



**Basel III, Pillar 3 Disclosures
31 December 2021**

NATIONAL BANK OF EGYPT (UK) LIMITED

Basel II, Pillar 3 disclosures
31 December 2021

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1. OVERVIEW

Introduction

National Bank of Egypt (UK) Limited (“NBEUK” or “the Bank”) was incorporated in the UK as a company limited by shares under the Companies Acts 1985 to 1989 on 28th August 1992 under Company Number 2743734. NBEUK took over the operations of the two former London branches, (re-opened in London in 1982) of National Bank of Egypt (“NBE”) and incorporated as a wholly owned subsidiary of NBE. The Bank’s name was changed to National Bank of Egypt (UK) Limited (“NBEUK”) from National Bank of Egypt International Limited (“NBEI”) with effect from 1st October 2004.

The Bank’s current product portfolio comprises of several activity areas, briefly set out in the paragraphs that follow:

- The Bank operates a **wholesale business** which essentially focuses on money market placements and foreign exchange (Forex). It also includes the procurement of Debt securities and investments in the form of Fixed Income bonds and Floating Rate Notes.
- **A commercial lending business.** This includes syndicated lending facilities working mainly with financial institutions, corporates, and sovereign entities world-wide.
- **Trade finance.** In the main, this business provides a facility to banks to cover letters of credit, letters of guarantee and bills discounted. In addition, trade finance is also extended to several banks and corporates globally.
- **Buy to let Mortgages.** The Bank provides BTL mortgages to UK and non-UK borrowers for residential and commercial buy to let properties in England.
- **Customer/Retail Services** to Egyptian nationals in the UK and to staff of Egyptian Embassies world-wide.

Background

Since 1st January 2008, the Bank has been operating under the Basel II Framework (“the Framework”), as adopted by the European Union via the implementation of the Capital Requirements Directive (“the Directive”). In the UK, the Directive is being implemented by our regulator - the Prudential Regulatory Authority and the Financial Conduct Authority (the PRA and FCA). The Basel II Framework is structured around three pillars: Pillar 1 (minimum capital requirements), Pillar 2 (supervisory review) and Pillar 3 (market discipline).

The disclosure requirements (Pillar 3) aim to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). They aim to encourage market discipline by allowing market participants to assess key pieces of information on risk exposures and the risk assessment processes and capital adequacy of the Bank.

Basis of Disclosures

These disclosures cover the Pillar 3 qualitative and quantitative disclosure requirements and have been prepared by NBEUK in accordance with the Pillar 3 requirements laid out in the FCA handbook BIPRU Chapter 11. They provide information on the capital adequacy and risk management of NBEUK.

- **NBEUK does not have any subsidiary undertaking and prepares its prudential returns on an unconsolidated basis only.**
- **All figures within this document are as of 31 December 2021 unless stated otherwise.**

Frequency

This report will be made on an annual basis. The disclosures will be as at the Accounting Reference Date (ARD), i.e., as of **31 December**, and will be published after the Financial Statements have been signed. The Bank will aim, however, to make the disclosure shortly after the publication of the Annual Report and Accounts. The Bank has changed its reporting period from 30 June to the 31 December to align with that of its parent company’s. Consequently, some figures may not be directly comparable to the prior period

Media and Location

The report will be published on the NBEUK corporate website (www.nbeuk.com).

Verification

The Pillar 3 disclosures have been subject to internal review procedures. **The Pillar 3 information has not been audited by NBEUK's External Auditors.**

The Pillar 3 disclosures have been prepared purely for explaining the basis on which the Bank has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement but are supplementary to the information contained in the Bank's financial statements.

2. RISK MANAGEMENT OBJECTIVES AND POLICIES

2.1 Introduction

NBEUK's Risk Management aims to ensure efficient use of capital to meet all inherent risks in its businesses. The Bank's risk profile is determined in accordance with its risk-taking capacity (actual capital) and requires that the Bank has sufficient capital to cover both organic growth, current fluctuations in its exposures and severe but plausible stresses that it may be exposed to.

The primary objective of risk management is to protect the financial strength of NBEUK and to ensure that capital is gainfully deployed to support business activities in line with expected risk-adjust return and to meaningfully grow shareholder value.

The Bank's risk management framework is based on the following principles, which apply across all Business Units:

- The Board provides leadership, approves risk policies, sets the risk appetite (risk limits), the strategy, delegates to the Board's Committees and remains responsible for the overall risk management framework, particularly the ICAAP, ILAAP and RRP processes. The Board is responsible for reviewing the effectiveness of its internal control in containing risk as laid down within acceptable parameters, and for ensuring that corrective action is taken if control weaknesses are identified.
- **Protection of Financial Strength:** NBEUK controls risk to limit the impact of potentially adverse events on the Bank's capital and income. The maximum amount of risk the Bank can take is limited by the capital it is required to hold against all risks (risk appetite). The Bank's risk appetite is to be consistent with its financial resources.
- **Risk transparency:** is essential so that risks are well understood by Business Units, Senior Management, and the Board of Directors in alignment with the Bank's strategy.
- **Distributed Risk Management:** Each Business Unit is responsible for the ongoing identification, measurement, reporting and management of their respective risk exposure – first line of defence. Risk Management at NBEUK is a structured process that identifies, measures, monitors, and reports risk. All Business Units report their identified risks to an independent Chief Risk Officer (CRO) who is responsible for the aggregation of all material risks and reporting directly to Senior Management and Supervisory Regulatory Body, if and when required.
- **Independent oversight:** To ensure Business Units compliance with the approved risk framework and to provide regular evaluation and reporting. **Second line of defence (2LOD).**
- Assurance that first and second lines of defence are executing their respective mandates effectively **Third line of defence (3LOD).**

2.2 Risk Culture

The Bank seeks to promote a strong risk culture throughout our organization. The Bank actively takes risks in connection with our business and as such the following principles underpin risk culture within our Bank:

- Risk is taken within a defined risk appetite.
- Every risk taken needs to be approved within the risk management framework.
- Risk taken needs to be adequately compensated; and
- Risk should be continuously monitored and managed and exceptions reported/escalated and remedied timely.

Each employee at each level is empowered and responsible for the management and timely escalation of risks and remediation of exceptions. The Bank expects employees to exhibit behaviours that support a strong risk culture. To promote this, our policies require that behaviour assessment is incorporated into our performance assessment and compensation processes.

The Bank has conveyed the following risk culture behaviours through various communication vehicles:

- Being fully responsible for our risks.
- Being rigorous, forward looking, and comprehensive in the assessment of risk.
- Inviting, providing, and respecting challenges.

- Trouble shooting collectively; and
- Placing the Bank, its risk appetite, and its reputation at the heart of all decisions.

To reinforce these expected behaviours and strengthen our risk culture our Board, Steering Committee, Risk Committee, and senior management frequently communicate the importance of a strong risk culture to support a consistent tone from the top.

The early warning signs 'Red Flags' process continues to provide a link between risk related conduct and performance management.

The Bank continues to develop our training curriculum to raise risk awareness.

2.3 Risk Management Organisation and Internal Governance

NBEUK's Board of Directors is responsible to key stakeholders such as the shareholders and the UK banking regulators for the strategic direction, supervision, and control of the Bank and for defining the Bank's overall tolerance for risk. The Board has established sub-committees including the Steering Committee chaired by the Chairman of the Board, Audit Committee, and the Risk Committee. Executive committees include the Executive Committee, Asset and Liabilities Management Committee, Credit Committee and Business Continuity Committee. The Board is responsible for approving all risk policies and their annual review.

In this context, the Board and the Senior Management of the Bank are ultimately responsible for the Bank's risk management arrangements which encompass the risk profile, risk appetite, management of capital, overall risk management and the internal capital adequacy assessment process (ICAAP) and Individual Liquidity Assessment Process (ILAAP).

NBEUK's risk management oversight is performed at several levels of the Bank, based on a distributed risk management structure. This entails a two-tier risk management function, with a central risk management function responsible for risk policy and a distributed risk management function located in each business unit responsible for day-to-day risk management.

This process is applied to all key risks which could have a significant adverse impact on the Bank if they were to translate into a loss. Such material risks represent the Bank's risk profile and are reviewed and reassessed at least annually as part of the ICAAP and ILAAP. The most significant risks categories the Bank is exposed to are Credit Risk, Liquidity Risk and Operational Risk. To cover each such risk, the following risk management practices have been adopted in line with the Bank's risk management framework:

| Risk Policies/Procedures | Risk Mitigation |
|--|---|
| Risk Measurement / ICAAP/ILAAP approaches Basel II | Risk monitoring & reporting |
| Risk Control | Stress Testing including capital, liquidity, and reverse stress scenarios |
| Contingency Funding Plan (CFP) | Recovery Plan and Resolution Pack |

Responsibility for risk management (first line of defence) lies with the business units. Responsibility for risk governance and oversight (second line of defence) lies with the Board's Committees, Chief Risk Officer (CRO) and Senior Management. Independent oversight is provided by internal audit (third line of defence).

2.4 Risk Management Committees

Risk Management oversight at the Board Committees and Senior Management is as follows:

- **Steering Committee:** responsible for assisting the Board of Directors in fulfilling their oversight responsibilities by providing guidance regarding risk governance and the development of the risk profile and capital structure including the regular review of risk exposures, policies, and the approval of risk limits within its delegated discretions.
- **Executive Management Committee:** responsible for implementing the Bank's strategy and activity, managing its portfolios and its risk profile to ensure risk and return are balanced and appropriate for current market conditions.
- **Risk Committee:** responsible for assisting the Board of Directors in fulfilling their oversight responsibilities by monitoring Management's approach with respect internal control, legal and regulatory compliance.
- **Audit Committee:** responsible for assisting the Board of Directors in fulfilling their oversight responsibilities by monitoring Management's approach with respect to financial reporting and accounting. The Audit Committee is also responsible for monitoring the independence and the performance of the internal and external auditors.

- **Credit Committee:** responsible for approving credit limits within its delegated discretions or recommending risk limits outside its discretions to the Steering Committee for approval or for ultimate recommendation of board approval. Also, the Committee is focusing on monitoring and managing individual exposures and assessing the quality of the credit portfolio and the adequacy of provisions.
- **ALCO Committee:** responsible for supervising and directing the Bank's risk profile with immediate focus on asset and liability management, liquidity market and credit risk and operational risk compliance.
- **Information Security Forum (ISF):** responsible for applying and supervising a robust framework for information security that provides consistent risk-based protection across the Bank which meets our regulatory and compliance requirements.
- **Internal Auditors:** responsible for assisting the Audit Committee and Management by providing an objective and independent challenge, evaluation of the effectiveness of control, risk management and governance process.
- **Chief Risk Officer:** responsible for assessing the overall risk profile on a Bank wide, portfolio level and for individual businesses and recommending corrective action to executive management, Risk Committee & the Board.

2.5 RISK MANAGEMENT ARRANGEMENTS RELATING TO SPECIFIC RISKS

The Bank is exposed to the following main risks:

- Credit risk
- Operational risk
- Liquidity risk
- Interest rate & currency risks
- Capital risk

2.5.1 Credit Risk

Credit risk is defined as the possibility of a loss arising from a credit event, such as deterioration in the credit ratings or the financial conditions of a counterparty or a group of closely related counterparties, that causes an asset (including off-balance sheet transactions) to lose value or become worthless. Credit risk is the largest single risk that NBEUK is exposed to.

NBEUK's risk management distinguishes between four kinds of credit risk:

- **Counterparty/default risk** is the risk that counterparties fail to meet contractual payment obligations.
- **Country risk** is the risk that NBEUK suffers a loss in any given country because of any of the following reasons: a possible deterioration of economic conditions, political and social upheaval, nationalisation or expropriation of assets, government repudiation of indebtedness, exchange control and disruptive currency depreciation or devaluation. Country risk includes transfer risk which arises when debtors are unable to meet their obligations owing to an inability to transfer assets to non-residents due to direct sovereign intervention.
- **Settlement risk** is the risk that the settlement or clearance of a transaction will fail. It arises whenever the exchange of cash, securities and other assets is not undertaken simultaneously.
- **Concentration risk** is the additional risk that arises where there are large exposures or concentrations in the credit portfolio to certain regions, sector, or industries.

In accordance with the provisions of the Bank's approved Large Exposure Policy (LEP) Statement (the Credit Policy), Provisioning Policy Statement, Credit Procedures and other pertaining policies and Board's guidelines which are issued from time to time, NBEUK's credit risk management processes cover all businesses which are exposed to credit risk and are regularly refined.

Central to NBEUK's risk management philosophy is a sound system of risk limits, which defines the Bank's risk appetite and control of the range of risks inherent in its business activities. Every extension of credit or material change to a credit facility (such as its tenor, collateral structure, or major covenants) to any counterparty, or a member of closely related counterparties requires credit approval at the appropriate authority level. Credit risk limits establish the maximum amount of credit risk assumed by the Bank through normal operations, given the business strategy and the financial resources available to absorb losses.

Credit assessment of an individual obligor is a structured process to assess, identify, quantify, monitor, and manage credit risk on a consistent basis.

NBEUK's Board of Directors agree the credit risk limits and delegate approval authorities to Credit Committee and Steering Committee as stated in the Large Exposures Policy Statement. Credit risk limits are always subject to annual review taking into consideration regulatory requirements for large exposure treatments and its related credit risk mitigations.

Credit limits for both countries and counterparties include sub-limits for products.

In addition to individual obligor and group assessments and limits, concentration limits are set and monitored in respect of:

- Country risk
- Sector exposures
- Large exposures

NBEUK monitors all credit exposures on a continuing basis and has procedures in place in accordance with the Bank's policies to identify at an early-stage credit exposures for which there may be an increased risk of loss. Counterparties that are based on the application of our risk management tools, demonstrate the likelihood of problems, are identified well in advance so that the Bank can effectively manage the credit exposure and maximise the recovery. This monitoring process includes:

- Limit monitoring – A comprehensive daily reporting process is in place, covering all relevant exposures by country, by counterparty and by group exposures.
- Limit violations – Procedures to be followed in terms of action to be taken when a breach occurs.
- Limit allocations – The necessary authorities for limit allocations or powers to switch between sub-limits of various business lines or activities to maximise efficient use of credit risk limits are embedded in the Large Exposure Policy Statement and are delegated to Credit Committee under advice to Steering Committee and Board of Directors.

NBEUK carries out regular loan reviews, enabling it to swiftly implement measures to prevent deterioration of borrowers' business situations, support business recoveries, and enhance loan security and recovery. It defines and grades non-performing loans (NPLs) as set out in the Provisioning Policy Statement. The Credit Department is responsible for monitoring the performance of customers, and changes in counterparty risks, reporting as necessary to Executive Management, Credit Committee, and the Board.

2.5.2 Operational Risk

Operational risk is defined as the risk of losses stemming from inadequate or failed internal processes, people, and systems or from external events. These losses may result from failure to comply with policies, procedures, laws, and regulations; from fraud or forgery; from a breakdown in the availability or integrity of services, systems and information, or damage to NBEUK's reputation.

Operational risks are managed under the provisions of the policies and procedures approved by the Board to mitigate the risks posed by:

- Fraud
- Bribery and Corruption
- Information Security
- GDPR
- Money Laundering and Terrorist Financing
- Disaster Recovery including the Pandemic
- Tax and regulatory compliance
- Climate change
- Staff misconduct.

Operational risks are monitored and managed daily, as appropriate, by the Chief Operating Officer and all departments with the relevant reporting of any risk identification to the Chief Risk Officer, Internal Audit Department and Senior Management, Executive Management Committee, ALCO Committee and the Board. Any incidents are the subject of error reports, which are signed off by Senior Management and whistleblowing rights are protected. In addition, a detailed Annual Report for Money Laundering is provided to the Risk Committee, the Executive Management Committee, the Steering Committee, and the Board.

2.5.3 Interest rate risk

Interest rate risk is the risk arising from adverse changes in interest rates. The market risks associated with the Bank's non-trading portfolios ("The Banking Book") primarily relate to the risk that NBEUK will incur under the increased interest expense, arising from liquidity and funding requirements during periods of poor market liquidity (balance sheet or non-traded market risk).

The Bank manages its interest rate risks in accordance with the approved limits. Positions are monitored and managed by Treasury Department daily and hedging strategies are used to ensure positions are maintained within the established limits in accordance with the provisions of the Bank's Treasury Policy Statement and Liquidity Policy Statement approved by the Board.

2.5.4 Liquidity risk

Liquidity risk is the risk that the Bank will not be able to fund assets or meet obligations at a reasonable price. The funding process and liquidity risk management is the prime responsibility of the Treasury Department. The Bank maintains high level of liquid assets and a very stable funding base. The core objectives of liquidity risk management are to ensure that obligations are met in full and on time, regardless of circumstances, and that the Bank continues to fulfil its medium-term investment and lending commitments and strategic goals.

Liquidity positions are monitored daily and daily liquidity reports (LMM, LCR and NSFR) are issued by the Financial Control Department which are circulated to the Chief Risk Officer (CRO), Internal auditor, Treasury Department, Settlement Department and Executive Management. Monitoring liquidity positions daily, is to ensure that the ILAAP's minimum liquidity thresholds, the adequacy of the required liquid asset buffer, the effectiveness of the contingency funding plan and the results of the quarterly stress testing are always adhered to internal and external guidelines. The ALCO Committee monitors the maturity profile monthly with ongoing liquidity monitoring by the Treasury Department.

2.5.5 Currency Risk (Market Risk)

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency as stipulated in the Treasury Policy Statement.

NBEUK's currency positions and its pertaining risk are monitored by Treasury Department daily with a daily compliance report issued by Settlement Department and commented on by Treasury Department. NBEUK manages its currency risk under the provisions of the Treasury Policy and Procedures Manuals approved by the Board of Directors, together with the authorised limits for Treasury Department.

2.5.6 Capital and Liquidity Stress Testing

NBEUK performs regular stress testing on its capital adequacy requirements and liquidity positions in accordance with the scenario analysis as per the Board's approved ICAAP and ILAAP documents in addition to the scenario analysis applied under the reverse stress testing.

Liquidity stress tests are used both to inform the Bank's liquidity risk tolerance and to formulate the metrics against which that risk is measured and managed. Also, the results of the liquidity stress tests inform the Bank's liquidity risk appetite, recovery plan and resolution pack (RRP), contingency funding plans (CFP) update and determine the required amount (the quantification) of the liquid asset buffer (HQLA), and the amount of maturity transformation inherent in the Bank's balance sheet.

Capital stress tests are used to inform the Bank's capital adequacy and the loss absorbency capabilities both in amount and quality under various scenarios as per the approved ICAAP. Also, the results of the capital stress tests will advise on the amount of capital planning buffer (CPB or the PRA buffer) NBEUK is to maintain to cover the maximum projected loss expected to incur under assumed adverse circumstances.

Liquidity stress tests are performed on a quarterly basis and capital and reverse stress tests are performed and updated annually. In addition, periodic ad hoc stress tests are performed as required by Senior Management, ALCO, or the Board of Directors.

Detailed results of stress tests are presented to Senior Management, ALCO, and the Board of Directors including the impact of the scenario analysis on the Bank's capital requirements, its capital resources, capital planning buffer, profitability, liquidity positions, amount of liquid asset buffer, survival period, recovery plan and resolution pack and contingency funding plan.

3. CAPITAL RESOURCES

The following table provides details of NBEUK's regulatory capital resources as of **31 December 2021** compared to its previous position as of 30 June 2020.

| (GBP 000) | As at 31/12/2021 | As at 30/06/2020 |
|---|---------------------|---------------------|
| A) Capital Resources | | |
| Tier 1 Capital | | |
| Called up share capital | 130,000 | 130,000 |
| Retained earnings and other reserves | 24,505 | 24,416 |
| Deferred tax liabilities | | |
| Tier 1 capital and deductions | 154,505 | 154,416 |
| Tier 2 Capital | | |
| Subordinated debt | 33,284 | 36,396 |
| Collective provisions | | |
| Tier 2 capital and deductions | 33,284 | 36,396 |
| Total capital resources | 187,789 | 190,812 |
| B) Capital Adequacy | | |
| Total Exposures | 1,239,412 | 1,364,140 |
| Risk Weighted Assets | 779,381 | 743,105 |
| Credit Risk Capital 8% | 62,350 | 59,448 |
| Operational Risk Capital | 2,508 | 2,859 |
| Credit Valuation Adjustment ("CVA") | 29 | 32 |
| Market Risk Capital | 171 | 57 |
| Total Pillar 1 Capital Requirement | 65,058 | 62,397 |
| Capital Planning Buffer | 20,331 | 19,499 |
| Solvency Ratio | 288.64% | 305.80% |
| Capital Adequacy Ratio | 23.08% | 23.90% |
| Tier 1 Capital Ratio (Leverage) | 12.47% | 10.99% |
| Total Capital Ratio | 15.15% | 13.99% |

Notes:

1. The Board and AGM have agreed not to declare a dividend. Therefore, the retained earnings increased from GBP 24.4mn to GBP 24.5m. Due to a change in 'Cable rate', capital resources declined to GBP 187.8mn from GBP 190.8mn or a decrease of 1.57% over the period. Capital resources include a subordinated loan of USD 45mn (GBP 33.3mn).

2. The capital planning buffer "CPB" increased to GBP 20.3mn (from GBP 19.5mn) due to the increase in the RWA and Total Risk Exposure.

3. NBEUK's capital adequacy ratio decreased to 23.08% at the end of **December 2021** compared to 23.90% in June 2020. This remains within the total regulatory capital requirements for NBEUK. NBEUK's leverage ratio stood at 12.47% also maintained above the regulatory minimum requirements.

4. CAPITAL ADEQUACY

To protect the solvency of NBEUK, internal capital is held to provide a cushion for unexpected losses. In assessing the adequacy of its capital, the Bank considers its risk appetite, the material risk types to which the Bank is exposed and the appropriate management strategies for each of the Bank's material risks. In addition to capital adequacy quarterly reporting to the PRA and FCA, a full internal capital adequacy assessment is performed at least annually or more frequently if required to assess the Bank's capital adequacy and to determine the levels of capital required including the capital planning buffer going forward to support the current and future risks of the Bank's growing business.

The RMO is responsible for ensuring that the Bank's current and future risks are reflected in the Internal Capital Adequacy Assessment process (ICAAP) and that sufficient capital is maintained to provide the Bank with adequate headroom to cover expected risks of current and potential business activities and stress testing scenarios.

The amount and composition of the Bank's capital requirements is determined by assessing the minimum capital requirements under Pillar 1, based upon the Capital Requirements Directive (CRD), the applicable approach for risk assessment being Standardised Approach for credit risks and the Basic Indicator Approach for operational risk and the Individual Capital Guidance of the Bank (ICG).

The following table shows the Bank's Pillar 1 capital requirement by asset class as of **31 December 2021**: -

| CREDIT RISK - STANDARDISED APPROACH (GBP 000) | Notes | As at 31/12/2021 | As at 30/06/2020 |
|--|--------------|-----------------------------|-----------------------------|
| Central governments or central banks | | 1,574 | 2,272 |
| Multilateral development banks | | 2,421 | 655 |
| Covered Bonds | | 287 | 436 |
| Institutions | | 8,156 | 11,694 |
| Corporates | | 46,110 | 42,361 |
| Retail | | 3 | 3 |
| Other items | | 3,799 | 2,028 |
| CAPITAL COMPONENT FOR CREDIT RISK | 1 | 62,350 | 59,449 |
| OPERATIONAL RISK – BASIC INDICATOR APPROACH | 2 | 2,508 | 2,859 |
| Foreign exchange PRR | | 171 | 57 |
| Credit Valuation adjustment | 3 | 29 | 32 |
| TOTAL PILLAR 1 CAPITAL REQUIREMENT | | 65,058 | 62,397 |

NBEUK's overall capital resource requirements includes the minimum capital requirements under Pillar 1 as above, plus the consideration of capital requirements of Pillar II risks, including in particular, concentration risk (credit), concentration risk (funding), concentration risk (business strategy), interest rate risk in the non-trading book, liquidity risk, currency exposure risk, currency income risk, residual risk from credit risk mitigation techniques, systems and controls and reputational risk.

Notes:

- Under the Standardised Approach for credit risk, the relevant risk weights are determined based on the assigned external credit ratings by eligible ECAI's such as Moody's and Fitch Ratings.
- Operational Risk Capital Component is determined using the Basic Indicator Approach and calculated as follows: -

| (GBP 000) | June 2017 | June 2018 | June 2019 | June 2020 | December 2021 |
|--|----------------------|----------------------|----------------------|----------------------|--------------------------|
| Net Interest Income | 16,274 | 13,154 | 8,316 | 8,940 | 8,755 |
| Non-Interest Income | 8,617 | 5,482 | 5,342 | 8,934 | 12,355 |
| Gross Income | 24,891 | 18,636 | 13,658 | 17,874 | 21,110 |
| Average Gross Income | 19,311 | 19,282 | 19,062 | 16,723 | 17,547 |
| Operational Risk Capital Requirement (ORCR) | 15% | 15% | 15% | 15% | 15% |
| Operational Risk Capital Requirements | 2,897 | 2,892 | 2,859 | 2,508 | 2,632 |

- Credit valuation adjustment ("CVA") is a change to the market value of derivative instruments to account for counterparty credit risk. It represents the discount to the standard derivative value that a buyer would offer after taking into account the possibility of a counterparty's default.

5. LIQUIDITY RISK

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

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

Liquidity Coverage Ratio (LCR) is measured daily. This ratio aims to ensure that credit institutions maintain an adequate liquidity buffer to cover the net liquidity outflows under a stressed condition 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 LCR is comfortably above the minimum regulatory requirements and conforms to best practice standards.

6. COUNTERPARTY CREDIT RISK

Counterparty credit risk (CCR) in the context of NBEUK's disclosure is the risk that the counterparty to a derivative transaction posted to our non-trading book could default before the final settlement of the transaction's cash flows. The duration of the derivative and the credit quality of the counterparty are both factored into the internal capital and credit limits for counterparty credit exposures.

The Bank measures the exposure value on counterparty credit exposures under the CCR mark to market method. This exposure value is derived by adding the gross positive fair value of the contract (replacement cost) to the contract's potential credit exposure, which is derived by applying a multiple based on the contract's residual maturity to the notional value of the contract.

The following table shows the counterparty risk and its relevant capital component as of **31 December 2021** compared to its position as of 30 June 2020.

| (GBP Million) | 31/12/2021 | | 30/06/2020 | |
|---------------|---------------------------|-------------------------------------|---------------------------|-------------------------------------|
| | Gross Positive Fair Value | Counterparty Risk Capital Component | Gross Positive Fair Value | Counterparty Risk Capital Component |
| Banking Book | 923 | 74 | 871 | 70 |
| Trading Book | N/A | N/A | N/A | N/A |
| TOTAL | 923 | 74 | 871 | 70 |

7. CREDIT RISK AND DILUTION RISK

Impairment of financial assets

NBEUK's credit policies and procedures govern all aspects of the credit risk process, including risk approval and control. All credit applications are reviewed and considered by Credit Committee and where appropriate, approval is recommended to Steering Committee and the Board of Directors. All limits, including those for banks and sovereign entities are reviewed at least yearly and include an assessment of all relevant risk factors.

The treatment of large exposures and provision for bad and doubtful loans is governed by the Large Exposures and Provisioning Policy Statement as approved by the Board. Where monies are owing, or where there is doubt that they will be received by NBEUK, or if there is objective evidence of impairment as a result of events that occurred such as significant financial difficulty of the issuer or obligor, a breach of covenants, adverse changes of the payment status of the borrower and national or local economic conditions that correlate with defaults of the relevant borrower, all loans to such obligors are automatically placed on a non-accrual basis. Any interest charged to the customer, but not paid, is written back and not taken into NBEUK's profit and loss account.

NBEUK has prudent policies and procedures to build up reserves against possible losses on the asset portfolio. Specific provisions are in place to deal with exposures classified as impaired or where losses are expected. In addition, NBEUK maintains a collective impairment reserve to cover an identified part of the portfolio where observable data indicates that impairment is likely to have occurred. Exposures from all classes which have not been repaid 90-days after the due payment date are treated as past due under the standardised approach for credit risk.

The following table provides details and movements on provisions for bad and doubtful debts together with the position of the non-performing loans for the year end **31 December 2021**, compared to its position as of 30 June 2020.

| MOVEMENTS ON PROVISIONS FOR BAD AND DOUBTFUL DEBTS (GBP 000) | SPECIFIC | GENERAL | TOTAL |
|---|-----------------|----------------|--------------|
| Provisions- 30 June 2020 | 951,955 | - | 951,955 |
| Additions during the year | - | - | - |
| Release of provision during the year | (443,787) | - | (443,787) |
| Write off in year | (426,773) | - | (426,773) |
| Foreign exchange movement | (81,395) | - | (84,395) |
| PROVISIONS - 31 DECEMBER 2021 | - | - | - |

| NON-PERFORMING LOANS | As at 31/12/2021 | As at 30/06/2020 |
|--|-----------------------------|-----------------------------|
| Loans on which interest has been suspended | - | 1,354 |
| Provisions for bad and doubtful debts | - | (952) |
| NET NON-PERFORMING LOANS | - | 402 |

Analysis of credit risk exposures

Tables (i) to (iv) analyse the Bank's regulatory credit risk exposures as of **31 December 2021** compared to its position as of 30 June 2020. These exposures equate to the outstanding on-balance sheet exposures and off-balance sheet exposures after credit conversion factors under the Standardised Approach as per the PRA and FCA's handbook requirements that have been applied.

I. Analysis of exposures by asset class before Credit Risk mitigation

| (GBP 000) | Exposure Value as at 31/12/2021 | % | Exposure Value as at 30/06/2020 | % |
|--------------------------------------|--|---------------|--|---------------|
| Central governments or central banks | 200,289 | 16.16 | 166,242 | 12.19 |
| Multilateral development banks | 89,130 | 7.19 | 83,042 | 6.09 |
| Covered Bonds | 35,888 | 2.90 | 54,485 | 3.99 |
| Institutions | 309,643 | 24.98 | 372,312 | 27.29 |
| Corporates | 556,631 | 44.91 | 661,453 | 48.49 |
| Retail | 47 | 0.00 | 54 | 0.00 |
| Other items (incl. Past Due) | 47,785 | 3.86 | 26,551 | 1.95 |
| Total | 1,239,412 | 100.00 | 1,364,140 | 100.00 |

The following analysis is based on exposures after credit risk mitigation whereas the analysis in the table is considered before credit risk mitigation.

II. Geographic distribution of exposures by asset class after credit risk mitigation as of 31 December 2021

| (GBP 000) | Egypt | UK | US | EU | Rest of World | Total |
|--|----------------|----------------|----------------|---------------|--------------------------|------------------|
| Central governments or central banks | 12,056 | - | 55,476 | 7,578 | 52,854 | 127,964 |
| Multilateral development banks | 30,259 | 11,213 | 29,223 | 10,953 | 7,481 | 89,130 |
| Covered Bonds | - | 31,636 | - | - | 4,251 | 35,888 |
| Institutions | - | 71,478 | 73,450 | 74,669 | 90,046 | 309,643 |
| Corporates | 428,917 | - | - | - | 120,785 | 549,702 |
| Retail | - | 47 | - | - | - | 47 |
| Short term claims on institutions and corporates | - | - | - | - | - | - |
| Other items (including Past Due) | - | 47,785 | - | - | - | 47,785 |
| Total | 471,232 | 162,160 | 158,149 | 93,201 | 275,418 | 1,160,159 |

III. Distribution of net exposures by Industry and asset class as of 31 December 2021

| (GBP 000) | Central Government or Central Banks | Multilateral Development Banks | Institutions | Corporates | Retail | Covered Bonds | Other | Total |
|-----------------------------|-------------------------------------|--------------------------------|----------------|----------------|-----------|---------------|---------------|------------------|
| Bank Holding Companies | - | - | 30,572 | - | - | - | - | 30,572 |
| Mining and Quarrying | - | - | - | 31,941 | - | - | - | 31,941 |
| Multi Development Banks | - | 89,130 | - | - | - | - | - | 89,130 |
| Other Fin Intermediaries | - | - | - | - | - | 13,040 | - | 13,040 |
| Other Loans and Advances | - | - | - | - | 47 | - | - | 47 |
| Motor Vehicle sale & Repair | - | - | - | 2,219 | - | - | - | 2,219 |
| Public Admin and Defence | 67,532 | - | - | - | - | - | - | 67,532 |
| Bank | 60,432 | - | 279,071 | 515,542 | - | 22,848 | - | 877,893 |
| Other Internal Accounts | - | - | - | - | - | - | 47,785 | 47,785 |
| Total | 127,964 | 89,130 | 309,643 | 549,702 | 47 | 35,888 | 47,785 | 1,160,159 |

IV. Residual maturity breakdown of net exposures by asset class as of 31 December 2021

The following table shows residual maturity of exposures stated on a contractual rather than an expected basis and does not consider the cash flows payable or receivable over the life of the exposure.

| (GBP 000) | < 1 Year | 1- 5 Years | >5 Years | Total |
|--------------------------------|----------------|----------------|---------------|------------------|
| Cent Gov or Cent Banks | 74,234 | 30,788 | 22,942 | 127,964 |
| Multilateral development banks | 44,447 | 30,259 | 14,424 | 89,130 |
| Covered Bonds | 22,848 | - | 13,040 | 35,888 |
| Institutions | 234,083 | 54,621 | 20,939 | 309,643 |
| Corporates | 475,703 | 74,000 | - | 549,702 |
| Retail | 47 | - | - | 47 |
| Past due items | - | - | - | 0 |
| Other Internal items | 47,785 | - | - | 47,785 |
| TOTAL | 899,146 | 189,668 | 71,345 | 1,160,159 |

8. CREDIT RISK: STANDARDISED APPROACH

The Bank uses the most conservative external credit assessments provided by Moody's and Fitch Ratings. These are all recognised by the PRA and the FCA as eligible external credit assessment institutions (ECA) for the purpose of calculating credit risk requirements under the standardised approach.

Analysis of capital requirement as of 31 December 2021 using the Standardised Approach

| (GBP 000) | Gross Exposure Value | Value Adjustment & Provisions | Exposure Value Post Mitigation | Risk Weighted Exposures | Capital Requirement |
|--------------------------------|----------------------|-------------------------------|--------------------------------|-------------------------|---------------------|
| Cent Gov or Cent Banks | 200,289 | (72,324) | 127,964 | 19,681 | 1,574 |
| Multilateral development banks | 89,130 | - | 89,130 | 30,259 | 2,421 |
| Covered Bonds | 35,888 | - | 35,888 | 3,589 | 287 |
| Institutions | 309,643 | - | 309,643 | 101,954 | 8,156 |
| Corporates | 556,631 | (6,929) | 549,702 | 576,380 | 46,110 |
| Retail | 47 | - | 47 | 35 | 3 |
| Other Internal items | 47,785 | - | 47,785 | 47,483 | 3,799 |
| TOTAL | 1,239,412 | (79,253) | 1,160,159 | 779,381 | 62,350 |

Credit risk exposures before mitigations classified by credit ratings and asset classes as of **31 December 2021** compared to its position as of 30 June 2020: -

CENTRAL GOVERNMENT OR CENTRAL BANKS (GBP 000)

| Credit | Credit Ratings | Risk Weight | Exposure As at 31/12/2021 | Exposure As at 30/06/2020 |
|--------------|----------------|-------------|---------------------------------|---------------------------------|
| 1 | AAA – AA- | 0% | 77,786 | 17,010 |
| 2 | A+ – A- | 20% | 38,122 | 44,740 |
| 3 | BBB+ to BBB- | 50% | - | 16,420 |
| 5 | B+ to B- | 100% | 74,926 | 81,931 |
| 7 | Unrated | 100% | 9,454 | 6,141 |
| TOTAL | | | 200,289 | 166,242 |

MULTILATERAL DEVELOPMENT BANKS (GBP 000)

| Credit | Credit Ratings | Risk Weight | Exposure As at 31/12/2021 | Exposure As at 30/06/2020 |
|--------------|----------------|-------------|---------------------------------|---------------------------------|
| 1 | AAA – AA- | 0% | 58,870 | 74,860 |
| 3 | BBB+ to BBB- | 100% | 30,259 | 8,182 |
| TOTAL | | | 89,130 | 83,042 |

COVERED BONDS (GBP 000)

| Credit | Credit Ratings | Risk Weight | Exposure As at 31/12/2021 | Exposure As at 30/06/2020 |
|--------------|----------------|-------------|---------------------------------|---------------------------------|
| 1 | AAA – AA- | 10% | 35,888 | 54,485 |
| TOTAL | | | 35,888 | 54,485 |

INSTITUTIONS (GBP 000)

| Credit | Credit Ratings | Risk Weight | Exposure As at 31/12/2021 | Exposure As at 30/06/2020 |
|--------------|----------------|-------------|---------------------------------|---------------------------------|
| 1 | AAA – AA- | 20% | 176,223 | 60,587 |
| 2 | A+ to A- | 50% | 106,997 | 206,024 |
| 3 | BBB+ to BBB- | 50% | 26,423 | 105,441 |
| 7 | Unrated | 100% | - | 260 |
| TOTAL | | | 309,643 | 372,312 |

CORPORATES (GBP 000)

| Credit | Credit Ratings | Risk Weight | Exposure As at 31/12/2021 | Exposure As at 30/06/2020 |
|--------------|----------------|-------------|---------------------------------|---------------------------------|
| 1 | AAA – AA- | 20% | 25,462 | 58,356 |
| 2 | A+ to A- | 50% | 84,066 | 43,451 |
| 3 | BBB+ to BBB- | 100% | 11,258 | 11,368 |
| 5 | B+ to B- | 150% | 254,131 | 341,585 |
| 6 | CCC+ and below | 150% | 10,170 | - |
| 7 | Unrated | 100% | 171,544 | 206,693 |
| TOTAL | | | 556,631 | 661,453 |

RETAIL EXPOSURES HAVE BEEN ASSIGNED A RISK WEIGHT OF 75% (GBP 000)

| Credit | Credit Ratings | Risk Weight | Exposure As at 31/12/2021 | Exposure As at 30/06/2020 |
|--------------|----------------|-------------|---------------------------------|---------------------------------|
| 7 | Unrated | 75% | 47 | 54 |
| TOTAL | | | 47 | 54 |

OTHER INTERNAL ITEMS (GBP 000)

| Credit | Credit Ratings | Risk Weight | Exposure As at 31/12/2021 | Exposure As at 30/06/2020 |
|--------------|------------------|-------------|---------------------------------|---------------------------------|
| 6 | CCC+ and below | 150% | - | - |
| 7 | Unrated /secured | 25% | - | - |
| Past Due | | 150% | - | 1,355 |
| Other | | 0% | 303 | - |
| Other | | 100% | 47,483 | 25,196 |
| TOTAL | | | 47,786 | 26,551 |

9. CREDIT RISK MITIGATION

The Bank uses several techniques to reduce credit risk of its lending. The most basic of these is performing an assessment of the ability of a borrower to service the proposed level of borrowing without distress. NBEUK adopts the standardised approach for credit risk and takes collateral under approved risk limits to mitigate the underlying credit risk and ensures the enforceability in all relevant jurisdictions in compliance with the approved Large Exposure Policy Statement and the relevant policies in place.

The Bank, in the normal course of business and prior to any withdrawals under the approved risk limits, has to conduct sufficient legal review through the professional agencies (valuers and solicitors) confirming that the agreed collateral arrangements are legally effective and enforceable in all relevant jurisdictions and that the relevant title provides sufficient security for the subject facility with the relevant frequent review and updates to ensure continued enforceability and effectiveness.

10. INTEREST RATE RISK IN THE NON-TRADING BOOK

Interest rate risk arises from the possibility that changes in interest rates may affect future profitability or the fair value of financial instruments. Interest rate risk at NBEUK is well managed and contained. The Bank has no significant long term or complex interest rate positions. The Bank seeks to minimise the negative impact on net interest income of adverse movement in interest rates.

In addition, interest rate risks in the non-trading book may arise from several sources including risk related to timing differences in the re-pricing of assets and liabilities and off-balance sheet short- and long-term positions. Interest rate risks in NBEUK's non-trading book are tightly managed in accordance with the principles of the Treasury Policy and the underlying risk limits established by the Board of Directors. Positions are monitored and managed by the Treasury Department daily and hedging strategies are used to ensure positions are maintained within the established limits.

For calculating the capital component for Pillar 2 Risks under the interest rate risks, NBEUK carries out an evaluation of its exposure to the interest rate risk arising from its non-trading activities.

The evaluation of interest rate exposure, as above, and the calculation of the capital component for interest rate risks are based on the average cumulative gap (mismatch) for twelve months as per the quarterly results of the PRA/FCA's interest rate gap report (FSA 017). The calculation is based on the duration of the actual interest rate mismatch exposures and reflects the potential exposure resulting from a parallel change in interest rates of 200bps to each major currency exposure in both directions.

The Bank therefore holds an amount of capital equal to 100% of this interest rate risk calculation to reflect our conservative approach.

11. REMUNERATION CODE

The PRA and FCA policy statement 12/15 (PRA) and 15/16 (FCA) "Strengthening the Alignment of Risk and Reward: New Remuneration Rules" (June 2015) sets out the regulatory requirements in respect of staff remuneration within the Banking sector together with the Policy Statement 10/21 "Resolution assessments: Amendments to reporting and disclosure dates" which was issued in May 2021.

NBEUK qualifies as a Tier 2 firm under the Code and is required to provide disclosures of both quantitative information as well as qualitative information about decision making policies for remuneration and links between pay and performance. NBEUK has an established Remuneration Committee comprising three members with broad responsibility for the implementation of the Code and the annual review of the Bank's adherence to it.

The Committee shall meet on not less than one occasion during the year to consider Human Resources' issues with particular emphasis on the overall reward framework across the Bank.

Within the authority delegated by the Board namely via the approved Remuneration Policy Statement and the Committee's terms of reference, the Committee is responsible for approving the remuneration plan considering the pay and conditions across the Bank which includes the terms of bonus and other incentives of Executive Directors and other Senior Bank employees including those in position of significant influence and those having an impact on the risk profile (Material Risk Takers – MRT's). **Thirteen members of staff have been identified as MRT's.**

The following sections of NBEUK's Pillar 3 disclosures reflect the requirements of Policy Statement 10/21 in addition to the regulatory disclosure requirements which are stipulated in Article 450 of Capital Requirements Regulation (CRR) (Article 450 - UK implementation of Basel standards)

The staff costs of the Bank as of **31 December 2021** compared to its position a year earlier were as follows: -

| Staff Costs (GBP) | 31/12/2021 | 30/06/2020 |
|---|-------------------|------------------|
| Salaries | 8,568,747 | 5,077,386 |
| Social Security Costs | 1,095,343 | 650,754 |
| Other Pension Costs: | 714,273 | 448,624 |
| Other Staff Costs | 1,380,035 | 904,849 |
| Variable staff cost: Performance awards | 293,896 | 198,878 |
| Other employment related costs (training) | 12,168 | 12,729 |
| TOTAL STAFF COSTS | 12,064,461 | 7,293,220 |

Remuneration at NBEUK includes fixed salary payment and variable payment for annual bonuses. The variable payment element is differentiated by performance. All Code Staff receive a salary to reflect their market value, responsibility, and contribution to the Bank. This approach allows the Bank to not pay a bonus when appropriate. Employees including Code Staff with poor performance ratings will receive little or no bonus. The determination of the bonus pool is a fully discretionary process informed by various performance metrics, the key one being profit before tax, affordability, and the commercial requirement to remain competitive in the marketplace.

Aggregate total staff costs, excluding training costs, broken down by business area are shown in the table below: -

| | 31/12/2021 | | 30/06/2020 | |
|---|------------|-------------------|------------|------------------|
| | Staff No. | GBP | Staff No. | GBP |
| Wholesale Money Market Activity | 4 | 368,791 | 3 | 303,839 |
| Commercial Lending | 11 | 1,287,312 | 6 | 572,228 |
| Documentary Credits | 6 | 534,219 | 6 | 337,155 |
| Customer / Retail Services | 6 | 400,885 | 11 | 459,655 |
| Support functions including senior management | 53 | 9,461,086 | 50 | 5,620,343 |
| | 80 | 12,052,293 | 76 | 7,280,491 |

Performance Award Scheme

Guaranteed bonuses are not offered as part of the Bank's current performance award arrangements and the Bank did not offer any "sign-on" inducements.

During the year a total £155K was paid to 3 individuals to cover severance payments.

Variable remuneration consists of discretionary cash bonuses plus associated social security costs, which are based on individual performance and contribution assessment. The bonuses are subject to the Bank's performance against its business plan and everyone's contribution and performance. Variable staff costs for the year ending 31 December 2021, represented c.2.5% of total staff employment costs.

Material Risk Takers

The Bank maintains a list of all Material Risk Takers (MRT) in compliance with Article 92 (2) of CRD IV and the PRA's Supervisory Statement SS2/17 Remuneration – December 2021.

The definition of MRT staff is applied from articles 3-5 of Commission delegated regulation (EU) No. 604/2014, which supplements CRD IV. Non-executive directors are not included.

As of **31 December 2021**, the Bank had **13** MRT's, of whom **10** were also classed as Senior Managers. All **13** of those MRTs were exempted from the requirements to defer any variable remuneration. This is because no MRT staff member received remuneration above the de minimis thresholds.

Total fixed staff employment costs for MRT staff for the year to 31 December 2021 was GBP **2.86mn**, and variable staff costs were GBP **0.35mn**

Total fixed staff employment costs for Senior Managers staff for the year to **31 December 2021** was GBP **2.79mn**, and variable staff costs were GBP **0.33mn**.