Pillar III Report
Year 2023

Table of Contents

Introduction and statements

The Pillar 3 report is a fundamental aspect of the Basel III regulatory framework and the European Capital Requirements Directives, aiming to enhance transparency and market discipline within the banking industry. It requires banks to provide comprehensive disclosures about their risk management practices, capital adequacy, and overall risk profile. Through this report, NBKF seeks to share critical information with the regulator, investors, and other stakeholders, offering insight into its financial stability, ability to manage risks, and commitment to regulatory compliance.

In particular, this report aims to communicate key aspects of the bank's approach to managing credit, operational, liquidity and interest rate risks as well as other risks. The bank provides a detailed breakdown of its capital structure, including the composition and quality of its regulatory capital, as well as its internal strategies for maintaining adequate capital levels to absorb potential losses. The disclosure of these elements allows stakeholders to assess NBKF's resilience in the face of adverse economic conditions and its ability to sustain operations without compromising financial stability.

Additionally, the bank emphasizes its risk governance framework, outlining the roles and responsibilities of key management bodies and committees involved in risk oversight. This includes information about the methodologies and processes used to assess and monitor risks, as well as the bank's approach to stress testing and scenario analysis. The report also highlights the bank's efforts to align its risk management practices with regulatory expectations, demonstrating a commitment to maintain sound and effective risk management.

By sharing these insights, the NBKF aims to foster trust and confidence among its stakeholders, ensuring that they have a clear understanding of its strategic approach to managing risks and maintaining capital adequacy.

Ultimately, the Pillar 3 report serves as a communication tool, enabling the bank to articulate how it balances risk-taking with prudence, supporting its long-term growth and sustainability goals.

Risk management adequacy statement

The Executive Management Committee (EMC) affirms that NBKF has established a robust and comprehensive risk management framework that is fully aligned with its strategic objectives, size, and risk profile.

The risk management strategies, policies, and procedures in place are specifically designed to address the unique characteristics and operational scale of the bank, ensuring that they remain proportionate and effective. These measures enable NBKF to identify, assess, monitor, and mitigate risks in a manner that is both tailored to its size and reflective of its overall risk appetite and complexity.

The EMC has carefully reviewed and approved these frameworks, ensuring they are aligned with regulatory expectations and best practices, while also being adaptable to the evolving financial and regulatory environment. Regular assessments are conducted to confirm the continued adequacy of these systems in supporting the bank's stability, resilience, and long-term strategic goals.

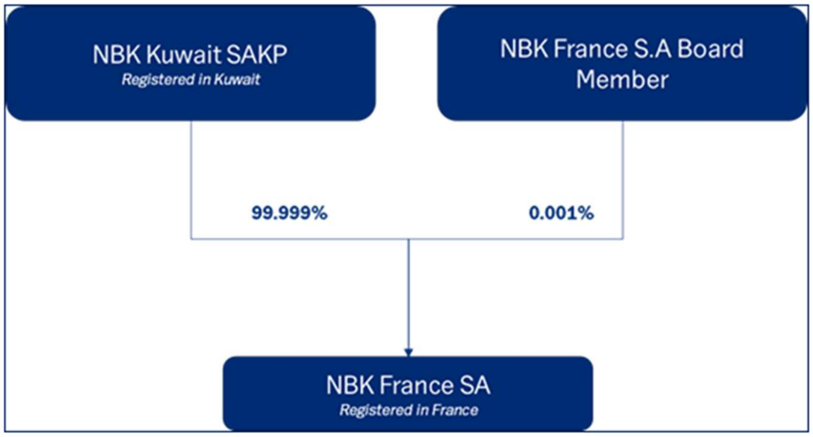
Risk profile statement

The EMC closely and regularly monitors the bank's risk profile, which is closely aligned with its business strategy and risk appetite. NBK maintains a balanced approach to risk-taking, ensuring that its activities and strategic objectives operate within the defined risk tolerance levels.
As of 2023, the institution's key risk metrics include a total capital adequacy ratio of 32.06%, a leverage ratio of 17.50%, a Liquidity Coverage Ratio (LCR) of 198.30%, and a Net Stable Funding Ratio (NSFR) of 121.95%, all of which are well within regulatory requirements and internal thresholds. These figures reflect the institution's commitment to maintaining a sound financial position and its ability to absorb potential risks while pursuing sustainable growth.
The EMC ensures that the interaction between the risk profile and the defined risk appetite is continuously monitored, fostering a strong alignment between strategic decision-making and risk management practices. This comprehensive approach provides stakeholders with confidence in the bank's ability to navigate the dynamic financial landscape responsibly and effectively.

Bank Overview

1. **Bank Profile and business model**

NBK France SA (“NBKF”) has been active in France since 1987. In response to the potential implications of Brexit, the National Bank of Kuwait Group (“NBK”) selected France as its preferred Member State for conducting business activities within the European Union. NBKF’s ownership structure is as follows:



NBKF's overarching mission is to facilitate trade and capital flows between Europe and the Middle East and North Africa (“MENA”) region. Its goal is to serve the interests of NBK and its MENA-based clients in Europe, while also supporting European corporations operating within the MENA region.
NBKF's activities are organized into four main areas:

- The **Consumer Banking** business, which includes the following activities:
  - Day-to-day banking services: deposit accounts and associated means of payment (check book and debit card, cash deposits and withdrawals)
  - Real estate loans secured by mortgages on residential real estate located in France
  - Ancillary/associated services: including bill of payment and online banking (statement viewing only)
  - Expense management services (as part of a personalized contract with the customer): coordination with external service providers and related services (condominium association, insurance, accountant, etc.), management and payment of invoices relating to assets under management.
- The **Corporate Banking & Financial Institutions business**, which includes the following activities:
  - On-balance sheet financing: short- and medium-term structured or vanilla loans under bilateral facilities, club-deals or participation in syndicated facilities relating to:
    - ✓ Working capital requirements (revolving credit facility)
    - ✓ General corporate purposes, including capital expenditure and acquisitions
    - ✓ ECA-guaranteed project
    - ✓ Long-term project financing
  - Off-balance sheet financing:
    - ✓ Issuance of contract guarantees (bid bonds, performance bonds, advance payment bonds) on behalf of European customers involved in projects mainly in the Middle East and Europe
    - ✓ Confirmation of letters of credit issued mainly by Middle Eastern banks in favor of European companies
    - ✓ Issuance of letters of credit ("LC") and stand-by letters of credit ("SBLC") on behalf of European customers under bilateral facilities or in participation in syndicated facilities arranged and fronted by another reputable financial institution
- The **Commercial Real Estate (CRE)** business, which includes the following activities:
  - Short- and medium-term loans secured against commercial and income-generating properties, mainly but not only in France, for various types of investors, including real estate investment vehicles, property companies, specialized funds and sovereign wealth funds
- **The Treasury activities**, which are primarily aimed at managing NBKF's liquidity and the financing of its Consumer Banking, CRE and Corporate Banking

activities, encompass the following activities:

- Short- and medium-term borrowing, investment of cash surpluses with market counterparties and currency arbitrage
- Hedging activities to reduce NBKF's exposure to fluctuations in interest rates or FX rates
- Quotation of simple products (FX spot and deposits) for bank customers and hedging if necessary
- Liquidity cushion management, including the purchase and management of the HQLA (High Quality Liquid Assets) portfolio
- Long-term borrowing

2. Capital Structure

The bank's capital structure has evolved between 2022 and 2023 as follows:

Table EU CC1 - Own funds disclosure

In thousands of euros

Ref*		31 Dec 2023	31 Dec 2022
1	**Capital instruments and the related share premium accounts**	228,081	228,081
2	**Retained earnings**	-6,483	-6,333
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	221,598	221,748
8	**Intangible assets (net of related tax liability)**	617	307
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	617	307
29	**Common Equity Tier 1 (CET1) capital**	220,981	221,441
44	**Additional Tier 1 (AT1) capital**	-	-
45	**Tier 1 capital (T1=CET1+AT1)**	220,981	221,441
58	**Tier 2 (T2) Capital**	-	-
59	**Total capital (TC=T1+T2)**	220,981	221,441
60	**Total risk-weighted assets**	689,321	423,187
61	**Common Equity Tier 1 ratio**	32.06%	55.35%
62	**Tier 1 ratio**	32.06%	55.35%
63	**Total capital ratio**	32.06%	55.35%
	Capital ratios and buffers		
64	**Institution specific buffer requirement**	2.89%	***2.51%***
65	***of which capital conservation buffer requirement***	***2.50%***	***2.50%***
66	***of which countercyclical buffer requirement***	***0.39%***	***0.01%***
68	**Common Equity Tier 1 available to meet buffers**	24.03%	47.35%

** The references provided is in this table are in accordance with the relevant EBA template where there is a disclosed value.*

3. Key Financial Indicators

The bank has established a set of financial metrics that are monitored on a regular basis. The metrics have evolved as follows between 2022 and 2023:

Table EUKM1 -Key metrics

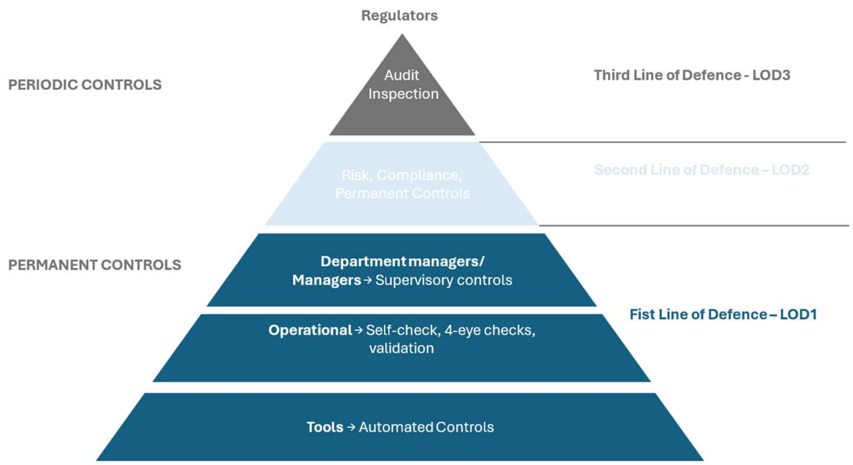
in thousands of euros		31 dec 2023	31 Dec 2022
	Available own funds		
1	**Common Equity Tier I (CET1 Capital)**	220,981	221,441
2	**Tier 1 Capital**	220,981	221,441
3	**Total Capital**	220,981	221,441
	Risk-weighted exposure amounts		
4	**Total risk-weighted exposure amount**	689,321	400,099
	Capital ratios		
5	**Common Equity Tier I ratio**	32.06%	55.35%
6	**Tier 1 ratio**	32.06%	55.35%
7	**Total capital ratio**	32.06%	55.35%
	Combined buffer requirement		
8	**Capital conservation buffer**	2.50%	2,50%
9	**Institution specific countercyclical capital buffer**	0.39%	0.01%
11	**Combined buffer requirement**	2.89%	2.51%
EU 11a	**Overall capital requirements**	12.89%	10.51%
12	**CET1 available after meeting the total SREP own funds requirements**	152,049	189,433
	Leverage ratio		
13	**Leverage ratio total exposure measure**	1,263,042	909,337
14	**Leverage ratio**	17.50%	24.35%
	Liquidity coverage ratio		
15	**Total high-quality liquid assets (HQLA) (Weighted value-average)**	230,890	248,104
EU 16a	**Cash outflows - Total weighted value**	156,112	78,946
EU 16b	**Cash inflows - Total weighted value**	39,679	27,791
16	**Total net cash outflows (adjusted value)**	116,433	51,155
17	**Liquidity coverage ratio**	198.30%	485.0%
	Net stable funding ratio		
18	**Total available stable funding**	832,163	556,516

19	**Total required stable funding**	**682,369**	**385,538**
20	**Net stable funding ratio**	**121.95%**	**144.35%**

Risk Management

1. Risk Governance Framework

The NBKF risk governance framework is structured around the three line of defense principles, whereby the first line of defense (LoD1) manages the risk, the second line of defense (LoD2) defines and oversees the effective implementation of the framework, and the third line of defense (LoD3) provides periodic assurance on its effective implementation.



- **The first line of defense:**
  - ✓ Responsible for defining and implementing processes and controls to ensure that:
    - Risks are identified, analyzed, managed, reported to the second line of defense and kept within NBKF's risk appetite
    - Activities comply with regulatory and internal requirements
  - ✓ Rely on operational controls (self-controls, "4 eyes" controls and validations) and managerial supervision
- **The second line of defense:**
  - ✓ Its role is to develop and implement a risk management framework in support of the identification, assessment, monitoring and mitigation of all risks, ensuring that bank operates within the defined risk appetite and regulatory requirements
- **The third line of defense:**
  - ✓ Its role is to ensure the appropriateness of the governance framework, the adequacy of policies and procedures to legal and regulatory requirements, strategy and risk appetite, the implementation of the principles defined in policies and procedures, and the adequacy, quality and effectiveness of controls performed by the first and second lines of defense

2. Risk Management Framework

To assess its risks, NBKF's approach includes adequate quantitative estimation wherever possible, as doing so brings greater objectivity and consistency. Where quantitative analysis cannot be performed with sufficient confidence, for instance because of a lack of relevant data, NBKF relies on the expertise of its experienced staff supported by a governance framework that drives transparency and challenge.

Practically speaking, NBKF has set up and is in the process of setting up risk analysis and risk measurement methodologies that are suited to the nature and volume of its transactions. These systems then allow for the bank to assess the different types of risks to which it is or could be exposed via its transactions, which in turn enables it to gain a cross-cutting and forward-looking understanding of risk analysis and measurement.

To do so, NBKF uses risk reports, which are the results of models produced by Head Office and presents it with a way of monitoring their risks in a synthetic way. The information presented in risk reports must be relevant, reliable, timely, and comprehensible to the intended recipients of the reports. NBKF's use of this risk information for decision-making falls into two broad categories:

- **Operational Purposes**: risk information is used to support the day-to-day activities that are part of NBKF's normal operations and existing business strategy, for example the origination of new loans and the regular disclosure of risk measures to stakeholders.
- **Strategic Purposes**: risk information is used to support strategic decision-making, for example changing NBKF's business model, entering new markets, or adjusting risk appetite settings.

Moreover, where relevant, the bank has built upon the reports transmitted by the Group so as to aggregate a sufficient amount of data to derive relevant risk monitoring metrics.

In addition, the risk metrics defined in the bank's Risk Appetite Policy, along with their associated warning and appetite levels, are reviewed at least annually under the Chief Risk Officer's ("CRO") responsibility.

On top of this general framework, the bank describes in the following sections, where relevant, a set of specific arrangements for some of **its risks.**

3. Risk Culture

NBKF's risk culture is founded on a comprehensive process for identifying the risks associated with its activities, ensuring that these risks are managed effectively and in full compliance with applicable regulations. A robust, diligent, and consistent risk culture is the cornerstone of NBKF's effective risk management, enabling the bank to make well-informed and prudent decisions.

Aligned with its activities, strategy, and risk appetite, NBKF implements its risk culture through four key areas:

(i) Training program

Training programs ensure that NBKF's managers and employees remain fully aware of their responsibilities in managing the risks inherent in the bank in general and their activities in particular. The Compliance department, in collaboration with the Risk, Permanent Control and Human Resources departments, draws up a training program tailored to the risks associated with the functions performed by employees.

In addition, and as part of the induction process for new employees, a presentation of the main procedures involved in managing the risks to which NBKF is exposed, as well as the relevant regulatory frameworks, is given to each new arrival.

In 2023, NBKF employees were given training on eleven different topics such as European Regulation on the Protection of Personal Data (RGPD), Anti Money Laundering and Financing of Terrorism (LCB-FT in French) or Sanctions and Embargos.

(ii) Policies and procedures

In line with its strategy and risk appetite, NBKF has drawn up a set of Policies and Procedures which aim to define the principles applicable in compliance with regulatory provisions and requirements set by the Group (Policies), as well as the rules and steps to be followed in carrying out activities in order to limit the risks to which NBKF is exposed (Procedures).

NBKF departments are responsible for updating all policies and procedures on an annual basis. Policies and Procedures, and any subsequent revisions, are validated by the Executive Management Committee ("EMC"). Policies are also approved by the Board of Directors.

(iii) Communication frameworks and decision-making process

In support of its risk culture, NBKF maintains communication procedures designed to promote decision making processes conducive to critical and constructive exchange. To this end, operational committees provide optimized communication and decision-making frameworks in terms of composition, organization and frequency.

The organization, rules and procedures governing these committees are set out in their respective terms of reference, which describe in particular their responsibilities and the reports and information they must receive.

(iv) Incentives

With the aim of strengthening its risk culture, NBKF has undertaken to reinforce the place of compliance, as well as risk, permanent control and internal audit, in its job descriptions and performance criteria.

The implementation of these incentives, aimed at aligning risk-taking behavior with the institution's risk profile and long-term interests, was tested in 2022 and resulted in their integration into the Remuneration Policy and the job descriptions in 2023.

To this end, NBKF has defined key performance indicators ("KPIs") to increase the extent to which compliance, risk management and related controls are taken into account in employee performance assessment and added clearly defined roles and responsibilities in risk and compliance management.

4. Risk Appetite

In alignment with supervisory expectations defined by the EBA guidelines, NBKF has established a comprehensive framework for its Risk Appetite. This framework enables the identification of risks and the implementation of appropriate monitoring measures, ensuring that decisions are consistently made in line with the organization's risk levels.

The document aims to provide an overview of the governance and implementation of NBKF's risk appetite, including thresholds, targets, and limits. It covers the following aspects:

- Governance of risk appetite: roles and responsibilities
- Definition and implementation of NBKF's risk appetite

- The interconnection between the Risk Appetite Framework (RAF) and other strategic processes such as ICAAP, ILAAP, and the Recovery Plan
- Risk appetite monitoring

The definition of NBKF's risk appetite is the outcome of:
- An annual exercise of risk identification and assessment of significant risks to which NBKF is exposed, including the use of forward-looking measures such as stress tests
- A profitability and solvency forecast over a three-year period, based on a central scenario aligned with the Strategic and Financial Plan
- The establishment of NBKF's risk appetite to ensure alignment with the bank's risk/profitability profile and business outlook

NBKF's risk appetite is defined through three key steps:
- Annual risk identification
- Proposal of the main risk appetite targets and limits for Year N, conducted mid-Year N-1, prior to the budget planning process
- At the beginning of Year N, ensuring that the defined trajectories align with the set targets

Based on these elements, NBKF has defined its risk appetite for the various risks to which the bank is exposed: (i) Strategic risk, (ii) Solvency risk, (iii) Credit risk, (iv) Liquidity and Funding risk, (v) Market risk, (vi) Operational risk, (vii) Compliance risk, (viii) Legal risk, and (ix) other non-financial risks.

It is important to note that the risk appetite defined by NBKF is consistent with the bank's risk profile - specifically, the risks to which NBKF is currently exposed and the Risk-Weighted Assets (RWA) associated with these risks, as demonstrated by the results of the 2023 ICAAP exercise. The assessment of materiality and the calculation of RWA, including a three-year projection under baseline scenarios, confirmed the alignment between the bank's risk appetite and its risk exposure. With the exception of operational risks, there are no risks that NBKF is significantly exposed to while actively seeking to avoid.

5. Roles and responsibilities related to risk appetite

The roles and responsibilities related to the set-up and implementation of the NBKF's risk appetite are clearly defined in the relevant policies, whereby the appetite is defined by NBKF's Executive Management Committee, developed by the Risk Management function, embedded into day-to-day activities by the various business units, and eventually approved by the Board of Directors upon positive recommendation from Group Risk Management.

The monitoring, reporting and limit breach management are likewise clearly defined in the relevant policies, following an escalation framework of early warning, appetite, tolerance and capacity thresholds, under the responsibility of the Risk Management department which prepare quarterly dashboards for review by the EMC, the RCC and the Board of Directors.

Strategic Risk

1. Definition and Appetite

NBKF defines strategic risk as the current or prospective negative impact on earnings, capital or reputation arising from adverse strategic decisions, improper implementation of decisions or a lack of responsiveness to industry, economic or technological changes. Strategic risk may also arise from changes in business parameters such as volumes, margin and costs.

Taking risks is essential for doing business in banking. There are several material types of risk inherent in NBKF's business model and strategic plan, and these are actively identified, assessed, mitigated, and monitored. NBKF strategic risk focusses on profitability.

Predictable and stable profits are key elements to ensure retained earnings growth capacity, support advantageous funding terms, and maintain NBKF's external credit rating. Therefore, NBKF's willingness to accept losses or a continuous downward trend in profit is very limited.

2. Measures and Monitoring

NBKF has defined and implemented an appropriate governance process to ensure that strategic risks are properly mitigated, notably through the budget, the financial and strategic plan, and within the bank's risk appetite.

The monitoring of strategic risk is directly under the responsibility of the Board of Directors and its dedicated Audit and Risk Committee (ARC), which meets at least 3 times a year, and is provided with the following information:

- Financial management information, including actual and forecasted P&L and balance sheet against plan
- Risk and compliance reports to measure the bank's risk profile against appetite
- Reports on key business projects

NBKF has implemented dedicated committees to ensure that decisions taken by the Board of Directors relating to the bank's strategy are effectively implemented by NBKF's management:

- A monthly Executive Management Committee (EMC)
- A weekly Credit Approval Committee (CAC)
- A monthly Asset & Liability Committee (ALCO)
- A quarterly Information Security and Business Continuity Management Committee
- A quarterly Risk and Compliance Committee (RCC)

To monitor adherence for its strategic risk appetite, NBKF has defined two risk appetite indicators adapted to its activities to ensure that the bank's profitability, which is a key measure for strategic risk, is appropriately quantified and monitored: an income to total asset and an income to total equity indicator**.**

Solvency Risk

1. Definition and Appetite

NBKF defines solvency risk as the risk of an organization lacking the ability to absorb losses or decrease in earnings through its total capital base and thus becoming insolvent.

NBKF seeks therefore to have sufficient capital to support its business activities and to meet regulatory capital requirements and supervisory expectations. NBKF does not accept therefore a risk profile that could lead to a breach of the total capital requirements as set forth by its supervisor.

2. Measures and Monitoring

Since its inception in 2019, NBKF has been operating with a level of capital designed to support the development of its commercial activity with comfortable headroom over time. In that regard, a high-level quantitative analysis of the bank's capital level in regard to its total balance sheet and off-balance sheet size, as well as its prudent risk taking, leads to an *a priori* very comfortable level of capital in place to carry out its activity.

To monitor adherence to its appetite on solvency risk, NBKF has defined several KRI calculated and monitored on a regular basis:

- **Solvency ratio** to monitor the bank's ability to meet its long-term obligations and ensure its financial stability.
- **Leverage ratio** to monitor the bank's stability and resilience to financial stress.
- **Financial limits by business lines** to monitor business line growth against strategic plan and capital allocation

In addition to these indicators, and in compliance with regulatory requirements, the bank also conducts an annual ICAAP exercise.

The Internal Capital Adequacy Assessment Process (ICAAP) is the cornerstone of the bank's capital management framework and regulatory compliance. It enables the bank to assess and ensure that it has sufficient capital to cover all material risks, not only under normal conditions but also in times of economic stress. The NBKF's ICAAP aligns with regulatory expectations outlined in Basel III and French supervisory frameworks, guiding the bank to establish sound internal capital planning, allocation, and monitoring processes.

The purpose of ICAAP is to go beyond mere regulatory minimums by providing a comprehensive view of capital adequacy that reflects the bank's unique risk profile. This process involves assessing credit, market, operational, liquidity, and other risks, which, together with stress testing and scenario analysis, contribute to a holistic approach to risk management. Accordingly, the bank conducts its ICAAP exercise annually.

Credit Risk

1. Definition and Appetite

NBKF defines credit risk as the potential for financial loss resulting from a borrower's failure to repay a loan or meet its contractual obligations. There are different types of credit risk applicable to NBKF:

- **Default risk** refers to the risk that a borrower will be unable to make required payments on its debt obligations. NBKF's main drivers for default risk stem from its lending exposures to retail or corporate customers.
- **FX lending risk** refers to the risk associated with lending in a currency different from the borrower's domestic currency. NBKF's main drivers for FX lending risk stem from its lending exposures to retail and corporate customers.
- **Settlement and delivery risk** refers to the risk that one party in a financial transaction will fail to deliver the promised cash, securities, or other assets as expected. NBKF's main drivers for settlement risk stem from its market and treasury activities.
- **Counterparty risk:** the risk that a counterparty in a financial transaction will default on its contractual obligations. NBKF's main drivers for counterparty risk stem from its market and treasury activities.
- **Concentration risk:** the risk arising from exposure to a single borrower, industry, geographic area or other significant exposure groups. NBKF's main drivers for concentration risk stem from a large exposure to a single obligor, a specific sector or a specific geography.
- **Country risk:** the risk of loss arising from a borrower's country of origin, including political, economic, and social instability that could impact the borrower's ability to pay. NBKF's main drivers for country risk stem from its lending exposures to retail or corporate customers.
- **Migration risk** refers to the risk that a borrower's credit quality deteriorates, leading to a downgrade in its credit rating, negatively affecting the value of the debt securities issued and increasing the likelihood of default. NBKF's main drivers for migration risk stem from its treasury activities.
- **Residual risk** refers to the risk that remains after all possible mitigation measures, control and processes have been implemented. NBKF's main drivers for residual credit risk stem from its lending exposures to retail or corporate customers.

Given its existing strategy of providing prime commercial and residential real estate financing to wealthy customers and large real estate sponsors, as well as offering wholesale banking products to highly rated European corporates (short and medium-term financing, letters of credit, letters of guarantee), NBKF is primarily exposed to default and concentration credit risk. NBKF has limited exposure to other credit risk types, such as FX lending, settlement and delivery, counterparty, country, migration or residual credit risk since the bank is mainly lending in Euros with limited exposures in USD, does not have any market activities and only conduct liquidity activities to fund its balance sheet, has a small portfolio of HQLA bonds with highly-rated sovereign counterparties, and has a very conservative appetite regarding collateral advance rates.

NBKF's main drivers for default risk stem from its lending exposures to retail or corporate customers. This could result from one or more individual, corporate and CRE obligors defaulting on their obligations, resulting in a material impact on the bank's P&L and capital base. The main mitigants are the individual obligor limit for consumer banking at €5m or 10M€ in aggregate, the quality of the real asset collateral in prime locations only, the large and well rated nature of the bank's corporate clients, the conservative appetite with regard to advance rates and a tight credit approval process. NBKF includes stress testing of its credit portfolio as part of its annual internal capital adequacy assessment exercises.

NBKF inherent business model entails some risk of concentration given the limited size of its balance sheet, its strategic focus on residential and commercial real estate and the location of its office in France. It is, however, NBKF's risk strategy to seek diversification in its asset base from a single obligor, sector and geographical perspective. Large concentration to individual counterparties in the loan portfolio is to be avoided. In addition, NBKF does not want to be overly exposed to a single industry sector beyond real estate.
The principles to be applied relating to credit risk management are described in a dedicated Credit Risk Policy, including pre-defined criteria for selected operations such as maximum maturity, LTV, effort rate, and asset location.

2. Credit granting and review process

According to a formalized delegated scheme and depending on the size and characteristics of the transaction, credit facilities are approved by the Paris Credit Approval Committee (CAC) or by the group International Credit Risk Management (ICRM) department or by group credit committees.
In all instances, credit decisions are based on a comprehensive credit application composed of the following main elements:

- An analysis of the obligor prepared by the relationship manager
- An independent recommendation prepared by the credit risk function
- An internal rating prepared by the RM and reviewed/challenged by the credit risk function; each client is internally rated using Credit Lens (Moody's®) for financial and qualitative analysis; the rating is the result of a combination of quantitative (financial factors based on an analysis of the client's financial statements) and qualitative (soft factors based on client's characteristics) assessment.
- ESG assessment
- Return calculation

Each credit file is reviewed at least annually in the form of detailed analysis of the transaction, the client's risk, the collateral, if any, and any other factors that may impact the credit quality of the obligor. When a client is experiencing financial difficulties but has not been classified as non-performing

(NPL) yet, based on past due exceeding 90 days or an Unlikely-To-Pay (UTP) assessment, the client will be included in a Watch List and be subject to a specific quarterly review and an aggregated monthly review by the CAC. Once downgraded to NPL, the bank calculates a specific provision by considering all relevant factors, including the collectability and the value of any security held, such as collateral or credit support (e.g. guarantees). Due to the relatively small size of the bank's credit portfolio, provisions are established on a case-by-case basis, supported by individual obligor credit risk ratings and collateral recovery estimates.

3. Measures and Monitoring

To measure and monitor its portfolio asset quality, NBKF is using a number of Key Risk Indicators, of which the following ones are reported quarterly to the Board of Directors:

- The level of non-performing loans (NPL) to understand the level of credit risk in its portfolio
- The cost of risk based on the Expected Credit Loss forward-looking metric to assess the bank's ability to absorb potential losses in its loan book
- The share of credit exposure internally rated Investment Grade to measure its portfolio quality

To measure and monitor its portfolio concentration, NBKF is using a number of Key Risk Indicators, of which the following ones are reported quarterly to the Board of Directors:

- The number of clients above the single obligor limit as defined in the CRR regulation
- The concentration to specific sectors to ensure diversification, given its strategic focus on residential and commercial real estate
- The concentration to specific geographies to ensure diversification, given its main place of business is France
- The concentration to specific Commercial Real Estate sub-sectors, given its strategic focus on CRE
- The concentration to high-risk countries to monitor exposure to countries externally rated CCC+ or lower

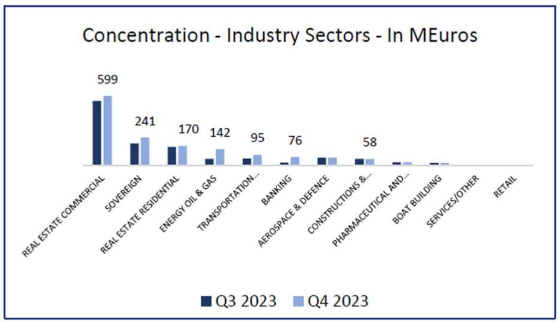
4. Credit risk exposure

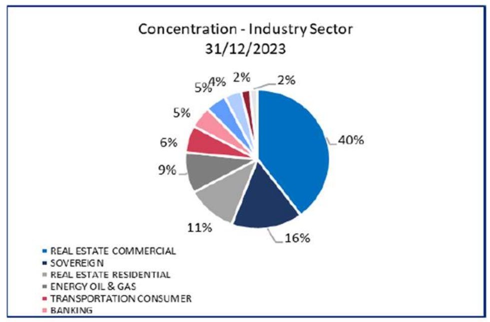
At the end of Q4 2023, NBKF's credit portfolio totaled EUR 1.5 billion, a 20% increase compared to Q4 2022. The growth was mainly driven by loans to consumer and corporate customers which nearly doubled in the last 12 months. Funded exposures accounted for 73% of total exposures in Q4 2023, with loans to customers representing 74% of the credit outstanding.

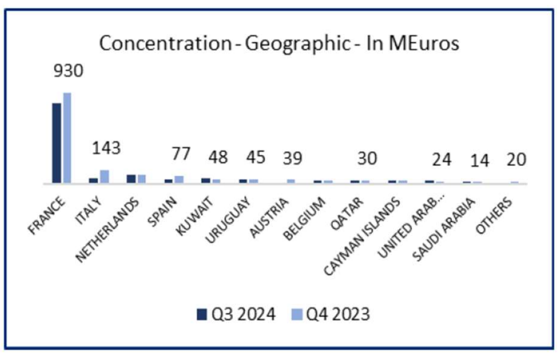
Portfolio Repartition	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	%	Q3-Q4 2023 Var	YoY Var
FUNDED EXPOSURES	**775,5**	**792,8**	**856,3**	**956,7**	**1 098,9**	**73%**	**15%**	**42%**
Cash	0,4	0,4	0,2	0,2	0,3	0%	55%	-1%
Banks & Sovereign Exposures	250,1	205,6	193,6	139,5	229,2	15%	64%	-8%
Central Bank Deposit	*196,2*	*181,0*	*164,1*	*127,2*	*179,3*	*12%*	*41%*	*-9%*
Nostri Accounts	*6,1*	*7,7*	*10,2*	*12,3*	*40,8*	*3%*	*233%*	*570%*
Margin Calls	*5,6*	*3,1*	*1,0*	*0,0*	*0,0*	*0%*	*-*	*-100%*
Time Placements	*42,2*	*13,8*	*18,4*	*0,0*	*9,0*	*1%*	*-*	*-79%*
Customers Exposures	472,0	534,4	610,0	763,6	817,6	54%	7%	73%
Overdraft	*0,0*	*0,2*	*0,5*	*0,0*	*0,3*	*0%*	*1290%*	*-*
Syndicated Loans	*26,3*	*26,1*	*26,0*	*25,9*	*0,0*	*0%*	*-100%*	*-100%*
Loans to Customers	*433,9*	*496,4*	*571,7*	*725,6*	*816,5*	*54%*	*13%*	*88%*
Non-Performing Loans	*11,8*	*11,7*	*11,9*	*12,0*	*0,8*	*0%*	*-94%*	*-94%*
Bonds - Investment Assets	53,1	52,5	52,5	53,4	51,8	3%	-3%	-2%
						0%		
UNFUNDED EXPOSURES	**479,5**	**302,9**	**290,6**	**294,0**	**404,0**	**27%**	**37%**	**-16%**
Letters of Credit	57,6	63,9	53,9	8,7	7,0	0%	-19%	-88%
Letters of Guarantees	416,7	233,7	232,8	229,2	267,4	18%	17%	-36%
Of which guaranteed by NBK Bahrein	*180,1*	*12,2*	*12,2*	*22,4*	*28,6*	*2%*	*28%*	*-84%*
Undrawn Committments	5,2	5,3	4,0	56,2	129,6	9%	131%	2407%
TOTAL CREDIT PORTFOLIO	**1 255,0**	**1 095,7**	**1 147,0**	**1 250,7**	**1 502,9**	**100%**	**20%**	**20%**

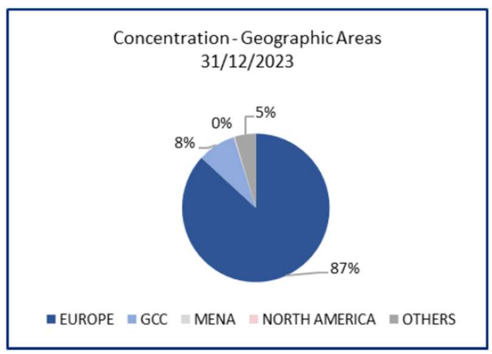
** Margin calls included starting 2023 only – Amounts concern paid margin calls*

The portfolio remains in line with the risk appetite in 2023, both in terms of default and concentration risk, with NPL representing 0.1% of funded exposures, 63% of the portfolio being internally rated investment grade and 40% of exposure being in the Commercial Real Estate sector.









Market Risk

1. Definition and Appetite

NBKF defines market risk as the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices. From a regulatory perspective, market risk stems from all the positions included in the bank's trading book as well as from commodity and foreign exchange risk position in the whole balance sheet.

NBKF does not hold a trading portfolio and is not involved in proprietary trading activity. Therefore, NBKF is exposed to interest rate risk only through its loan portfolio ("Banking Book"), the vast majority of which is granted at variable rates. It should be noted that the bank's long-term fixed-rate loan portfolio and the HQLA portfolio are systematically hedged against interest rate risk using swaps (interest rate swaps or currency swaps).

On the liabilities side, short term deposits (less than 1 year) are fixed rate while longer term deposits are fixed or variable rate. NBKF is also exposed to FX risk (although marginally) as part of its activity with customers.

The risk appetite of the bank related to its market risk is low.

2. Measures and Monitoring

NBKF relies on a comprehensive governance structure and processes to monitor and mitigate market risk that consists of:

- Monthly reports to the bank's Asset & Liability Committee (ALCO) and quarterly reports to the bank's Risk & Compliance Committee (RCC) and Board Audit & Risk Committee (ARC)
- A set of policies for identification, measurement, management, and monitoring of market risks, namely a market risk management and a derivative product policy
- A monitoring framework adapted to the size and nature of its activities, including daily FX exposure, bi-weekly interest gap, weekly VAR and quarterly Supervisory outlier test reports

NBKF has also defines three indicators for risk appetite monitoring purposes, namely:

- FX exposure to measure its exposure to foreign exchange and quantify the potential losses in the value of its portfolio of investments
- Stressed Net Interest Income impact to measure the financial impact of rate variations on its net interest income, reported as a percentage of total assets
- IRRBB stressed EVE to measure the financial impact of rate variations on the economic value of its equity, reported as a percentage of decline to its Tier 1 capital

Liquidity and Funding Risk

1. Definition and Appetite

NBKF defines liquidity risk as the risk of a financial institution being unable to meet its short-term financial obligations due to an inability to convert assets into cash quickly without significant loss in value.

NBKF defines funding risk as the risk of a financial institution being unable to obtain funding to meet its obligations, manage its operations, or refinance maturing liabilities at an acceptable cost or within the required time frame.

Through its lending activities, NBKF is both exposed to liquidity and funding risk as the bank is exposed to maturity mismatch in its funding profile and may be challenged in its ability to either convert assets into cash in case of financial market shutdown or secure funding due to NBKF's drop in credit worthiness.

Liquidity and funding risks are therefore inherent to NBKF's business model, and the bank's risk strategy therefore seeks to reduce such risk through funding diversification, maturity extension, strong external rating, high-quality liquid assets and robust liquidity monitoring and stress-testing.

NBKF does not have any appetite for a liquidity or funding profile that would breach the minimum regulatory thresholds.

2. Measures and Monitoring

NBKF relies on a comprehensive governance structure and processes to monitor and mitigate liquidity and funding risks that consist of:

- Monthly reports to the bank's Asset & Liability Committee (ALCO) and quarterly reports to the bank's Risk & Compliance Committee (RCC) and Board Audit & Risk Committee (ARC)
- A set of policies for the identification, measurement, management, and monitoring of liquidity and funding risks, namely a liquidity risk policy, a funding policy, a financial derivative policy and a policy on the management of limit excesses
- An annual assessment of the bank's liquidity adequacy through the Internal Liquidity Adequacy Assessment Process (ILAAP) which ensures that liquidity and funding risks are properly mitigated
- A funding and a contingency funding plan to outline the bank's strategy for securing and managing funding sources to meet its liquidity needs over the medium to long term, and to prepare for periods of liquidity stress by identifying potential funding sources and actions to be taken in response to adverse events
- A monitoring framework adapted to the size and nature of its activities, to ensure that its liquidity position is in line with its funding needs, risk appetite and strategic ambitions

NBKF is following several metrics for risk appetite monitoring purposes, namely:

- The Liquidity Coverage Ratio (LCR) to ensure that NBKF maintains an adequate level of unencumbered high-quality liquid assets (HQLA) that can be easily and quickly converted into cash to meet its short-term liquidity needs during a stress scenario
- The Net Stable Funding ratio (NSFR) to ensure that NBKF maintains a stable funding profile in relation to the composition of its assets and off-balance sheet activities
- The level of off-balance sheet assets to ensure NBKF has enough funding in case of drawings on committed facilities or guarantees
- The level of intragroup funding to ensure NBKF is not over reliant on NBK to finance its assets
- The level of depositor and term funding concentration to ensure proper diversification in its funding profile
- The loan to deposit ratio to ensure a proper adequacy between available deposits and funded assets

Operational Risk

1. Definition and Appetite

NBKF defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people, systems and from external events.
Such definition encompasses a wide range of risks that can affect bank's operations, including but not limited to internal and external fraud, employment practices, workplace safety, clients, products, business practices, damage to physical assets, business disruption, system failures, and execution, delivery and process management.

Through its day-to-day activities, NBKF is exposed to a diversity of operational risks, such as internal and external fraud, workplace safety, clients, products and business practices, damage to physical assets, business disruption, and execution, delivery and process management.
NBKF accepts exposure to operational risk as an inevitable part of executing business activities but attempts to mitigate and minimize these risks by implementing measures of detection, prevention, monitoring and reporting. NBKF's risk strategy seeks therefore to reduce such risk to a level which could be absorbed through sufficient income generation.

2. Measures and Monitoring

To monitor adherence to its appetite for operational risk, NBKF is using quantitative and qualitative measures:

- **The Risk & Control Self-Assessment annual exercise** is used to identify processes whose residual risk is above appetite and to define some remediation actions to bring such risk within appetite. The RCSA exercise is complemented with the quarterly monitoring of Key Control Indicators (KCI) to early detect failed processes before they result in incidents. Given their forward-looking perspectives, the RCSA and the monitoring of KCI are the preferred methods for identifying and mitigating excessive levels of operational risks.
- **The reporting and monitoring of operational incidents**. Even though tracking operational incidents is a backward-looking assessment of operational risks, it measures activity exceeding risk appetite when the amount and losses resulting from incidents exceed a certain threshold.
- **The monitoring and reporting of operational losses** related to its capital level.

The development and implementation of an operational risk management framework fall under the responsibility of the Chief Risk Officer, with the support a dedicated Operational Risk Management team tasked with the following duties:

- Supervising the risk mapping process
- Reviewing new activities and products
- Monitoring outsourcing agreements
- Identifying operational issues
- Centralizing and reviewing incident reports and declarations
- Analyzing and reporting Key Control Indicators (KRIs)

Other non-financial risks

1. Compliance Risk

1.1. Definition and appetite

NBKF defines compliance risk as the risk of legal or regulatory sanctions, financial loss or damage to reputation a bank may suffer as a result of its failure to comply with laws, regulations, codes of conduct and standards of good practices. NBKF makes a distinction between regulatory compliance risk as a result of it operating in a highly regulated industry and in regions with different laws and regulations, and the associated risk of legal or regulatory sanctions, and financial crime compliance risk as a result of its exposure through its retail, corporate lending and trade finance activities to non-compliance with applicable laws and regulations related to Anti-Money Laundering, Counter Terrorist Financing and Sanctions & Embargoes.

NBKF has no appetite for material breaches of applicable laws, regulations or rules. NBKF seeks to fully meet the requirements established by European or national governments through applicable laws and regulations throughout the European region. NBKF's compliance strategy seeks therefore to avoid such risk, implementing a robust control framework with policies and procedures, risk assessment, training and expert advisory assessment. NBKF risk focusses on financial and banking rules & regulations as the bank believes its current risk management and control framework related to other laws, rules and regulations is good enough to reduce the residual risk to a non-material level.

NBKF has no appetite for breaches of applicable laws, regulations or rules related to AML/CTF and Sanctions & Embargoes. NBKF is committed to fighting financial crime and ensuring that products and services provided to clients are not misused for the purpose of money laundering or terrorism financing. NBKF also prohibits providing any products or services, or proceeding with any transaction, with or for the benefit of individuals or entities impacted by targeted and/or comprehensive sanctions, or that involves a sanctioned regime. Compliance with applicable laws and regulations, including AML/CTF and Sanctions & Embargoes laws and regulations, is mandatory and fundamental to the NBKF's AML/CTF and Sanctions compliance programs.

NBKF has no appetite for doing business with, or facilitating transactions for, persons or organizations engaged in criminal activities or those which could negatively impact NBK's reputation or could lead to sanctions and/or financial loss arising from such activity. NBKF will therefore not operate any line of business or do business with client segments posing elevated money laundering, terrorism financing or sanctions risks, unless NBKF ensures it has appropriate controls to mitigate exposure to an acceptable residual level of risk. NBKF's AML/CTF and Sanctions & Embargoes compliance strategy aims therefore to avoid such risk, implementing a robust control framework with policies and procedures, risk assessment, training and expert advisory.

In order to ensure that any new laws and regulations are properly identified, assessed and implemented, a quarterly Regulatory Watch Committee was established in early 2023.

1.2. Measures and monitoring

From a materiality point of view, NBKF is mainly exposed to the risk of non-compliance with rules governing customer protection and to the delayed closure of internal or external findings related to regulatory compliance. To monitor adherence with its regulatory compliance risk appetite, NBKF is therefore using the following two KRI calculated and monitored on a quarterly basis:

- A **customer complaints indicator** to monitor adherence to the principles related to customer protection
- An **overdue regulatory findings** indicator to monitor the timely closure of findings of a regulatory nature

To monitor adherence to its appetite with regard to AML/CTF and Sanctions & Embargoes risk exposure, NBKF is using the following two KRIs calculated and monitored on a quarterly basis:

- An **Overdue KYC Review** indicator to monitor compliance with a key process for AML/CTF and Sanctions risk mitigation.
- A **High Risk and Very High Risk** indicator to monitor the weight of due diligence processes to be performed in order to respect regulatory requirements.

The KRIs focus on AML/CTF only as a strict liability applies to Sanctions and Embargoes, and any detected breach/occurrence will be processed as an incident.

1.3. Ethical and professional standards

NBKF integrates professional ethics into its compliance policy to ensure employees act with honesty, loyalty, professionalism and prioritize customer interests. A key part of this framework is a policy dedicated to supporting vulnerable customers, including those facing financial fragility.

All employees, including senior executives, are held accountable to NBKF's ethical and professional standards. Failure to comply may result in disciplinary action which also highlight potential regulatory, legal, or reputational risks. Control systems ensure compliance with these standards
.

Breaches of policy must be reported to the NBKF Compliance department and, if necessary, escalated to the Board of Directors, which oversees the code of conduct and conflict of interest management in line with EBA recommendations.

1.4. Identifying, managing and preventing conflicts of interest

NBKF has implemented a system to effectively detect, prevent, and manage conflicts of interest, guided by its Conflict-of-Interest Management Policy.

In line with article 38 of the decree of November 3, 2014, and EBA recommendations, the policy ensures the segregation of duties and establishes measures to safeguard confidential information. This system, outlined in the Conflicts of Interest Procedure and Code of Conduct, includes confidentiality protocols and annual declarations signed by all employees, reinforcing the proper handling of confidential and privileged information.

In 2023, a campaign to identify any conflicts of interest was conducted. All staff members completed the Conflict-of-Interest declaration, and the Conflict-of-Interest Register was updated accordingly.

2. Legal Risk

2.1. Definition and Appetite

NBKF defines legal risk as the risk of financial loss or reputational damage due to legal actions taken against the bank or its employees.

Through its day-to-day activities, NBKF is exposed to legal actions taken against the bank or its employees. NBKF acknowledges that certain legal risks can be mitigated or reduced, but never fully eliminated. Employment or general litigations are inherent to NBKF's business.

2.2. Measures and monitoring

NBKF mitigates legal risks by developing robust processes for entering into contractual agreements, providing regular training to the various departments and employees, taking out insurances for potential financial loss reduction, and maintaining a fully operational legal department.

To monitor adherence to its appetite for legal risk, NBKF is reviewing the number of ongoing legal disputes to identify potential future losses, including customers, third parties, employees, administration and regulators.

3. ICT and Security Risk

3.1. Definition and Appetite

NBKF defines ICT and security risk as the risk of loss due to breach of confidentiality, failure of integrity of system and data, inappropriateness or unavailability of systems and data, or inability to change information technology (IT) within a reasonable time and with reasonable costs when the environment or business requirements change (i.e. agility). This includes security risks resulting from inadequate or failed internal processes or external events including cyber-attacks or inadequate physical security.

NBKF is exposed to ICT and Security risks due to its reliance on technology, the nature of its operations and the increasing sophistication of cyber threats. Indeed, NBKF is heavily dependent on ICT for its daily activities, including transaction processing, customer services and internal communication. It also provides digital banking services through its online banking platform. The bank also handles a large amount of sensitive personal and financial data which make it a prime target for cyber criminals seeking to steal or exploit such data. The volume and value of transactions processed by the bank makes it an attractive target for cyber-attacks.

NBKF does not have any appetite for serious disruptions or overall interruptions of systems exceeding the defined business continuity thresholds of those marked as business critical. Such lack of appetite also includes business disruptions of outsourced services. As serving clients is core to its business strategy, NBKF is committed to doing so with only a minimal number of process and system disruptions. NBKF protects client's and its own personal and financial data by having a rock-solid information security framework. The bank does not have any appetite for fraudulent intrusions, in particular those resulting in the theft of customer data. NBKF closely works with NBK Group to introduce effective means to detect and prevent this risk.

3.2. Measures and monitoring

To monitor its exposure to IT and Security risk and its resilience to operational disruptions, NBKF has set up a quarterly Information Security and Business Continuity Management Committee. Such monitoring is complemented with periodic risk assessments to identify vulnerabilities in IT systems, network and processes, use of external sources to stay up-to-date on emerging threats, regular evaluation of IT service providers, regular testing of the bank's protection against system penetration, and exhaustive permanent control framework, including feedback loop for failed controls.

To monitor adherence to its appetite for ICT and Security risk, NBKF has defined a specific ISO Vulnerability risk score to assess the vulnerability of its systems, factoring in the criticality of the vulnerability and the elapsed time before remediation is carried out.

4. Others

4.1. Environmental, Social and Governance (ESG) risk

NBKF defined ESG risk as the 1/ the impact that environmental, social and governance factors such as climate change, natural disasters, labor practices, human rights or management practices can have on its counterparties or invested assets (financial materiality); and 2/ the impact the bank's operations and decisions can have on climate change, biodiversity, human rights or ethical business conducts and circling back to affect its financial health (impact materiality).

Through its lending activities to retail and corporate customers in several industries subject to physical and transition risks, in particular the real estate and oil & gas sectors, NBKF is mainly exposed to the risk of climate and environmental changes.

The risk is mainly of a credit nature but could extend to reputation damages or regulatory breaches in the event of non-compliance with laws and regulations related to climate and environment, or non-compliance with public commitments disclosed in the fight against climate and environmental changes, as well as to operations in the event of damages affecting the bank's own properties or the ones of its suppliers. NBKF is less exposed to social or governance risk as its main place of business is Europe where stringent laws and regulations exist on social and governance practices.
NBKF's climate and environmental risk strategy seeks therefore to reduce such inherent risk by identifying, assessing mitigating, monitoring and reporting climate and environmental risk, to reduce it to a residual level commensurate with its appetite.

NBKF has so far developed a few building blocks to align with the EBA guidance on climate-related and environmental risks dated November 2020, which detailed supervisory expectations relating to risk management and disclosure:

- Inclusion of ESG risk in the Risk Appetite policy
- Identification and quantification of climate risks in the ICAAP, albeit with no capital charge at this stage
- Assessment of ESG risks for corporate and CRE exposures at all stages of the credit-granting process
- Inclusion of climate-related factors in its business continuity assessment

NBKF will continue to embed ESG considerations in its strategy and risk management practices in the years to come in order to mitigate its exposure related to physical and transition risk related to climate change.

4.2. Vendor risk

NBKF defines vendor risk as the risk of financial loss or reputational damage due to the failure of a third-party vendor to perform functions for the bank in line with the agreed service level agreement.

NBKF is using a number of third-party vendors to perform functions for it, exposing the bank to the risk of the vendor's overall inability to meet its contractual obligations, leading to potential reputational or financial consequences.

Conducting thorough due diligence, establishing clear and enforceable contracts, monitoring the vendor's performance and financial conditions, and anticipating the consequences of a potential failure are some of the key elements for an effective vendor's risk management framework. The principles to be applied relating to vendor risk management are described in a dedicated Outsourcing Policy.

4.3. Conduct risk

NBKF defines conduct risk as the risk of inappropriate, unethical or unlawful behavior on the part of an organization's management or employees.

NBKF believes that its activities must be carried out with honesty, sincerity, care and reliability. Impairment to NBKF's integrity could damage its reputation and may lead to legal or regulatory sanctions and/or financial losses. Acting with integrity and in compliance with the values of NBK is pivotal for our employees, clients and business partners.

NBKF has no appetite for breaches of its code of conduct by any of its employees. Its risk strategy therefore seeks to establish a culture of integrity and ethical behavior from the top down, implement a clear code of conduct, provide regular training to employees on conduct risk, ethical standards, and regulatory requirements, and raise awareness on the potential consequences of misconduct. The principles to be applied are described in a dedicated Code of Conduct policy.

To monitor adherence to its appetite for conduct risk, NBKF is using the following two KRIs calculated and monitored on a quarterly basis:

- The number of whistleblowing alerts to ensure that ethic, culture and conduct principles defined by NBKF are respected and that any unethical and inappropriate behaviors are reported
- The mandatory training completion rate to ensure that the risk and compliance culture is well embedded across the organization

4.4. Model risk

NBKF defines model risk as the risk of inaccuracy in models and their outputs, incorrect model implementation or incorrect use of models, leading to adverse consequences for the bank's capital adequacy or risk management.

NBKF is using a number of internal or external models in its day-to-day activities for decision-making and risk assessment, exposing the bank to inaccuracy in models and their outputs, incorrect model implementation or incorrect use of models, potentially leading to financial losses, poor business and strategic decisions or damage to reputation.

NBKF accepts therefore only limited model deficiencies and inadequate identification and resolution of deficiencies. NBKF's model risk strategy therefore seeks to reduce such inherent risk by maintaining an inventory of all models used in NBKF, assigning a risk rating to each model, reviewing models and remediating any deficiencies, validating each model and monitoring the model risk management framework. The principles to be applied relating to model risk management is described in a dedicated Model Risk Management Policy.

4.5. HR risk

NBKF defines HR risk as the risk of losses resulting from inadequate or failed management of human resources, including inadequate skills and training, high staff turnover, inadequate leadership and poor governance structures, insufficiently robust recruitment and vetting processes.

NBKF strives for employees that are diverse, engaged and empowered, and that possess the expertise to serve our clients well. NBKF wants to be an employer of choice, where ambitious people want to work. Highly engaged staff enables NBKF to excel and improve customer satisfaction.

To achieve its strategic ambitions, NBKF's staff turnover shall remain within acceptable levels. Employees are crucial to the success of NBKF and an excessive number of performing employees leaving the bank may adversely impact its day-to-day operations. Therefore, NBKF has a limited appetite for staff voluntarily leaving the bank or dismissing employees, even though it is an inevitable part of executing business activities.

4.6. Reputation risk

NBKF defines reputation risk as the risk of reduction in the bank's customer base, business opportunities or revenues resulting from a loss of trust and confidence among stakeholders.

Damages to the reputation of NBKF can be triggered by several financial or non-financial risk factors, such as operational failures, regulatory non-compliance, financial mismanagement, product and service failures or unethical behaviors. Reputation impact is therefore more the consequence of a failure to manage all other risk categories than a risk category itself.

Building a reputation is a long-term process that can be lost very quickly. NBKF has therefore no appetite for an event that will permanently damage its reputation with its clients, employees and supervising authorities. By implementing a comprehensive risk management framework to identify, assess and mitigate other risk categories, NBKF shall mitigate the reputation consequences of failing to properly do so. Monitoring adverse news and surveying clients and staff shall enable the bank to assess its reputation against its appetite.

Remuneration

1. Remuneration Policy

The legal and regulatory framework applicable to NBKF relating to remuneration practices are based on several European laws such as the European Capital Requirement Directive, the Commission Delegated Regulation, and the European Banking Authority guidelines.

NBKF has no remuneration committee and it is NBKF's Board of Directors which is responsible for:

- Defining, adopting and maintaining an adequate Remuneration Policy, in line with NBKF Strategy and Risk Appetite, sufficient to attract and retain qualifies individuals, and that complies with all applicable laws, and other regulations, including requirements and recommendations issued by the ACPR or any other relevant regulatory authority.
- Reviewing and approving NBKF's Remuneration Policy on a yearly basis.
- Overseeing and ensuring its implementation by NBFK's in accordance with the French and European regulation, best practices, as well as the group guidelines.

The Board of Directors delegates to the NBKF General Manager and the NBKF Head of Human Resources the responsibility for implementing the Remuneration Policy on a continuous basis and to ensure that all relevant staff are aware and comply with the requirements set in the Policy.

NBKF's Remuneration Policy is reviewed annually by the NBKF's Human Resources department and approved by NBKF's Board of Directors. In order to comply with the applicable provisions (French Code Monétaire et Financier and decree of November 3, 2014) and with applicable EBA guidelines, NBK has undertaken a review of its Remuneration policy, which was presented to and approved by the Board of Directors on May 16, 2024.

2. Remuneration components

At NBKF, the remuneration has a fixed and a variable component:

2.1 Fixed remuneration

The fixed remuneration is set individually, upon hiring, to provide compensation for the skills, professional experience and level of responsibility and management that is expected for the employee's position.

The bank makes sure to define and maintain a level of fixed remuneration that is sufficient to maintain a qualified and experienced staff.

Fixed remunerations are periodically reviewed to ensure their consistency with market data for peer roles in peer group organizations, considering employment market conditions or demand for skills.

2.2 Variable remuneration

Variable remuneration should primarily reflect sustainable, and risk adjusted performance as well as performance in excess of that required to fulfil the employee's job description.

The objective of the variable remuneration is to reward performance based on NBKF accomplishments, the achievement of its targets, and on the achievement of individual objectives. Variable remuneration may therefore be awarded as compensation for an employee's annual performance within the framework of collective performance.

The performance evaluation is conducted within a multi-year framework to ensure that the evaluation process focuses on long-term performance.
The remuneration's split between fixed and variable is presented below:

Fixed / Variables	Fixed	Variable				Vetted	Not vetted	# beneficiaries
		Cash	Equity	Equity-linked	Other			
Executive Management	68%	32%	-	-	-	68%	32%	13
Material Risk Takers	69%	31%	-	-	-	69%	31%	16

Disclosure Practices

To demonstrate effective and prudent management of NBKF, the Board of Directors ensures that the structure of NBKF is clear, efficient and transparent to NBKF's staff, its shareholders and other stakeholders and to the competent authority.

The EMC informs NBKF staff about the bank's strategy in a clear and consistent manner, at least to the level needed to carry out their duties. Policies and procedures are communicated to all staff throughout NBKF via the MyNBK portal. The staff should understand and adhere to policies and procedures pertaining to their duties and responsibilities.

The Board of Directors and the EMC ensure that the process of disclosure and communications with internal and external stakeholder, including supervisors, is fair and transparent and reflects the nature of activities of the bank and risks inherent in its business activities.

Mainly, NBKF ensure:

- The submission of transparent and sufficiently detailed regulatory reports,
- The provision of transparent and sufficiently detailed feedback to French authorities when and where requested
- The notification of changes to corporate governance to the French Regulator
- Quarterly publication in a legal gazette of the company's balance sheet
- Publication of full annual financial statements and the statutory auditors' report
- Publication of full annual Pillar 3 reports on its website