

Document Control

Document Type	Disclosure
Version	3.9
Owner	Nicola Crawford – Chief Risk Officer
Security Classification	Public
Date Effective	September 2020
Distribution	Website
Dependent Documents	N/A

Revision History

Version	Author	Status	Date	Reason for Revision
1.0	Mike Coles	Superseded	19.12.16	Version approved by Board based on figures as at 31.12.2015
2.1	Vikram Ravi	Superseded	29.06.17	Revision based on figures as at 31.12.16
2.2	Paul Kennedy	Superseded	14.08.17	Risk section updated
2.3	Stephen Byrne	Superseded	06.09.17	Review for Compliance with regulations
2.4	Vikram Ravi	Superseded	07.09.17	New section 3.1 inserted on capital buffers
2.5	Jennifer Hartley	Superseded	15.09.17	Added most up to date structure chart to the appendices.
3.0	Ufeli Ani	Superseded	01.05.18	Updated document to reflect figures as at 31.12.2017
3.1	William Canales	Superseded	30.05.18	Updates including IRS adjustments and newly required tables
3.2	Vikram Ravi	Superseded	19.06.18	Further narrative around the LCR and new section on IFRS 9 inserted
3.3	Vikram Ravi	Superseded	26.06.18	Further minor amendments
3.4	Stephen Byrne	Superseded	26.06.18	Compliance Review
3.5	Jo Sing Chan	Superseded	28.06.18	Further minor amendments
3.6	Vikram Ravi	Superseded	26.04.19	Roll forward of document
3.7	Vikram Ravi	Superseded	12.07.19	Final amendments
3.8	Nina Swartz	Active	27.04.20	Updated document to reflect figures as at 31.12.2019
3.9	Vikram Ravi	Final	29.06.20	
4.0	David Freeman	Draft	13.10.2021	Update document to reflect figures as at 31.12.2020 as reviewed by Andrew Richardson, David Merchant and Risk

Authority

Approved by	Date
NBKI Board	29 October 2021

Contents		
1.	Overview	3
1.1	Background	3
1.2	Disclosure policy	3
1.3	Board responsibility for risk management and disclosures	4
1.4	Regulatory Details	4
1.5	Relevant changes and developments	4
1.6	Impact of COVID-19	4
2.	Risk Management objectives and policies	5
2.1	Overview of the Risk Management framework	5
2.2	Risk Appetite and Material Risks categories	5
2.3	The Risk monitoring framework	5
2.4	NBKI's approach to Risk Management	6
2.5	Governance structure	8
2.6	Internal Audit function	11
3.	Principal Risks and related Tables	11
3.1	Credit Risk (including concentrations)	11
3.1.1	Credit Risk Mitigation	12
3.1.2	IFRS 9 Impairment	14
3.1.3	Forbearance	14
3.2	Credit valuation adjustment	16
3.3	Market Risk	17
3.4	Liquidity risk	17
3.5	Operational risk	17
3.6	Business risk	17
3.7	Interest Rate Risk in the Banking Book (IRRBB)	18
3.8	Group and cross border risks	18
3.9	Conduct Risk	18
4.	Capital (Own Funds)	18
4.1	Regulatory Capital buffers	21
5.	Leverage	22
6.	Transitional Adjustment IFRS 9	23
7.	Remuneration and Governance	23
7.1	General	23
7.2	Nominations and Remuneration Committee	24
7.3	Performance Award Scheme	24
7.4	Material Risk Takers (MRT's)	24
8.	Appendices	25

1. Overview

1.1 Background

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

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

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

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

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

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%. The unsecured lending book is restricted to high quality financial institutions, corporates and a very limited amount of retail lending.

Key Metrics USD 000's as at 31.12.2020

Common Equity Tier 1 capital	Total Regulatory capital
432,359	432,359
Common Equity Tier 1 ratio	Total Capital ratio
%23.68	%23.68
Total RWAs	Leverage Ratio
1,826,103	%15.43
Liquidity Coverage Ratio	Net Stable Funding Ratio
%299	%146

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 2020. Other information, for example, organisation charts, are stated as at 1 August 2021.

Frequency, media and location

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

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

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

1.2.1 Approval and Verification

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

1.3 Board responsibility for risk management and disclosures

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

The Board considers that, as at 31 December 2020, it had in place adequate systems and controls with regard to the Bank's risk profile and strategy. Furthermore, the Board can confirm that the Bank remained within defined regulatory limits for risk exposure throughout the year for credit, operational and prudential risks.

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

1.4 Regulatory Details

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

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

1.5 Relevant changes and developments

NBKI monitors regulatory and legislative developments on and on-going basis to ensure it is prepared for forthcoming regulatory change. In particular, the Company is closely monitoring the development of new European legislation that will amend the existing Capital Requirements Directive (CRD) and Regulation (CRR). The amending legislation is usually referred to as CRDV and CRR2. The UK formally left the EU 31st January 2020 as a result of Brexit with the transition period ending 31st December 2020. The UK government have confirmed most of the CRDV and CRR2 will be enacted in UK legislation as of 31st December 2020.

The CRR 2 changes impacting NBKI are:

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

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

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

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

Other Developments impacting the NBKI are:

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

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

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

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

Transition away from LIBOR: - Following the decision by the PRA and FCA to discontinue the issuance of GBP LIBOR after the end of 2021 (and other currencies) and substitute it with Sterling Overnight Indexed Average (SONIA) reference rates, the Bank has put in place a programme to manage the operational transition away from LIBORs. At 31 December 2021, GBP/EUR/CHF/JPY/1 week USD/2 month LIBOR will cease. The remainder of USD LIBOR reference rates are expected to cease June 2023. The Risk-Free Rate (RFR) Steering Group monitors all activities and is sponsored at executive level.

1.6 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 granted a total of 69 Mortgage Payment Deferral requests.

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 Management objectives and policies

2.1 Overview of the Risk Management framework

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

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

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

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

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

Risk monitoring is achieved using a series of tools including:

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

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

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

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

2.2 Risk Appetite and Material Risks categories

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

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

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

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

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

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

2.3 The Risk monitoring framework

Risk Assessments

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

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

2.3.1 Risk Reporting

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

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

2.3.2 Risk Mitigation

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

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

2.3.3 Qualitative Stress Testing and Scenario Analysis

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

As part of the ICAAP, ILAAP, and the Banks Recovery and Resolution Plan the Bank considers the possible stresses and scenarios that may have material impacts on the viability of the Bank's business.

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

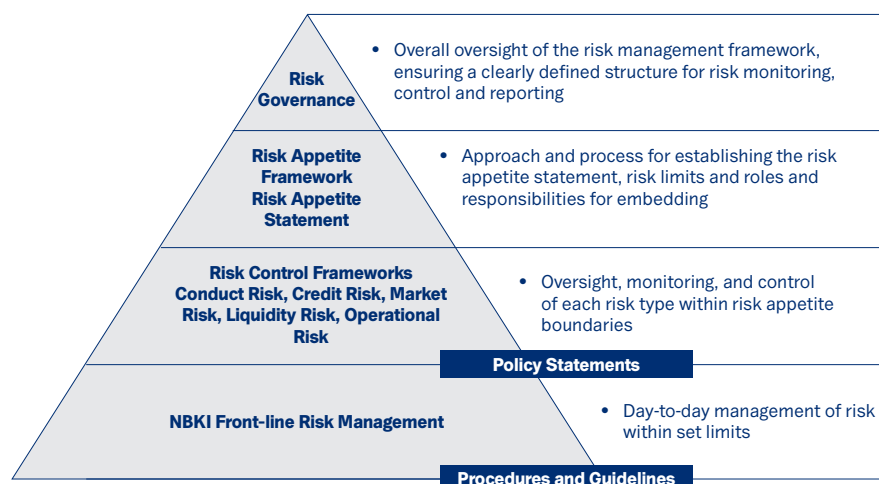
2.4 NBKI's approach to Risk Management

The governance structure is supported by the Risk Appetite Framework.

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

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

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



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

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

2.4.1 The Three Lines of Defence

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

First Line of Defence Day to day risk management and control	Second Line of Defence Risk Oversight, policies and methodology	Third Line of Defence Independent Assurance
Business Units	Risk Management Committees	Audit and Risk Committee
	Chief Risk Officer	Internal Audit
	Risk Management Functions	External Audit
	Compliance	
	Financial Crime	

2.4.2 First Line of Defence

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

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

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

2.4.3 Second Line of Defence

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

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

2.4.4 Third line of defence

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

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

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

External audit provides additional independent assurance.

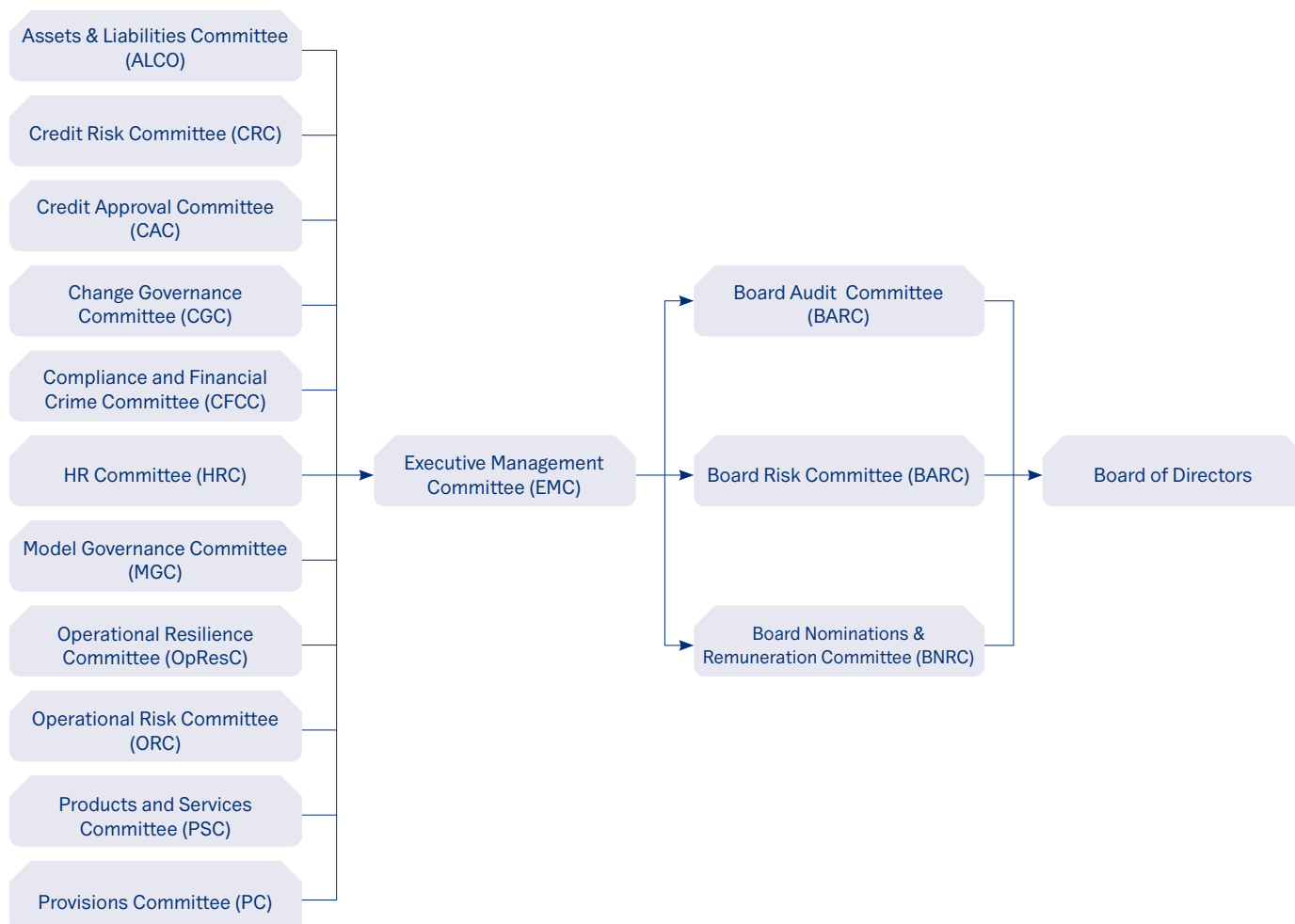
2.4.5 Stress Testing

Stress testing is an important risk management tool and is addressed in a number of ways. Liquidity stresses are embedded in regular liquidity risk monitoring. Liquidity (LCR) and CET1 are also forecast in the short term to test balance sheet management under certain risks. Under the ICAAP and ILAAP, a number of economic and political scenarios are modelled on 3 to 5 year forward looking basis to test both regulatory and internal risk appetite key risk measures. ICAAP and ILAAP processes also include a range of reverse stress tests. Interest rate risk in the banking book is subject to a range of stresses. Finally, as part of the annual statutory audit, a quantitative assessment of the Bank's ability to function as a going concern for a period after the financial year end is also carried out.

2.5 Governance structure

The Board is responsible for establishing the Bank's governance and control framework. The current board of directors are shown in the appendices. The Board delegates day to day responsibility for risk management to executive management, which exercises its oversight responsibility through the Executive Management Committee ("EMC") and its sub-committees.

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



2.5.1 Board of Directors (The Board)

The Board has established three Board committees, which are the Audit Committee (BAC), Risk Committee (BRC) and the Nominations and Remuneration Committee (BNRC) 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.

2.5.2 The Board Audit committee (BAC)

BAC undertakes the following main roles and responsibilities on behalf of the Board:

monitoring, reviewing and assessing the effectiveness of the Internal Audit function;

reviewing and challenging whether the company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views;

reviewing the statutory audit of the annual financial statements and assess the audit's findings and outcomes as well as that audit's effectiveness.

2.5.3 The Board Risk Committee (BRC)

BRC undertakes the following main roles and responsibilities on behalf of the Board:

advising the Board on the company's overall risk strategy including the Bank's risk capacity, appetite, tolerances and early warning framework in relation to the principal risks the company is willing to take in order to achieve its long-term strategic objectives and the emerging risks that could influence that strategy;

overseeing compliance with regulatory requirements and good practice standards;

overseeing and seeking suitable assurance regarding the adequacy and effectiveness of Bank's processes and procedures to manage risk and the internal control framework, including the design, implementation and effectiveness of those processes and procedures and any related systems;

reviewing reports and recommendations from the Control Functions (Risk, Compliance and Financial Crime), ensuring they have adequate resources, access to information and independence.

2.5.4 The Nomination and Remuneration committee (BNRC)

BNRC undertakes the following main roles and responsibilities on behalf of the Board:

providing recommendations to the Board, from time to time, for changes regarding the size and composition of the Board or any Board committee;

overseeing succession for Board and senior management roles, including plans for handling emergency replacements due to unforeseeable vacancies;

conducting an annual assessment of existing Board directors' training needs and designing a development/training plan accordingly;

approving the framework for determining the policy and specific remuneration packages for executive management in such a way as to incentivise a culture of risk awareness and ethical behaviour;

conducting an annual assessment of the Board's overall performance, including an evaluation of the structure, size and composition of the Board.

2.5.5 Management committees

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

2.5.6 Executive Management Committee (EMC)

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

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

2.5.7 The risk committees

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

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

2.5.8 NBKI's business lines

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

NBKI's main business activities are noted below.

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

NBKI's Operations

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

The operations of the Bank are organised as follows:

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

Organisation Charts

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

2.6 Internal Audit function

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

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

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

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

3. Principal Risks and related Tables

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

- Strategic and business risk
- Liquidity and funding risk
- Capital and solvency risk
- Credit risk
- Market risk
- Operational risk
- Regulatory and compliance risk
- Conduct risk
- Financial crime and legal risk
- Key emerging risk: Climate change risk

3.1 Credit Risk (including concentrations)

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

The Bank's principal sources of credit risk are:

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

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

3.1.1 Credit Risk Mitigation

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

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 NBK's Policy. In many cases they are self-explanatory.

Table 1: NBK's credit exposures under the standardised approach for each of the risk exposure classes as at 31 December 2020, as reported in the regulatory returns summarised by region of origin of the borrower. All figures in USD 000s.

	Asia	MENA	North America	Other	UK	Europe	Grand Total
Corporate	-	349,677	-	28	269,302	172,946	791,953
Other	-	-	-	-	62,008	42,695	104,703
Central Gov	-	-	66,188	-	342,875	-	409,063
Institution	4,387	3,950	5,043	874	180,479	102,008	296,741
Equity	-	-	-	-	1,008	-	1,008
High Risk	-	-	-	5,465	-	-	5,465
MDB	-	47,779	-	-	-	-	47,779
CIU	-	-	-	65,414	-	-	65,414
Real estate	-	290,873	-	248,564	105,705	638,374	1,283,516
Grand Total	4,387	692,279	71,231	320,345	961,377	956,023	3,005,642

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

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

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

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

	MENA	UK	EUROPE	Grand Total
Corporate	19,258	-	6,991	26,249
Institution	33	273	183	489
	19,291	273	7,174	26,738

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

	1-3 Months	3-12 Months	1-5 years	More 5 years	Undated	Grand Total
Corporate	355,406	124,780	207,580	84,647	19,541	791,954
Other	104,703	-	-	-	-	104,703
Central Gov	338,979	3,897	66,188	-	-	409,064
Institution	233,154	1,656	61,931	-	-	296,741
Equity	1,008	-	-	-	-	1,008
High Risk	-	5,465	-	-	-	5,465
MDB	-	47,779	-	-	-	47,779
CIU	-	65,414	-	-	-	65,414
Real estate	127,291	141,860	821,571	192,792	-	1,283,514
Grand Total	1,160,541	390,851	1,157,270	277,439	19,541	3,005,642

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

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

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

Credit quality step analysis pre-CRM (USD 000s)

	AAA to AA-	A+ to A-	BBB to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated	Grand Total
Corporate	9,818	246,744	25,000	90,385	67,838	34,303	317,378	791,466
Other	-	42,695	-	-	-	-	62,008	104,703
Central Gov	409,064	-	-	-	-	-	-	409,064
Institution	17,488	261,908	7,743	273	-	-	9,818	297,230
Equity	-	-	-	-	-	-	1,008	1,008
High Risk	-	-	-	-	-	-	5,465	5,465
MDB	47,779	-	-	-	-	-	-	47,779
CIU	-	-	-	-	-	-	65,414	65,414
Real estate	-	-	-	-	-	-	1,283,513	1,283,513
Grand Total	484,149	551,347	32,743	90,658	67,838	34,303	1,744,604	3,005,642

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-	CCC+ and below	Unrated	Grand Total
Corporate	9,818	242,407	25,000	90,385	67,838	34,303	322,204	791,955
Other	-	42,695	-	-	-	-	62,008	104,703
Central Gov	409,064	-	-	-	-	-	-	409,064
Institution	17,488	261,692	7,743	-	-	-	9,818	296,741
Equity	-	-	-	-	-	-	1,008	1,008
High Risk	-	-	-	-	-	-	5,465	5,465
MDB	47,779	-	-	-	-	-	-	47,779
CIU	-	-	-	-	-	-	65,414	65,414
Real estate	-	-	-	-	-	-	1,283,513	1,283,513
Grand Total	484,149	546,794	32,743	90,385	67,838	34,303	1,749,430	3,005,642

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

3.1.2 IFRS 9 Impairment

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

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition) -12month 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.

Currently, NBKI is using 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 26.1 of the ARA.

3.1.3 Forbearance

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

NBKI recognises that each case will need to be analysed based on its own merits and the specific circumstances of the borrower. As such, this section provides a list of high-level principles that should be considered and followed during the arrears management and forbearance process rather than a step-by-step guide. NBKI will try to avoid an overly deterministic approach in its assessment and a "one-size-fits-all" approach when dealing with customers in arrears, and instead it will consider the specific circumstances of the borrower.

As at 31 December 2020, NBKI did not have any forborne exposures or took possession of any collateral. Hence will only be disclosing Template -3 Credit quality of performing and non performing exposures by past and Template -4 Performing and non performing and related provisions as prescribed by the Final Report on the Guidelines on disclosure of non performing and forborne exposures (EBA/GL/10/2018) issued on the 17th December 2018.

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

		Gross carrying amount/nominal amount										
		Performing exposures		Non-performing exposures								Of which defaulted
		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		
1	Loans and advances											
2	Central banks	342,875	342,875									
4	Credit institutions	549,280	549,280									
6	Non-financial corporations	1,392,057	1,367,283	24,774	22,369							
9	Debt securities											
11	General governments	66,188	66,188									
13	Other financial corporations	47,779	47,779									
15	Off-balance-sheet exposures											
18	Credit institutions	90,232										
20	Non-financial corporations	139,423										
22	Total	2,627,835	2,373,406	24,774	22,369							

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

	Gross carrying amount/nominal amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						
	Performing exposures		Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			
		Of which stage 1	Of which stage 2		Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3	
1	Loans and advances											
2	Central banks	342,875	342,875				-00					
4	Credit institutions	549,280	549,280				362	362				
6	Non-financial corporations	1,392,057	1,188,615	203,442	22,369	22,369	4,681	1,869	2,812	1,815		1,815
9	Debt securities											
11	General governments	66,188	66,188				5	5				
13	Other financial corporations	47,779	47,779				10	10				
15	Off-balance-sheet exposures											
18	Credit institutions	90,232	90,232				37	37				
19	Other financial corporations											
20	Non-financial corporations	139,423	139,423				606	606				
21	Households											
22	Total	2,627,835	2,424,393	203,442	22,369	22,369	5,701	2,889	2,812	1,815	-00	1,815

3.2 Credit valuation adjustment

The Company's regulatory capital charge for credit valuation was USD 57,774 as at 31 December 2020. (2019: USD 105,215).

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

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

Table 7: Derivative Assets analysis

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

As at 31 December 2020	Accounting	Regulatory
	USD 000s	USD 000s
Gross positive Fair Value of contracts	11,553	11,553
Derivatives: Add-on Mark-to-Market Method		16,314
Net Derivatives Credit Exposure		27,868

3.3 Market Risk

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

Fixed loans and other fixed securities are hedged by way of interest rate swaps. Further details of hedging strategies are set out in Note 2.20 of the Financial Statements forming part of the ARA for 2020.

3.4 Liquidity risk

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

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

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

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

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

Total weighted value \$'000's		Q1	Q2	Q3	Q4
21	LIQUIDITY BUFFER	377,688	486,579	434,427	453,136
22	TOTAL NET CASH OUTFLOWS	105,492	155,284	169,192	151,317
23	LIQUIDITY CIVERAGE RATIO	%358.03	%313.35	%256.77	%299.46

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

	Up to 3 months	3 to 12 months	Over 1 year	Total
USD \$'000				
Assets	1,024,026	306,677	1,278,643	2,609,346
Liabilities	1,717,768	453,309	438,269	2,609,346

3.5 Operational risk

This is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Bank's policies and procedures, which are approved by the Board of Directors, are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank.

The first line functions have primary responsibility for management of Operational Risk in their areas. The Risk Management function provides review and challenge of the first line to ensure compliance with policies and procedures and monitors Operational Risk as part of the 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 ICAAP.

3.6 Business risk

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

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

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

3.7 Interest Rate Risk in the Banking Book (IRRBB)

This is the risk that movements in interest rates will have an adverse impact on the Bank's financial position through their effect on non-trading book positions. This arises from mismatches between assets and liabilities in tenor and/or reference rate and can have an effect on both net interest income and the economic value of equity.

This risk is managed actively by hedging exposures that arise through lending and funding activity. The Bank does not have significant holdings of financial instruments that would create a non-symmetric exposure. This risk is monitored regularly by the ALCO. The sensitivity to movements in rates is discussed in the ARA.

Interest rate sensitivity

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

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

3.8 Group and cross border risks

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

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

3.9 Conduct Risk

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

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

4. Capital (Own Funds)

Capital Risk

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

The Bank's capital is denominated in USD while its assets, and thus its capital requirement, are mainly denominated in GBP. This gives rise to a risk that movement in exchange rates will adversely impact the Bank's capital ratios, which the Bank addresses by maintaining sufficient excess capital to absorb a 10% movement in rates.

The Bank's Risk Appetite Statement includes a limit which measures prospective impacts on CET1 due to FX translation and measures this against the current CET1 surplus over its Board Tolerance Level.

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

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

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

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

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

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

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

Capital Requirements as per Financial Statements

\$000s	31/12/2020	
Exposure Type	RWA	Capital Requirement
Central governments or central banks	-	-
Corporates	562,054	44,964
Institutions	62,283	4,983
Other items	231,918	18,553
Equity	1,008	80.64
Secured by mortgages on immovable property	855,718	68,457
Secured by items associated with particular high risk	8,197	656
	1,721,178	137,694
Operational Risk	104,203	8,336
Market Risk/Credit Valuation Adjustment	722	58
	104,925	8,394
TOTAL Risk Weighted assets (RWA)	1,826,103	
Total Capital Requirements (A)		146,088
Total own funds (includes audited results) (B)		432,359
Excess of capital in place over total capital requirement		286,271

Table 11: Capital Structure/Resources

Composition of Regular Capital	\$000s
Common Equity Tier 1 Capital before regulatory adjustments	435,931
Total Regulatory adjustments to Common Equity Tier 1	-3,572
Common Equity Tier 1 Capital (CET 1)	432,359
Additional Tier 1 Capital (AT1)	-
Tier 1 Capital (T1 =CET1+AT1)	432,359
Tier 2 Capital (T2)	-
Total Capital (TC =T1+t2)	432,359
Total Risk Weighted Assets	1,826,103
Capital Ratios and buffers	
Common Equity Tier 1 (as a percentage of RWA)	23.68%
Tier 1 (as percentage of RWA)	23.68%
Total Capital (as percentage of RWA)	23.68%

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

Item	Balance Sheet as	Under Regulatory
	in published financial statements	scope of consolidation
	31/12/2020	31/12/2020
	US\$000	US\$000
Assets		
Cash and cash equivalents	343,251	343,251
Deposits with banks	523,000	523,000
Loans and advances to banks	26,809	26,809
Loans and advances to customers	1,407,926	1,407,926
Investment securities	186,090	186,090
Investment in group entity	49,209	49,209
Fixed assets	52,270	52,270
Other assets	20,791	20,791
Total assets	2,609,346	2,609,346
Liabilities		
Due to banks and other financial institutions	738,937	738,937
Customer deposits	1,100,981	1,100,981
CDs & other debt securities issued	257,094	257,094
Other liabilities	76,403	76,403
Total liabilities	2,173,415	2,173,415
Equity		
Share capital	235,883	235,883
Retained earnings	197,602	197,602
Cumulative changes in fair values	2,446	2,446
Total equity	435,931	435,931
Total equity and liabilities	2,609,346	2,609,346

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

Common Equity Tier 1 capital: instruments and reserves	31-Dec 2020 USD 000
Capital instruments and the related share premium accounts	235,883
Retained earnings	197,602
Accumulated other comprehensive income (and any other reserves)	2,446
Common Equity Tier 1 (CET1) capital before regulatory adjustments	435,931
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Additional value adjustments (negative amount)	-389
Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-6,514
Transitional IFRS 9 adjustment	3,330
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-3,573
Common Equity Tier 1 (CET1) capital	432,358
Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
Tier 1 capital (T1 = CET1 + AT1)	432,358
Tier 2 (T2) capital: regulatory adjustments	
Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-
58 Tier 2 (T2) capital	-
59 Total capital (TC = T1 + T2)	432,358

4.1 Regulatory Capital buffers

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

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

Capital Conservation Buffer

The capital conservation buffer is designed to ensure that institutions build up capital outside of times of stress that can absorb losses if required. The requirement is 2.5% of RWA and 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 2020, the capital conservation buffer was 2.5% and therefore the requirement was USD 45.653 million.

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. On 24th March 2020 the Bank of England's Financial Policy Committee (FPC) issued a statement to immediately reduce the UK CCyB rate to zero in response to the Covid-19 pandemic. As of 31 December 2020, NBKI had a weighted average CCyB rate of 0.0% and hence a CCyB buffer of zero.

Globally Systemic Important Financial Institutions (G-SIFIs)

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

5. Leverage

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

Table 14: Summary of reconciliation of accounting assets and leverage ratio exposures

	(USD 000's)
Total Assets as per Financial Statements	2,609,346
Adjustments for derivative financial instruments	11,553
Adjustments for off Balance sheet items	185,987
Leverage Ratio total exposure measure	2,806,886
Other off-balance sheet exposures	
Off Balance Sheet exposures at gross national amount	381,698
Adjustments relating to Credit Conversion Factors (CCF)	-195,711
Off balance sheet exposures	185,987
Capital and total exposure measure	
Tier 1 capital	432,359
Leverage ratio total exposure	2,802,171
Leverage Ratio	15.43%

6. Transitional Adjustment IFRS 9

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

USD 000	31/12/2020
Available capital (amounts)	
1 Common Equity Tier 1 (CET1) capital	432,358
2 Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	429,028
3 Tier 1 capital	432,358
4 Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	429,028
5 Total capital	432,358
6 Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	429,028
Risk-weighted assets (amounts)	
7 Total risk-weighted assets	1,826,103
8 Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,826,103
Capital ratios	
9 Common Equity Tier 1 (as a percentage of risk exposure amount)	23.68%
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	23.49%
11 Tier 1 (as a percentage of risk exposure amount)	23.68%
12 Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	23.49%
13 Total capital (as a percentage of risk exposure amount)	23.68%
14 Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	23.49%
Leverage ratio	
15 Leverage ratio total exposure measure	2,802,171
16 Leverage ratio	15.43%
17 Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.31%

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 164 members of staff as at 31 December 2020 (141 in 2018) in London.

The total staff costs of the Bank (as disclosed in the Note 7 of the 2020 Annual Report and Financial Statements) were USD 15.9m (USD 15m in 2019).

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 four 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 2021, the Bank had 19 MRTs, of whom 5 were also classed as Senior Managers. All 19 of those MRTs were exempted from the requirements to defer any variable remuneration. This is because their remuneration is below the de-minimis threshold¹.

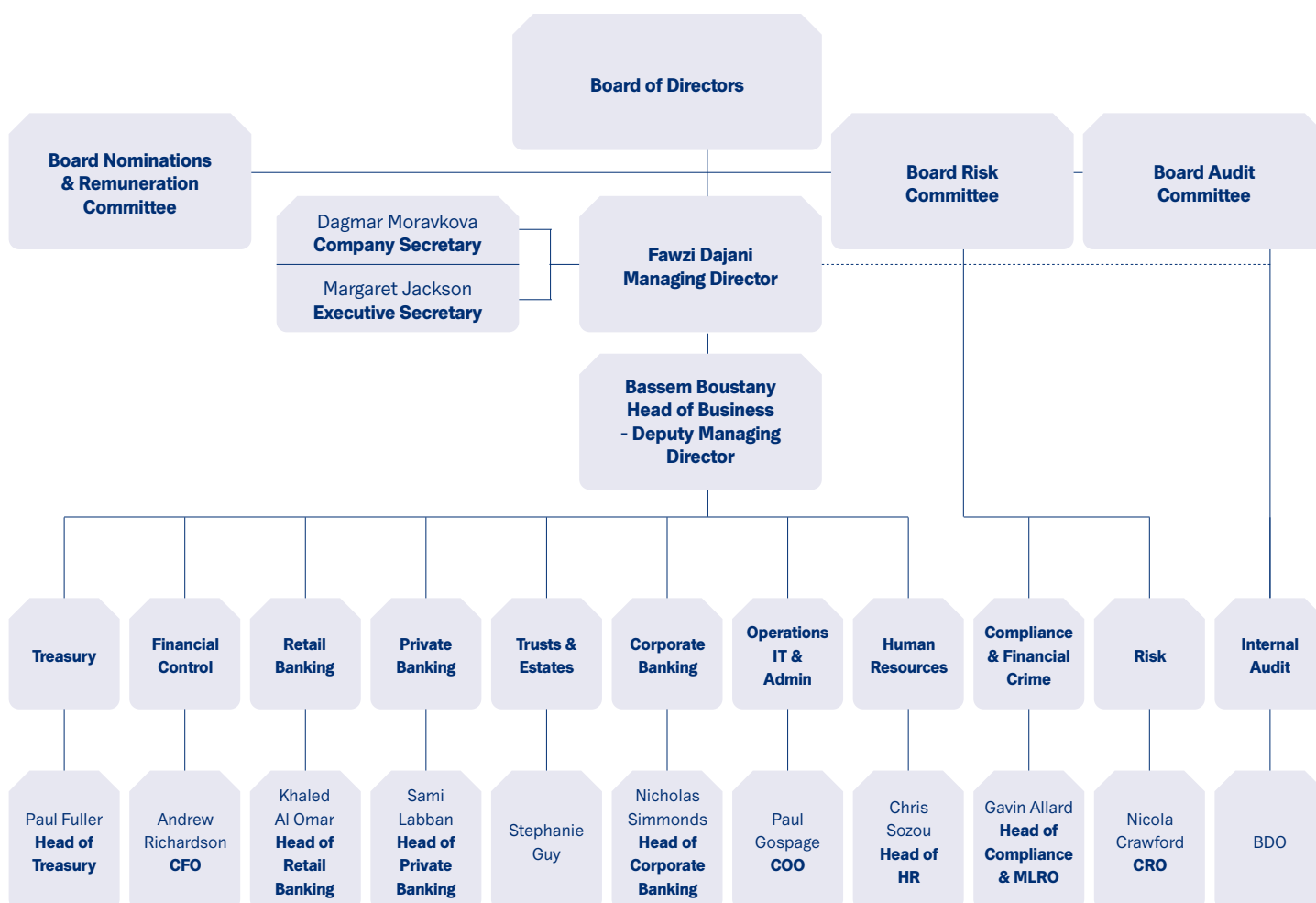
Fixed remuneration relating to 2020 for MRTs was just under £2.1m and variable remuneration relating to 2020 was £216k.

* 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.

8. Appendices

Appendix I - Structure Charts

NATIONAL BANK OF KUWAIT (INTERNATIONAL) PLC(August 2021)



Appendix II - Directors and Company Secretary

Chairman

Isam Jassim Al Sager

Vice Chairman

Hamish Cameron Galbraith Marr

Directors

Shaikha Khaled Ali Al Bahar

Lesley Jane Titcomb

Matthew Anthony Timms

Fawzi Adnan Dajani

Andrew Simon Richardson

Company Secretary

Dagmar Moravkova