: Residual maturity of the Bank's exposures (USD 000s)

	1-3 Months	3-12 Months	1-5 years	More 5 years	Undated	Grand Total
Corporate	333,287	200,081	307,324	82,440	6,340	929,472
Other	107,862					107,862
Central Gov	727,267	4,420	109,198	11,235		852,120
Institution	176,774	67,961	9,545			254,280
Equity	1,218					1,218
High Risk		2,273	19,762			22,035
CIU		39,599				39,599
Real estate	155,885	237,248	797,265	169,186		1,359,584
Covered bonds			50,406			50,406
Exposure in default	17,888			221		18,109
Grand Total	**1,520,181**	**551,582**	**1,293,500**	**263,082**	**6,340**	**3,634,685**

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 12: 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) (USD 000s)

	AAA to AA-	A+ to A-	BBB to BBB-	BB+ to BB-	B+ to B-	UNRATED	Grand Total
Corporate	49,044	293,670	87,193	65,562	30,000	403,552	929,021
Other		43,766				64,096	107,862
Central Gov	852,120						852,120
Institution	18,046	212,873	22,343	274		1,195	254,731
Equity						1,218	1,218
High Risk						22,036	22,036
CIU						39,599	39,599
Real estate						1,359,584	1,359,584
Covered bonds	50,406						50,406
Exposure in default						18,108	18,108
Grand Total	969,616	550,309	109,536	65,836	30,000	1,909,388	3,634,685

Table 13: Credit quality step after credit risk mitigation ("CRM") (USD 000s)

	AAA to AA-	A+ to A-	BBB to BBB-	BB+ to BB-	B+ to B-	UNRATED	Grand Total
Corporate	49,044	289,327	87,193	65,562	30,000	408,346	929,472
Other		43,766				64,096	107,862
Central Gov	852,120						852,120
Institution	18,046	212,696	22,343			1,195	254,280
Equity						1,218	1,218
High Risk						22,036	22,036
CIU						39,599	39,599
Real estate						1,359,584	1,359,584
Covered bonds	50,406						50,406
Exposure in default						18,108	18,108
Grand Total	969,616	545,789	109,536	65,562	30,000	1,914,182	3,634,685

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

3.5 IFRS 9 Impairment

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

Change in credit quality since initial recognition

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

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD) or over the remaining lifetime (Lifetime PD) of the obligation

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

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

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

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

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

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

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

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

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

NBKI uses three scenarios; base line scenario (scenario 1, 40% weight), stronger near-term growth (scenario 2, 30% weight) and moderate recession (scenario 3, 30% weight). Further information on IFRS 9 impairment can be found in note 28.1 of the annual financial accounts

3.6 Forbearance

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

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

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

As at 31 December 2021, NBKI did not have any forborne exposures and had not taken possession of any collateral. Hence NBKI only discloses Template 3-Credit quality of performing and non-performing exposures by past and Template 4- Performing and non-performing and related provisions, as prescribed by the Final Report on the Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10) issued on 17th December.2018.

Table 14: Credit quality of performing and non-performing exposures by past due days USD 000

		Gross carrying amount/nominal amount											
		Performing exposures				**Non-performing exposures**							
			Not past due or past due ≤ 30 days	**Past due > 30 days ≤ 90 days**		**Unlikely to pay that are not past due or are past due ≤ 90 days**	**Past due > 90 days ≤ 180 days**	**Past due > 180 days ≤ 1 year**	**Past due > 1 year ≤ 2 years**	**Past due > 2 years ≤ 5 years**	**Past due > 5 years ≤ 7 years**	**Past due > 7 years**	**Of which defaulted**
1	Loans & advances												
2	Central Banks	731,687	731,687										
4	Credit institutions	667,487	667,487										
6	Non-financial corporations	1,579,980	1,579,769	211		18,108							
9	Debt securities												
11	General governments	120,433	120,433										
13	Other financial corporations	50,406	50,406										
15	Off-balance-sheet exposures												
18	Credit institutions	37,243											
20	Non-financial corporations	103,795											
22	**Total**	**3,291,030**	**3,149,781**	**211**		**18,108**							

Table 15: Performing and non-performing exposures and related provisions USD 000

		Gross carrying amount/nominal amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		Performing exposures			Non-performing exposures		Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
			Of which stage 1	Of which stage 2		Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3
1	Loans and advances											
2	Central Banks	731,687	731,687				1	1				
4	Credit institutions	667,487	667,487				239	239				
6	Non-financial corporations	1,579,980	1,315,628	264,353	18,108	18,108	2,934	1,534	1,400	2,244		2,244
9	Debt securities											
11	General governments	120,433	120,433				34	34				
13	Other financial corporations	50,406	50,406				3	3				
15	Off-balance-sheet exposures											
18	Credit institutions	37,243	37,243				10	10				
19	Other financial corporations											
20	Non-financial corporations	103,795	103,795				86	86				
21	Households											
22	**Total**	**3,291,030**	**3,026,678**	**264,353**	**18,108**	**18,108**	**3,307**	**1,906**	**1,400**	**2,244**		**2,244**

3.7 Credit valuation adjustment

Credit value adjustments (CVA) represent an adjustment to Pillar 1 RWA because certain asset book values may not reflect underlying credit exposure at a point in time. There is a need to use the current market value of certain counterparty exposures to measure their true credit risk. Title VI (Articles 381 to 384) define the nature of this risk, the counterparty and exposure types to which this risk applies as well as the formulaic method for calculating the Pillar 1 Credit Risk CVA adjustment. NBKI, as part of its regular COREP submissions, complies in full with this formulaic Standardised method defined in CRR Article 384.

As at 31 December 2021, the value of Pillar 1 CVA RWA was $3.16m.

Owing to the current and historically low level of CVA adjustment no specific modelling of CVA was included within NBKI's 4 main stress scenarios. The CVA was maintained at base case levels through the 5-year cycle.

The Company's regulatory capital charge for credit valuation was USD 252,994 as at 31 December 2021. (2020: USD 57,774).

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

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

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

Table 16: Derivative assets analysis

As at 31 December 2021	Accounting	Regulatory
	USD 000s	**USD 000s**
Gross positive Fair Value of contracts	7,153	7,153
Derivatives: Add-on Mark-to-Market Method		17,976
Net Derivatives Credit Exposure		**25,130**

3.8 Capital (Own Funds)

Regulatory Capital buffers

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

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

Capital Conservation Buffer

The capital conservation buffer is designed to ensure that institutions build up capital outside of times of stress that can absorb losses if required. The requirement is 2.5% of RWA and had been phased in from 2016 in steps of 0.625% per annum to the full 2.5% value in 2019. As of 31 December 2021, the capital conservation buffer was 2.5%.

Countercyclical Capital Buffer (CCyB)

The CCyB is designed to ensure that financial institutions 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.

Globally Systematic Important Financial Institutions (G-SIFIs)

G-SII buffer for financial institutions that are considered to represent higher risk to the global financial system, based on a number of key factors, are defined as globally systemically important institutions (G-SIIs). This does not apply to NBKI.

4. 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 share-holders' funds and subordinated debt. The limit is set at a level which results in a leverage ratio significantly above the Basle III minimum of 3%. The Bank's Treasury area has primary responsibility for ensuring compliance with the limit which is monitored and reported on by the Bank's independent risk management function.

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

	(USD 000's)
Total Assets as per Financial Statements	3,320,347
Adjustments for derivative financial instruments	25,130
Adjustments for off Balance sheet items	142,538
Asset amount deducted for capital adjustment	(5,878)
Leverage Ratio total exposure measure	3,482,137
Capital and total exposure measure	
Tier 1 capital	443,710
Leverage ratio total exposure	3,482,137
Leverage Ratio	**12.74%**

5. Transitional Adjustment IFRS 9

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

Table 18: Transitional adjustment as per IFRS9

USD 000		31/12/2021
Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	443,710
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	441,848
3	Tier 1 capital	443,710
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	441,848
5	Total capital	443,710
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	441,848
Risk-weighted assets (amounts)		
7	Total risk-weighted assets	2,034,858
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,034,858
Capital ratios		
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	21.81%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	21.71%
11	Tier 1 (as a percentage of risk exposure amount)	21.81%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	21.71%
13	Total capital (as a percentage of risk exposure amount)	21.81%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	21.71%
Leverage ratio		
15	Leverage ratio total exposure measure	3,482,137
16	Leverage ratio	12.74%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.69%

6. Liquidity and funding risk

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

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

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

The EBA has developed these guidelines (GL) to harmonise and specify the disclosures required under the general principles on liquidity and, in particular, on the LCR in the CRR. These GL apply to institutions that are within the scope of EBA Guidelines on disclosure requirements under Part Eight of Regulation (EU) (EBA/GL/2016/11) version 2 on harmonised disclosure formats. Although NBKI is not within this scope as it is neither an O-SII or G-SII identified by the PRA, the Bank has chosen to disclose the LCR on voluntary basis. This can be seen in Table 18. The LCR is comfortably above the minimum regulatory requirements and conforms to best practice standards.

Table 19: LCR disclosure template and the template on quality information on LCR

Total weighted value $000›s					
		Q1	Q2	Q3	Q4
21	Liquidity buffer	523,510	655,869	736,389	894,584
22	Total net cash Outflow	127,563	140,272	176,020	394,766
23	Liquidity coverage ratio	410%	468%	418%	227%

The net liquidity gap of the Bank is shown below which is the difference in contractual cash inflows from maturing assets, and outflows from maturing liabilities.

Table 20: Net liquidity gap

	Up to 3 months	3 to 12 months	Over 1 year	Total
USD $›000				
Assets	1,466,188	410,673	1,443,486	3,320,347
Liabilities	2,284,131	586,884	449,332	3,320,347

7. Remuneration and Governance

7.1 General

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

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

The Bank employed 176 members of staff as at 31 December 2021

The total staff costs of the Bank (as disclosed in the Note 7 of the 2021 Annual Report and Financial Statements) were USD 20.6m (USD 15.9m in 2020).

7.2 Nominations and Remuneration Committee

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

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

7.3 Performance Award Scheme

The Bank has in place an appraisal process to help determine ‘variable remuneration’ as defined in the Code. Variable remuneration consists of discretionary cash bonuses which are based on individual performance and contribution assessment, subject to:

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

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

7.4 Material Risk Takers (MRT’s)

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

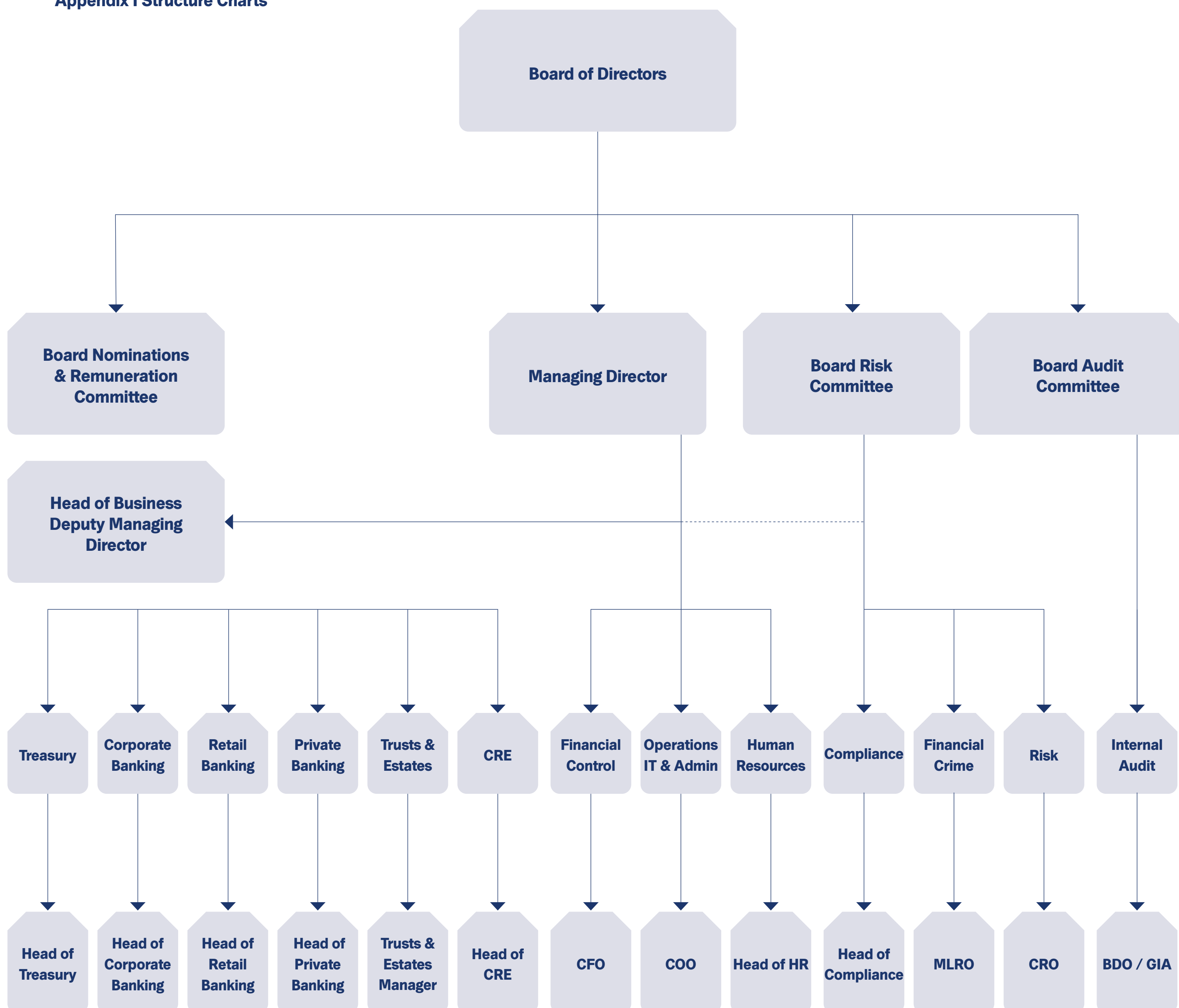
The Bank applies the definition of MRT’s set out in articles 3-5 of Commission delegated regulation (EU) No. 604/2014, which supplements CRD IV. Only employees can come under this definition, not non-executive directors.

As at 1 June 2022, the Bank had 27 MRTs, of whom 5 were also classed as Senior Managers. All 27 of those MRTs were exempted from the requirements to defer any variable remuneration. This is because their remuneration is below the de-minimus threshold[5].

Fixed remuneration relating to 2021 for MRTs was 3 million and variable remuneration relating to 2021 was £596k. (Performance – bonus)

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

Appendix I Structure Charts



NBK

Appendix II Chairman And Board Of Directors

Chairman And Board Of Directors

Chairman	
Mr Isam Jassim Al Sagar	NBK Group Chief Executive Officer
Directors	
Ms Shaikha Khaled Al Bahar	NBK Group Deputy Chief Executive Officer
Mr Omar Bouhadiba	NBK CEO International Banking Group
Mr Cameron Marr	Vice Chairman and Independent NED
Mr Matthew Timms	Independent NED
Ms Lesley Titcomb Cbe	Independent NED
Mr Fawzi Dajani	NBKI Executive Director, Managing Director
Mr Andrew Richardson	NBKI Executive Director, Chief Financial Officer

Appendix III Climate Risk

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organisations governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses strategy, and financial planning where such information is material.	Disclose how the organisation identifies, assesses and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organisation has identifies over the short, medium and long term.	a) Describe the organisation's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	b) Describe the organisations processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2. and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisations overall risk management.	c) Disclose the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.