Pillar 3 Disclosures
31 December 2023

NATIONAL BANK OF EGYPT (UK) LIMITED

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1. INTRODUCTION

National Bank of Egypt (UK) Limited or "the Bank" (LEI: 2TV5CTDU7ZDMT8HL5F58) is authorised by the Prudential Regulation Authority ("PRA") and regulated by the PRA and the Financial Conduct Authority ("FCA"). The Bank is incorporated in England and Wales. It is a wholly owned by the National Bank of Egypt. This document contains the Pillar 3 disclosures of National Bank of Egypt (UK) Limited for the year ended 31 December 2023.

Pillar 3 disclosures intend to promote market discipline through transparency via periodic disclosures of regulator-specified metrics with accompanying narrative.

The disclosures have been prepared in accordance with the PRA rulebook disclosure part which, amongst other things, articulates the disclosure requirements of the UK CRR. The 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. The disclosures are unaudited and are not required to be audited.

The Bank has a Pillar 3 policy that sets out the governance and controls covering Pillar 3 disclosures. Amongst other things, all quantitative information in these disclosures has been prepared in accordance with the firms regulatory reporting controls and the document, together with the policy and compliance assessment, is reviewed by appropriate governance committees in the firm and is approved by the Board.

I attest that, to the best of my knowledge, these disclosures have been prepared in accordance with the Bank's formal policies and internal systems and controls

Dr Yasser Hassan
CEO

2. KEY METRICS

Key regulatory metrics, as specified in the PRA rulebook, are provided in the following table (UK KM1).

The Bank's CET1 capital grew by the amount of retained earnings for the financial year, increasing CET1 capital by c.4%. Regulatory deductions are immaterial and so did not impact CET1 capital. Risk weighted assets increased by c.2% over the same period. Consequently, the Bank's CET1 ratio grew from 16.84% to 17.13% and the Bank's total capital ratio fell from 20.50% to 20.32% since the bank's tier 2 capital is denominated in US dollars and is subject to exchange movements.

At the last Supervisory Evaluation and Review Process (SREP), the PRA set the Bank a Total Capital requirement ("TCR") of 13.6% of risk weighted assets. Over and above the TCR, the Bank is subject to the capital conservation buffer of 2.5% and an institution-specific countercyclical buffer of 0.3%. The Bank benefits from a strong leverage ratio, at 11.59%, both including and excluding balances at the Bank of England.

The Bank's average Liquidity Coverage ratio ("LCR") increased from 296% to 387% over the period and the average net stable funding ratio ("NSFR") increased from 135% to 176%.

		31/12/2023	31/12/2022
	Available own funds (amounts) £000s		
1	Common Equity Tier 1 (CET1) capital	166,857	160,206
2	Tier 1 capital	166,857	160,206
3	Total capital	197,905	195,090
	Risk-weighted exposure amounts £000s		
4	Total risk-weighted exposure amount	962,119	951,508
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	17.3	16.8
6	Tier 1 ratio (%)	17.3	16.8
7	Total capital ratio (%)	20.6	20.5
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure		
UK 7a	Additional CET1 SREP requirements (%)	2.7	2.7
UK 7b	Additional AT1 SREP requirements (%)	0.9	0.9
UK 7c	Additional T2 SREP requirements (%)	1.2	1.2
UK 7d	Total SREP own funds requirements (%)	12.9	12.9
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.5	2.5
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)		
9	Institution specific countercyclical capital buffer (%)	0.3	
UK 9a	Systemic risk buffer (%)		
10	Global Systemically Important Institution buffer (%)		
UK 10a	Other Systemically Important Institution buffer		
11	Combined buffer requirement (%)	2.8	2.5
UK 11a	Overall capital requirements (%)	15.7	15.4
12	CET1 available after meeting the total SREP own funds requirements (%)	10.1	9.6
	Leverage ratio		
13	Total exposure measure excluding claims on central banks (£000s)	1,382,667	1,611,977
14	Leverage ratio excluding claims on central banks (%)	12.1	9.9
	Additional leverage ratio disclosure requirements		
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	12.1	9.9
14b	Leverage ratio including claims on central banks (%)	12.1	9.9
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average) £000s	170,092	196,635
UK 16a	Cash outflows - Total weighted value £000s	175,689	265,921
UK 16b	Cash inflows - Total weighted value £000s	303,103	437,377
16	Total net cash outflows (adjusted value) £000s	43,922	66,480
17	Liquidity coverage ratio (%)	387	296
	Net Stable Funding Ratio		
18	Total available stable funding £000s	811,359	579,930
19	Total required stable funding £000s	460,395	428,828
20	NSFR ratio (%)	176	135

3. RISK MANAGEMENT OBJECTIVES AND POLICIES

Principal Risks and Uncertainties

Within our simple business model, there are several potential risks and uncertainties that could have a severe impact on the Bank's performance and could cause actual results to differ materially from expected and historical achievements. The Bank has a responsibility to identify these risks, understand the risks through analysis and put measures in place to mitigate them. This is to ensure that there are processes in place to minimise its impact.

The Board of Directors and Executive Management promote a responsible approach to risk, whereby the overall risk appetite is established by the Board and reviewed on annual basis. Such appetite for risk is always governed by high quality risk assets, a diverse lending portfolio, with a central oversight across the Bank to ensure that the full spectrum of risks the Bank is exposed to are adequately identified, measured, assessed, monitored, controlled, and reported. The Risk Management function is complemented by all departments, business units and Board Committees in the process and management of certain categories of risks as detailed below.

The responsibility of Risk Management is fully vested in the Board of Directors, which in turn delegates this to Senior Management and the Board's Committees. The bank's management ensures that key material risks are always socialised up the chain. The Bank avoids any business where associated risks cannot be objectively assessed, measured, or managed. Hedging and collateral are used to partially mitigate the risks the Bank is exposed to and optimise overall performance.

The risk management arrangements of the Bank are satisfactory and Board provides assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy

The key risks inherent in our business model are:

- **Credit Risk**

Credit risk is defined as the likelihood that a customer or counterparty is unable to meet the contracted financial obligations, resulting in a default situation and loss event. This risk is the main category of risk the Bank is exposed to. Credit risk comprises counterparty risk, settlement risk and concentration risk. In particular, the Bank is conscious of the heightened risk caused by its Egyptian connections.

Credit risk is managed proactively by a robust Credit department and a Credit Committee comprising of senior management. Under the Capital Requirements Directive, the Bank has adopted the Standardised Approach to credit risk.

Over the last year, the Bank has focused on operating within an environment and with counterparties that fall within the risk appetite of the bank. The focus has been on familiarising the business with its existing customers while continuing to gradually increase its market share within growing emerging markets – particularly for trade finance business.

The approach to credit risk management is based on the foundation to preserve the independence and integrity of the credit risk assessment, management and reporting processes combined with clear policies, limits and approval structure which guide the day-to-day management of the Bank's credit risk exposures. This approach comprises credit limits which are established for all customers and relevant countries after a careful assessment of their credit standing. This has enabled a greater understanding of the risks involved within the existing portfolios, while making sure an in-depth analysis and review is undertaken of new and existing counterparties.

As at the year end, the Bank had loans of £153,516,375 outstanding (2022: £159,876,579) and deposits of £33,564,386 (2022: £78,930,305) from its parent National Bank of Egypt, Head office, Cairo. The bank holds nil (2022: £41,528,239) as collateral deposits. There are no material related party transactions with key management, and persons connected with them, other than remuneration.

- **Market Risk**

Market risk is the risk of a change in the market value, earnings or future cash flows of a portfolio of financial instruments, caused by the movements in market variables such as bond, equity or commodity prices, interest and exchange rates. The bank does not undertake proprietary trading activities, as it holds only a Banking Book.

Market risk exists for the bank where it holds securities that are affected by market fluctuations. Its investment and debt securities are held to maturity and therefore FRN's and other securities prices are of less concern. All Interest rate swaps are held against

Bonds (Asset Swap) or Deposit positions and are therefore effectively hedged. Therefore, the market risk associated with asset swaps is limited to the interest rate spreads embedded in the transactions only. The Bank is exposed through daily currency open positions, but this is mitigated by the restrictions placed on the maximum position allowed on each currency and enforced stop-loss positions. The Bank has historically carried out business predominantly in USD, it is sensitive to movements in exchange rates. Income is earned in USD and reported in Sterling, so income reported is proportional to the exchange rates. Capital consumption is inversely proportional to exchange rates so this will compensate for deteriorations in revenue caused by exchange rates.

The interest rate risk is managed as part of the daily monitoring within predetermined limits approved by the Board. The majority of our interest-bearing liabilities and assets are based on floating rates, and so any interest rate mismatch is largely removed. Also, the majority of assets and liabilities are short dated, and therefore subject to limited interest rate risk.

At the end of December 2023, the Bank's sensitivity to a 200bps increased shift in interest rates was approximately +£0.4m and -£0.4m to a 200bps decrease on interest rates. Interest rates have been low but have risen over 2023. Nevertheless, interest rate risk is not considered to be material.

- **Liquidity Risk**

Liquidity risk is when the Bank is unable to retain or create sufficient cash resources to meet its commitments. This happens when there is a shortfall in the amount available to the Bank and the amount due to be paid out, which could either be due to a mismatch in funding versus deposits or a lack of liquid assets.

The Bank manages liquidity mismatches within the guidelines of the liquidity policy approved by the Board and the pertaining established limits. The Bank's liquidity positions in different currencies are monitored by Treasury Department daily with a daily liquidity report issued by Financial Control Department and circulated to Senior management, Risk management, Treasury, Treasury and Operations Departments to ensure that PRA minimum liquidity threshold is continually always adhered to. The ALCO monitors the maturity profile on monthly basis.

Liquidity risk is covered under the Bank's "Individual Liquidity Adequacy Assessment Process" (ILAAP) policy and regular stress tests are undertaken to ensure that we remain liquid at all times. Under the liquidity regulations the Bank has fully implemented the requirements for liquidity risk management including systems and controls. During the current year, the Bank's approach to the liquidity risk management was reviewed and documented in a revised comprehensive ILAAP document, drawn up in accordance with our strategy and regulatory requirements. This document analyses the sources of liquidity risk, and describes the assumptions and approach taken to stress testing considering those risks. It also incorporates the Bank's liquidity contingency funding plans, liquid asset buffer and identifies those risks which have the potential to cause the Bank to fail (reverse stress tests), as demanded by regulatory requirements.

- **Operational Risk**

Operational risk is defined as the "risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events".

The Bank has placed particular emphasis on improving in this area in recent years and has put in place both the structure and personnel to ensure steady and continual movement towards meeting this objective. With a high awareness of the underlying causes of operational risk at all levels within the business units, results in a control environment which is able to evolve with changing business needs, thereby ensuring operational losses within the business are kept to a minimum.

IT/Systems risk is the risk of a failure or an issue arising within a bank's primary systems, which might hinder the functionality of the business with unforeseeable consequences and eventually lead to a loss of revenue to the business. The Bank has internal controls and monitoring systems in place around operations and IT related projects and enhancements, including improved information security standards.

Operational risk is managed by all operational areas of the Bank on a day-to-day basis, but with oversight from Risk, Internal Audit and the Board. The Bank uses the basic indicator approach to measure the capital requirements driven by operational risks. Under the basic indicator approach, the Bank holds capital for operational risk equal to the average over the previous three years of a fixed percentage of positive annual gross income.

- **Country and Concentration Risk (Credit and Funding)**

Credit concentration risk is the risk of loss arising because of a concentration of exposures due to imperfect diversification. This imperfect diversification can arise from the small size of a portfolio or many exposures to specific obligors (single name concentration) or from imperfect diversification with respect to economic sectors or geographical regions.

In particular, the Bank's exposures, in line with its risk appetite, to certain destinations have comparative geographical concentrations, particularly in regards money market placements and enlarged trade finance activities in Egypt and lending exposures in emerging markets.

The Bank'sprimary mitigation against risks arising from concentrations in the asset book relate to its in-depth knowledge and experience regarding the specific exposures and the internal controls utilised in managing these exposures. In particular, the country and counterparty limits that it maintains.

The Bank maintains a better diversified funding profile versus last year with a major funding reliance on one Egyptian government wholesale customer, bank deposits and a diversified pool of retail customers through the digital deposit aggregators. Such risk is duly addressed in both approved ICAAP and ILAAP assessments.

- **Regulatory Risk**

Regulatory risk is the risk to earnings, capital and reputation associated with a failure to comply with regulatory requirements from banking regulators.

Regulatory risk governance – begins at the Board level and cascade throughout the Bank. The Bank ensures there is governance through its compliance and audit functions, which in turn ensures there is discipline and adherence towards maintaining regulatory requirements, while also deploying the effective resources needed to achieve them. In this way regulatory risk is well managed whilst the objective of The Bank is taken into consideration and not hindered.

The Bank operates in a highly regulated environment and is therefore subject to regulatory risk. The regulatory environment during current year remained as rigorous as the previous years, especially with the development of Common Reporting ("COREP"), as UK regulators, together with other global regulators, continued to collaborate to establish more stringent banking rules in order to ensure banks are maintaining adequate capital and liquidity to survive any further crisis and to promote financial stability going forward. Measures were implemented by the PRA and FCA to increase regulations within the financial sector, the Bank is keeping track of such regulatory enhancements and working to align to those on a timely manner.

The Bank has always been committed to treating our customers fairly and has agreed measures, polices and internal governance to regularly review and monitor the application of treating the customers fairly and of conduct risk to all aspects of the Bank's customer business. The aim is to ensure that management information is adequate to monitor the effectiveness of systems and controls designed to deliver fair treatment of customers.

- **Compliance Risk**

Compliance Risk is overseen by the Executive Committee and Risk & Compliance Committee, to whom the Head of Compliance provides a quarterly report. At an executive level, Compliance risk, including mitigation controls along with action and remediation plans, is overseen by the Executive Committee.

The Bank seeks to minimise the risk of compliance failure by seeking to:

- ensure an up-to-date understanding of regulatory requirements which need to be complied with;
- ensure that procedures and controls are in place and designed to minimise the risk of breaching those requirements;
- provide training for staff throughout the organisation aimed at promoting a good understanding of compliance and financial crime matters;
- in respect of regulatory requirements relating to sanctions, anti-money laundering and terrorist financing in particular, enhancing both the quantity and calibre of resources in the first line who are responsible for ensuring compliance, subject to oversight, and in the case of higher risk cases, additional due diligence by the second line compliance team; and
- undertaking a risk-based monitoring programme aimed at detecting shortcomings in, or failures of, compliance controls or processes.

- **Reputational Risk**

Reputational risk is defined as the risk of damage to an organization through loss of its reputation or standing. The main reputational risks facing The Bank are those events occurring inside The Bank or externally may tarnish the Bank's reputation such that customers might be deterred from dealing with the Bank.

The Bank has no appetite for Reputational Risk, however it is recognised that Reputational Risk cannot be eradicated completely, and such risk is inherent within the banking environment and, in particular, in some of the higher risk countries within which The Bank operates and conducts business.

It is recognised that Reputational Risk can arise from a wide variety of sources, some controllable, some less so.

The Bank recognises that some of the countries in which its counterparties operate, results in an enhanced exposure to Reputational Risk. As a result, the Bank’s principal defence against Reputational Risk is through adherence to its compliance objectives of operating in conformity with applicable laws and regulations. Robust governance and risk management frameworks are intended to safeguard the Bank from reputational damage that might arise.

4. OWN FUNDS

UK CC1 – Composition of regulatory own funds

The table below shows the composition of the bank's regulatory capital position. Column (b) references balance sheet components shown in table UK CC2. Only rows relevant to the bank are included.

		(a)	(b)
		Amounts	**Reference letters of the balance sheet under the regulatory scope of consolidation**
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	130,000	
	of which: Fully paid up capital instruments	130,000	(a)
2	Retained earnings	36,857	(b)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**166,857**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
29	**Common Equity Tier 1 (CET1) capital**	**166,857**	
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	31,047	(c)
51	**Tier 2 (T2) capital before regulatory adjustments**	**31,047**	
	Tier 2 (T2) capital: regulatory adjustments		
58	**Tier 2 (T2) capital**	**31,047**	
59	**Total capital (TC = T1 + T2)**	**197,905**	
60	**Total Risk exposure amount**	**962,119**	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	17.3%	
62	Tier 1 (as a percentage of total risk exposure amount)	17.3%	
63	Total capital (as a percentage of total risk exposure amount)	20.6%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	15.7%	
65	of which: capital conservation buffer requirement	2.5%	
66	of which: countercyclical buffer requirement	0.3%	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	10.1%	

Template UK CC2 - reconciliation of regulatory own funds to balance sheet in the audited financial statements

		a	c
		Balance sheet as in published financial statements[1]	**Reference**
		As at period end	
Assets - *Breakdown by asset class according to the balance sheet in the published financial statements*			
1	Cash and balances at central banks	399	
2	Loans and advances to banks	726,792	
3	Loans and advances to customers	61,861	
4	Debt securities	505,332	
5	Derivatives	11,055	
6	tangible fixed assets	42,911	
7	Intangible fixed assets	580	
8	Prepayments and accrued income	1,411	
9	Current tax asset	736	
10	Other assets	21	
11	**Total assets**	**1,351,098**	
Liabilities - *Breakdown by liability class according to the balance sheet in the published financial statements*			
1	Deposits by banks	193,405	
2	Customer accounts	956,051	
3	Derivatives	577	
4	Other liabilities	649	
5	Deferred tax liabilities	640	
6	Accruals and deferred income	1,871	
7	Subordinated debt	31,047	(c)
8	**Total liabilities**	1,184,240	
Shareholders' Equity			
1	Called up share capital	130,000	(a)
2	Profit and loss account	36,857	(b)
3	**Total shareholders' equity**	166,857	

[1]NBE UK has the same cope of consolidation for statutory and regulatory reporting

5. OWN FUNDS REQUIREMENTS AND RISK-WEIGHTED EXPOSURE AMOUNTS

Template UK OVC – Internal capital adequacy assessment process ("ICAAP") information

Legal basis	Row number	Free format
Article 438(c) CRR	(b)	The PRA conducts a periodic supervisory review and evaluation process ("SREP") of NBE UK. The result of the last SREP was that the bank was set a total capital requirement of 12.9%, of which 7.3% is to be met with CET1 capital)

Template UK OV1 – Own funds requirements and risk-weighted exposure amounts

The table below shows the composition of the bank's own funds requirements and risk-weighted assets. Only rows relevant to the bank are included.

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		a	b	c
		T	T-1	T
1	Credit risk (excluding CCR)	973,878	951,508	77,910
2	Of which the standardised approach	907,213	885,071	72,577
6	Counterparty credit risk - CCR	23,332	32,409	1,867
7	Of which the standardised approach	14,543	21,063	1,163
UK 8b	Of which credit valuation adjustment - CVA	8,789	11,346	703
21	Of which the standardised approach		1,127	
23	Operational risk	43,333	32,901	3,467
UK 23a	Of which basic indicator approach	43,333	32,901	3,467
29	**Total**	**1,040,542**	**1,016,819**	**83,243**

6. DIRECTORSHIPS AND DIVERSITY AND INCLUSION STATEMENT

Number of directorships

As at 31 December 2023, the number of other directorships held by Board Members are set out below:

Director	*Position*	*Number of Directorships*
Mr Hisham Okasha	Chairman	11
Mrs Lobna Hilal	Deputy Chairman	3
Mrs Dalia El Baz	Non-Executive Director	6
Mr Sherif Riad	Non-Executive Director	3
Dr Yasser Hassan	CEO	3
Mr Ian Gray	Non-Executive Director	4
Mr Edward Marks	Non-Executive Director	0
Dr Mohamed Maait	Non-Executive Director	0

Diversity & Inclusion statement

Individuals with different cultures, perspectives and experiences are at the heart of the way the Bank works. We want to recruit, develop and retain the most talented people, regardless of their background and make best use of their talents. We seek to develop a work environment where we treat all employees as individuals, fairly and in a consistent way. We work within the spirit and the practice of the Equality Act 2010 by promoting a culture of respect and dignity and actively challenging discrimination, should it ever arise. We remove unnecessary barriers for our employees' seeking opportunities through training and development, promotion and career planning. We continue to support our leaders, managers and employees to demonstrate the principles of diversity and inclusion in their everyday activities, roles and functions.

The Bank is committed to promoting equality and diversity and promoting a culture that actively values difference and recognises that people from different backgrounds and experiences can bring valuable insights to the workplace and enhance the way we work. The Bank aims to be an inclusive organisation, committed to providing equal opportunities throughout employment including in the recruitment, training and development of employees, and to pro-actively tackling and eliminating discrimination. Equality and diversity at the Bank - we consider that equality means breaking down barriers, eliminating discrimination and ensuring equal opportunities and access for all groups in employment. We consider diversity to mean celebrating difference and valuing everyone. Each person is an individual with visible and non-visible differences and by respecting this everyone can feel valued for their contributions which is beneficial not only for the individual but for the Bank too. We acknowledge that equality and diversity are not inter-changeable but inter-dependent. There can be no equality of opportunity if difference is not valued and harnessed.

Every employee is entitled to a working environment that promotes dignity, equality and respect for all. The Bank will not tolerate any acts of unlawful or unfair discrimination (including harassment) committed against an employee, contractor, job applicant or visitor because of a protected characteristic:

- sex;
- gender reassignment;
- marriage and civil partnership;
- pregnancy and maternity;
- race (including ethnic origin, colour, nationality and national origin);
- disability;
- sexual orientation;
- religion and or belief; and
- age.

Discrimination on the basis of work pattern (part-time working, fixed term contract, flexible working) which is unjustifiable will also not be tolerated. All employees are encouraged to develop their skills and fulfil their potential and to take advantage of training, development and progression opportunities in the Bank. Selection for employment, promotion, training, or any other benefit is on the basis of aptitude and ability. The Bank will capture applicants' diversity demographics as part of its recruitment processes to promote the elimination of unlawful discrimination.

All promotion decisions are made on the basis of merit and will not be influenced by any of the protected characteristics listed above. Promotion opportunities are monitored to ensure equality of opportunity at all levels. Where appropriate, steps will be taken to identify and remove unnecessary or unjustifiable barriers to promotion.