

NBK (L)

Corporate Governance

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GOVERNANCE FRAMEWORK

The approach adopted by the bank to implement Corporate Governance principles

The Board gives great importance on implementing the corporate governance framework at the Bank, this is reflected through reporting packs and procedures which are applied by the Bank based on the philosophy and principles of the Group, as a corporate culture and principles of work, and not only as supervisory instructions and legislative regulations.

The key principles are used in the development of the governance framework so that corporate governance:

Is not just about regulations and legislations, it is about doing what is right for the stakeholders.

Is broader than Boards and Committees; it extends throughout the organization, and includes elements of internal controls, ethics, various risk functions, policies and procedures, compliance, internal audit, and external audit.

Requires transparency of disclosure, effective communication, and proper measurement and accountability as essential elements for good governance.

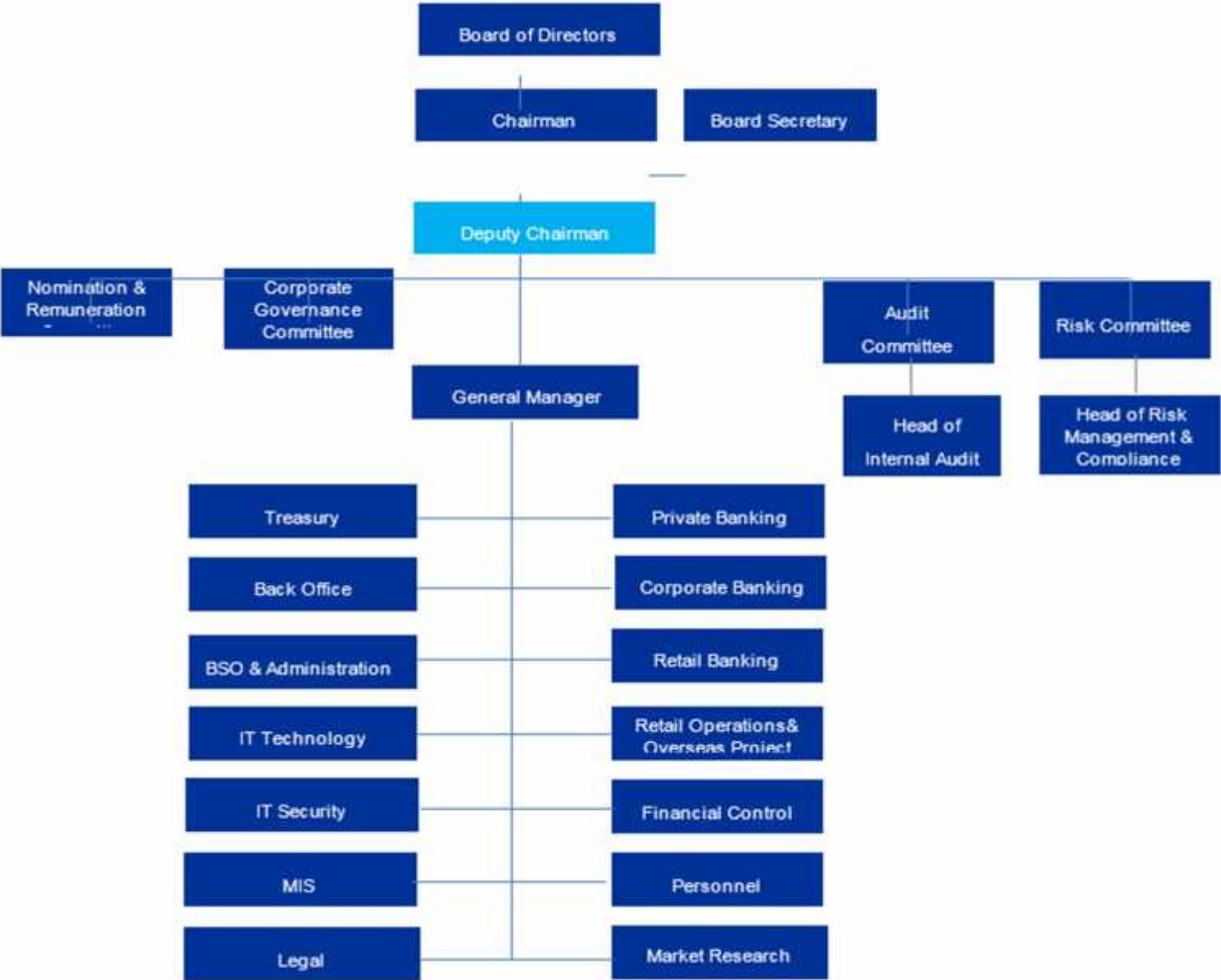
The Bank has developed its Corporate Governance framework to the highest standards defined by leading professional bodies and regulatory authorities. It is embedded into the day-to-day business and practices of the Bank and has evolved to reflect the Bank strategy, lessons learnt and the global leading practices.

The Bank's governance framework outlines a consistent approach across the Bank and will be reviewed on a periodic basis by the Board of Directors.

The Bank as a whole, along with the Board, Senior Management and all employees are collectively responsible for integrating the Corporate Governance framework into their day- to- day activities. The Board sets the "tone at the top", the management ensures that the Corporate Governance framework is implemented through a robust set of policies and procedures, and employees follow the Corporate Governance requirements in their day- to- day business.

BANK GOVERNANCE STRUCTURE

The Corporate Governance structure of NBK L is developed and approved by the Board of Directors. This will be reviewed on an annual basis and updated to reflect emerging trends applicable to the Group's business and development.



BOARD OF DIRECTORS

Board Committees

The Board is supported by four Committees. The mandate and responsibility of each Committee are defined and delegated by the Board. These are documented in comprehensive Charters which list the detailed terms of reference for each Committee. All these Committees are constituted of non- executive Members of the Board holding relevant experience to the scope of the Committee. All these committees except for the corporate governance committee are chaired by Independent board members. These include:

Audit Committee

Risk Committee

Corporate Governance Committee

Nomination and Remuneration Committee

Audit Committee

Role:

The Board Audit Committee (BAC) is responsible for overseeing the Bank's internal control framework. BAC shall perform an assessment of the effectiveness of the internal control framework on a periodic basis through the evaluations carried out by the Head of Internal Audit. Also, the BAC shall report to the Board the results of the assessment on the adequacy of existing controls and processes. The Committee is also responsible for the recruitment, dismissal, performance evaluation and remuneration recommendation of the Head of Internal Audit. In conducting its role, the Committee coordinates with all committees and closely with the Board Risk Committee and the Board Nomination & Remuneration Committee.

Furthermore, BAC is responsible for the monitoring the performance of External Auditors and coordinating with them on subjects related to audit and financial statements.

Members:

1(Chairman) (Independent): Dr. Mouafak Al Yafi

2 Mr. Malek Khalife

3 Mr. Issam Khalaf

Quorum:

A quorum of three Members is required to convene a meeting. A new meeting must be convened if this quorum has not been attained. Only members of the Committee, the Secretary of the Committee and the Head of Internal Audit shall be entitled to attend the Committee meetings. However, members of management or representatives and other specialists may be invited to attend meetings at the request of the Committee.

No meeting can be held in the absence of the Chairman, but in exceptional cases where the meeting shall be chaired by an independent member.

Risk Committee

Role:

The Board Risk Committee (BRC) is responsible for the review and monitoring of the Bank's risk profile, risk strategy, risk appetite and risk controls. It also administers and manages the Bank's capital requirements by ensuring that the Bank maintains an appropriate level and quality of capital and liquidity in line with its activities. The Committee also reviews the ICAAP and Stress Test scenarios and results of the Bank. In addition, the Committee reviews the compliance risk processes, anticipates the impact of regulatory change, ensures accountability of risk management, and flags any high-risk actions/transactions as required internally and by the regulators. The Committee is also responsible for the recruitment, dismissal, performance evaluation and remuneration recommendation of the Head of Risk Management. In conducting its role, the Committee coordinates closely with the Audit Committee and the Nomination & Remuneration Committee.

Members:

1(Chairman) (Independent): Mr. Issam Khalaf

2 Mr. George Richani

3 Mr. Malek Hammoud

Quorum:

A quorum for any meeting shall be three members.

No meeting can be held in the absence of the Chairman, but in exceptional cases where the meeting shall be chaired by an independent member.

Corporate Governance Committee

Role

The Corporate Governance Committee supports the Board in the review of the Bank Corporate Governance principles and practices at regular intervals. The Committee is responsible for monitoring the robustness of the policies and procedures developed, and the effective implementation of the disclosure framework. Furthermore, the Committee supervises the process of monitoring and reporting of conflict of interest & Related Party Transactions. The Committee is supported by reports issued by the Risk Management and Compliance Department. In conducting its role, the committee coordinates closely with the Risk Committee, Audit Committee and the Nomination & Remuneration Committee.

Members:

1(Chairperson): Ms. Shaikha Al Bahr

2 Mr. Ziad Kabbani

3 Mr. Malek Khalife

Quorum:

A quorum for any meeting shall be two members. In the absence of the Committee Chairman, the present remaining members shall elect one of themselves to chair the meeting.

A quorum of two Members is required to convene a meeting. A new meeting must be convened if this quorum has not been attained. Only Members of the Committee and the Secretary of the Committee shall be entitled to attend the Committee meetings. However, members of management or representatives and other specialists or professional advisors may be invited to attend meetings at the request of the Committee.

Nomination & Remuneration Committee

Role

The Board Nomination and Remuneration Committee is responsible for the review of the Bank's remuneration framework, overseeing the Bank's succession plan formulation process, and suggesting recommendations with respect to the Executive Management remunerations. In addition, the Committee is responsible for the nomination of potential board members, on boarding and training of new members and training and raising the awareness of the Board of Directors. The Committee also initiates and oversees the evaluation process of the Board and underlying Committees. **The committee is supported by reports prepared by Head of Human Resources and/or the GM.** In conducting its role, the Committee coordinates closely with the Board Audit Committee and the Board Risk Committee.

Members:

1(Chairman) (Independent): Dr. Mouafak Al Yafi

2 Mr. George Richani

3 Mr. Malek Hammoud

Quorum:

The quorum necessary for the Committee meetings is three members. Only members of the Committee and the Committee Secretary shall be entitled to attend the Committee meetings. However, members of management or representatives and other specialists may be invited to attend meetings upon request of the Committee.

No meeting can be held in the absence of the Chairman, but in exceptional cases where the meeting shall be chaired by an independent member.

CORPORATE VALUES

The Bank adheres to high standards of corporate values. These are followed and embedded through a number of well-established pillars. These pillars are formulized through a robust set of policies and procedures covering:

1.Code of Conduct

2.Related parties' transactions

3.Conflict of interest

4.Confidentiality

5.Whistle Blowing

Code of conduct

The Board takes the lead in setting professional standards and corporate values which promote integrity for the entire body, Executive Management and other employees. The Bank's Code of Conduct outlines the ethical standards expected of various stakeholders in the conduct of its business. This specifically covers the Board, employees and other stakeholders.

Related Parties Transactions

The Bank's Related-Party Transactions Policy outlines the guiding principles on dealing with and managing transactions with relevant parties, whether between the Bank and its Board Members, their companies or their related parties, Executive Management, and employees including syndicated financing and trading activities. The policy is in compliance with regulatory and IFRS standards.

Conflict of Interest

The Board monitors and manages the potential conflict of interest of the Bank including the abuse of the Bank's resources and any misuse of powers. The Conflict of Interest Policy provides guidelines for the identification, reporting, disclosure, prevention, and strict limitation of potential conflict of interest, including rules concerning related party transactions and potential conflicts of interest.

Confidentiality

The Board, Executive Management and employees are committed to preserve the confidentiality of information and data on the Bank's customers, as per internal policies, laws, and instructions issued by the regulatory bodies in this respect. This has been well governed by confidentiality and information-security rules adopted and implemented within the Bank.

Whistle Blowing

The Bank promotes a transparent and collaborative working environment for all employees. The Whistle Blowing practices determine the guiding principles and procedures which enable employees to escalate to the Chairman any significant disputes, their concerns regarding any potential violations, malpractice, "reportable" conduct, and to allow independent investigation and monitoring of these concerns.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management and Compliance

Risk Management and Compliance is a centralized and independent function. The Head of Risk Management and Compliance reports to the Board Risk Committee. His appointment, dismissal, remuneration and evaluation are also determined by the Board Risk Committee. The function is primarily responsible for identifying, measuring, monitoring, controlling and reporting the risk profile of the Bank. It assists and acts as the internal advice to the Executive Management to actively assess and control the Bank's overall risk. In coordination with the Group Risk Management, the Risk Management and Compliance function ensures:

The overall business strategy and business activities conducted within the Bank are consistent with the risk appetite approved by the Board.

Risk policies, procedures and methodologies are tailored in a manner that is relevant to the local regulations and are consistent with the risk appetite of the Bank and ultimately the Group.

Appropriate risk management architecture and systems are developed and implemented for the Bank.

Adequate monitoring of portfolios' risks and limitations across the Bank

Internal Audit

The Internal Audit Function is an independent function, mainly responsible for evaluating the adequacy and effectiveness of the Bank's internal controls, ensuring compliance with policies, procedures and regulatory requirements. The Head of Internal Audit is not assigned any executive responsibilities in order to maintain autonomy and impartiality in fulfilling his/her duties and responsibilities. The Internal Audit function reports directly to the Board Audit Committee which is accountable for monitoring the overall performance of the function.

Control environment

The Bank maintains a sound control environment supported by a set of policies and procedures which are adhered to across the Bank and are designed to specifically cater and accommodate the needs and requirements of the Bank. The effectiveness of internal controls are monitored through a well-structured control self-assessment program designed as per COSO framework. This is routinely monitored by the Board and is subject to independent assessment and review, to identify enhancement opportunities and the effectiveness of the control framework.

REMUNERATION GOVERNANCE

The criteria adopted to compute the compensation of the Board of Directors and Senior Management's members

Remuneration Policy Statement

The Bank remuneration process is governed by the Board Remuneration Committee with the Board holding the overall responsibility.

The Remuneration Policy sets out key aspects and components of the remuneration of the Executive Management and other employees. The Bank follows a consistent approach in applying the Remuneration Policy.

The Remuneration Policy stipulates the linkage to the Bank's long-term strategic objectives and its risk-taking. The Bank differentiates between remuneration of Senior Management, Material Risk-Takers and Control Functions. These are linked to key performance indicators subject to risk-adjusted approach.

The Bank applies a deferment approach up to three years (final vesting of the variable component). Vesting of the variable component is subject to achieving the long-term performance targets and risk materialization. Claw back applies on the vested portions in case of not meeting long-term targets or risk materializations.

DISCLOSURE AND TRANSPARENCY

The Disclosure policy adopted, notably for preparing financial statements and addressing any conflict of interest

The Bank is committed to providing timely, consistent, and accurate information to its stakeholders, which is consistent with legal and regulatory requirements within the transparency framework. It ensures consistent disclosure practices are applied and all members of the business community, including individual investors, have prompt and simultaneous access to the disclosed information. Accordingly, the Bank has adopted a Disclosure and Transparency Policy containing the details of its disclosure requirements (financial, non-financial and regulatory disclosures), the guidelines for the Bank's internal communication, and corporate responsibilities.

The Bank cooperates with all regulatory authorities supplying them with accurate and timely information as stipulated by applicable laws and regulations. Head of Compliance is responsible for dealing and communicating with the relevant regulatory authorities.

The disclosure framework covers the key quantitative and qualitative information related to financial performance and financial stability, risk management factors, remuneration, Corporate Governance, related-parties transactions, conflict of interest, substantial changes in business, etc...

SUCCESSION PLAN

The Succession Plan to be adopted for selecting the Board of Directors and Senior Management's members

The Board sets the plans relating to the preparation of the technical cadres for Bank's executive positions that may become vacant. Such succession plans should include statement of qualifications and requirements that candidates should fulfill to occupy such vacant positions.

a. BNRC is responsible for the oversight of the Bank's succession plan process which aims at identifying and developing potential successors for critical and key roles such as the Chairman, GM and other key positions which are vital to the Bank's business continuity and success.

b. The Bank's Succession Policy sets out the guidelines to ensure that, for each critical position, a documented succession plan is put in place to cover the eventuality of the individual holding that position is no longer employed by the Bank.

c. BNRC conducts periodic review of the succession plan and proposes changes to the process as necessary. Any amendment to the Policy is subject to the Board's approval.

ASSESS PERFORMANCE

The rules adopted to assess the performance of both the Senior Management and the Board of Directors regarding their compliance with Good Governance procedures

Board Effectiveness Review

The Board conducts an annual effectiveness review in order to evaluate the performance of the Board, Board Committees and individual Directors.

BNRC is responsible for administering the evaluation process for the Board. All evaluations from any Board Committee shall be submitted to the Board after completion for final scoring purposes.

The Chairman holds private meetings with each Director to discuss the results and to agree on developmental areas relating to their own individual performance. Chairmen of Board Committees are responsible for the evaluation of their Committees.

The Board and Executive Management

The Board shall oversee the conduct of the Bank's business and be primarily responsible for providing affairs, including the appointment of Executive Management, approval of business strategies, and evaluate major risks facing the Bank.

Performance Assessment

Board and Board Committees

The Board through BNRC conducts an assessment of the Board's overall performance and performance of each Board member at least every year. The assessment shall include the members' expertise and knowledge, assessment of their powers and leading characteristics.

BNRC should administer the performance evaluation process for the Board and Board Committees and submit all completed evaluations from all Board Committees to the Board for final scoring purposes. Detailed roles and responsibilities of the BNRC Committee are provided in BNRC Charter.

Performance evaluation of the GM

BNRC shall evaluate the GM's performance at least every year in light of corporate goals and objectives and in consideration of the Bank's overall performance and awards to the GM in the past years.

Board Oversight towards the Executive Management

The Board ensures that the organizational structure of the Bank facilitates effective decision making and good governance. This includes ensuring that lines of responsibility and accountability, which clearly define the key responsibilities and authorities of the Board itself, as well as of Executive Management and those responsible for the control functions (Internal Audit and RMC), are set and enforced throughout the organization.

The Board segregates the position of the Chairman from that of GM, and ensures that no first degree kinship exists between them or any other relation that may affect independency of decisions taken by each position holder. Such separation should be made in responsibilities by virtue of written instructions approved by the Board and be reviewed, whenever needed. In case the separation between the two positions (the Chairman and the GM) does not exist, approval of the regulatory authorities should be obtained in order to abide by its instructions in this respect.