Basel III Pillar 3

Qualitative & Quantitative Disclosures

31 December 2017

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Part 2 – Overview of Risk Management and RWA

OVA – Bank risk management approach

a. Business model determination and interaction with the overall risk profile.

The National Commercial Bank (hereinafter ‘NCB’, or ‘the Bank’, or ‘the Group’) provides banking services to its customers through its three principal operating segments which are: (i) Retail Banking, (ii) Corporate Banking, and (iii) Treasury. Retail Banking offers primarily four products, viz. packaged finance, residential finance, auto lease and credit card. In addition, the Retail Banking is also responsible for the deposit products, foreign exchange and remittances. Corporate Banking caters to the spectrum of clients from large corporates to small and medium enterprises with products including, but not limited to, project finance and syndication, term financing, working capital requirements, trade finance, and cash management. NCB’s treasury is responsible for overall liquidity and investment management of the Bank, trading activities including derivatives, fixed income and Financial Institutions business.

Further to its principal business segments as outlined above, the Bank’s business structure also includes a number of subsidiaries and affiliates. The two material subsidiaries of the Group include – (i) Turkey Finans Katilim Bankasi A.S. (TFKB), which is one of the leading “participation” (Shariah-compliant) banks in Turkey, and (ii) NCB Capital (NCBC), which conducts wealth management, asset management, brokerage and investment banking activities. The details of all the subsidiaries and affiliates are described in note 1.2 in the published financial statements for the year ended 31 December 2017.

Given its business model, NCB is exposed to credit risk, market risk, liquidity risk, macroeconomic risk and interest rate risk in banking book as primary risks. In addition, the Bank is potentially exposed to legal, operational, strategic, reputational, and information security risks. The overall management and mitigation of risks are entrusted with the Risk Group, which consists of six departments, *viz.* (i) Corporate Risk, (ii) Retail Risk, (iii) Market Risk, (iv) Operational Risk, (v) Information Security, and (vi) Enterprise Risk. The Risk Group operates closely with the business groups, Shared Services Group, Finance Group, Compliance Division, Legal Division, Internal Audit Division, and Shariah Group. Overall risk governance is ensured through a number of management level committees and the Board level committees to safeguard that NCB acquires assets with an acceptable risk-return profile in the interest of generating sustainable earnings, whilst maintaining healthy capital adequacy and liquidity to secure a strong credit rating.

Overall risk management strategy, which is subsequently elaborated in various sections of this document, is executed through the following institutional arrangements.

1. Risk governance organization: defines roles and responsibilities with respect to interaction among different stakeholders in the organization;
2. Risk policies: include a range of policies encompassing all risk-taking businesses, which are updated and reviewed regularly. These policies ensure institutionalization of rules and conduct, delegation of authorities and decision rights, risk appetite, and internal capital adequacy assessment and plan; and
3. Risk practices: maintain an up to date risk register, carry regular portfolio reviews and ensure various Board and senior management level risk reporting.

b. The risk governance structure

At NCB, the Board and Senior Management are responsible for all the risks assumed by NCB, including identifying, assessing, communicating and monitoring risks on an enterprise-wide basis, while striking a balance between the risk appetite and the business strategy of the Bank in line with the industry best practice and regulatory expectations. In order to aid this objective, the Board has engaged qualified professionals, established policies and procedures, limits, authority levels, review mechanisms and controls to manage risk within a unified framework. Further, NCB constantly seeks to align its policies and procedures with international best practices to identify, measure, monitor and control its overall risk profile.

The Board delegates some of its risk supervisory responsibilities to certain Board level committees, namely the Executive Committee, the Audit Committee and the Risk Committee. At the management level, Risk Group is an independent control group, headed by the CRO. The CRO reports directly to the CEO in addition to direct engagement and interaction with the Board and its committees throughout the year. In addition, the CRO is a member of the management committees, viz. Higher Management committee (HMC), Asset and liability committee (ALCO), Operational Risk Committee (ORC), Credit and Remedial Management Committee (CRMC) and Information Security Committee. Risk management practice at NCB is further supported by the control functions such as the Shariah Group, the Legal Division, the Compliance Division and the Internal Audit Division.

Aforementioned risk governance framework is also extended to the subsidiaries whereby the Bank exercises control and oversight function through two primary mechanisms - *first*, by having a representation via NCB's senior management in the respective boards and board level committees; and *second*, by institutionalizing a governance arrangement with the Group's control functions. In addition, NCB group board members receive regular reports from the specific subsidiary to exercise effective oversight function. To this effect, a summarized risk report is presented to the NCB Board Risk Committee on quarterly basis.

With the Board and senior management oversight, the Risk Group is responsible for managing various risks on day-to-day basis through different functions, which are as below.

- **Retail Risk Management** is responsible for the development and maintenance of credit risk policy for Retail Banking Group, and provides assurance that proper credit controls and tools are implemented. In addition, it supports retail product development teams to ensure balanced growth, and internal & regulatory risk compliance of the developed product programs.

- **Corporate Risk Management** is responsible for managing the credit risk arising from the corporate financing. It manages credit exposure relating to its very limited trading activities by monitoring credit limits, entering into collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure.

- **Market Risk Management** independently monitors market risk and ensures risk-taking activities be the most optimal given the rewards and capital consumption. The primary categories of market risk the bank is exposed to are interest rate risk, currency exchange rate risk, commodity price risk and equity price risk.

- **Operational Risk Management** seeks to ensure that operational losses do not cause material damage to the Bank. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

- **Information Security** is responsible for the establishment and ongoing management of NCB's information security policies, which set out how NCB protects its information technology assets from attack and misuse. It manages the education and mentoring of NCB's staff to train them in safe information security practices and also manages the external partners engaged by NCB to monitor global information security threats.

- **Enterprise Risk Management** is an overarching function within the Risk Group and is responsible for Bank wide independent risk management practice. Enterprise Risk plays an integral role in the financial planning and budgeting process with respect to key risk metrics and thus is instrumental in setting the risk appetite statement for the Group and business groups. The key functions of the unit include risk capital management and analytics, regulatory analytics, and credit portfolio management. Further, the department also develops and manages all credit rating models and scorecards that are essential for credit risk management in the Bank.

c. Channels to communicate, decline and enforce the risk culture within the bank

As per Basel guidance, effective risk management involves the strategic implementation of three lines of defense as the first principle of the risk management framework. In this regard, NCB has increasingly adopted the practice, which promotes risk culture and facilitates risk communication channels between business groups and control functions. At each line of defense, there is adequate risk governance principles guidance to support the embedded risk management practice. A high level overview of the 'three lines of defense' model is described below.

First Line of Defense:

The first line of defense refers to the front-line business groups who must understand their roles and responsibilities with regard to processing transactions, must follow a systematic risk process, and apply internal controls and other risk responses to deal with the risks associated with those transactions. NCB promotes reporting of violations or breaches of risk thresholds as part of its continuous efforts in rectifying and strengthening its processes.

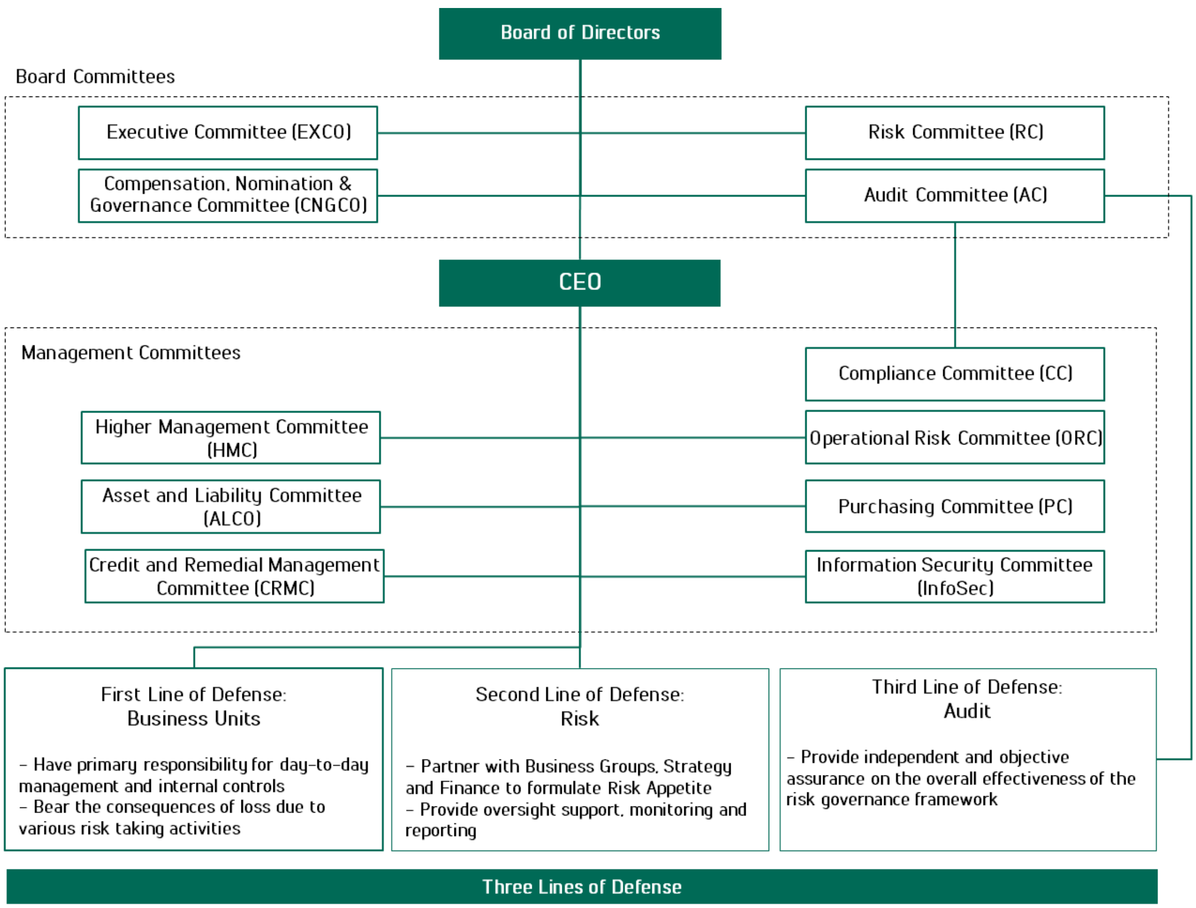
Second Line of Defense:

The second line of defense is the Bank's risk functions that provide independent oversight of the risk management activities of the first line of defense. The risk function assumes an independent role in its day-to-day activities and is responsible for various policies and procedures that define the communication channels, roles and responsibilities including code of conducts and procedures manuals. The process established by the Risk function ensures that all limits are monitored periodically to highlight any breach and corrective actions are formulated for regularizing the same. In this regard, the overall practice is governed by the risk appetite framework that ensures adequate alignment with business groups and proper monitoring on periodic basis.

Third Line of Defense:

The third line of defense consists of internal auditor division reporting independently to the Audit Committee. As a result of this mandate, internal audit is responsible for regular review of the first and second line of defense activities to ensure that the risk management arrangements and structures are commensurate and adequate for discharging necessary responsibilities by various stakeholders in the Bank.

Overall risk governance arrangement, communication and enforcement channels at NCB are presented below.



d. The scope and main features of risk measurement systems

NCB has implemented systems, processes, policies, and methodologies allowing for timely and effective assessment, reaction, and mitigation of potential risks. The objective of using risk management tools is to ensure the following.

- Appropriate quantification and monitoring of risk at the enterprise level
- Risk assumed by the business groups is adequately measured on risk adjusted basis

Following are the key components implemented in the Bank to achieve above objectives.

Risk Capital

NCB uses both regulatory capital in line with Basel III and the economic capital as an internal measure to assess the minimum capital requirements. As per Basel, risks are categorized into two main categories, which are Pillar 1 and Pillar 2 risks. Pillar 1 risks, i.e. credit, market, and operational risks are assessed in accordance with the Basel III guidelines as provided by SAMA. Pillar 2 risks, e.g. liquidity, interest rate risk in the banking book, macroeconomic, strategic, reputational, concentration and other risks are clearly defined by the Bank and different methodologies are employed to estimate the capital in line with industry best practice. Pillar 1 and 2 capital charges are combined to assess the capital requirements in relation to the existing balance sheet and the planned growth.

In addition to the regulatory capital requirements, NCB also uses internally developed economic capital model to further integrate the concept of risk capital into the strategic decision making.

As an effort to integrate risk capital with business strategy, the Bank has institutionalized a risk adjusted return on capital (RAROC) framework, which considers RAROC as a key management tool to assess the business performance and assist in formulating forward looking guidance. In addition, RAROC has been established as an integral tool at origination of transactions.

Risk Rating and Scoring Models

To measure and manage the risk in corporate and retail credit portfolios, exposures to various customer and beneficiaries are subject to internal risk rating and scoring techniques that assess the viability of each relationship or transaction. To this effect, NCB developed and implemented internal credit risk models for its Corporate and Retail portfolios, while taking into consideration IRB requirements. The models and scorecards, in addition to periodic internal validation, are subject to independent validation by an external third party to establish the performance adequacy and requirement for revisions, if any. The investment portfolio is monitored through a due diligence process by taking into consideration ratings provided by applicable rating agencies. Ratings (either internal or external) assume a significant role, which are aggregated to provide a unified assessment metric for each portfolio.

Value at Risk (VaR)

The principal tool used to measure and control market risk exposure within NCB in the trading book is Value at Risk (VaR). The VaR estimates the loss that will arise over a specified period of time due to adverse market movements. The models compute volatility and correlation using relevant historical market data. The VaR is used to set the daily limit of trading activities with a holding period of one day, however, when VaR is used for capital charge computation purposes, the holding period adopted is 1 month.

System and Loss Data Collection

The SAS Operational Risk Monitor is being used for collecting operational risk losses that occur within the bank. The tool is considered to be the industry's prime tool for operational risk losses collection. By implementing this, the Bank is able to record and consider major operational risks/incidents and effectively determine the appropriate measures to mitigate and manage the exposure to these risks. Recorded events are rigorously monitored and analyzed for further escalation. As a result, a comprehensive loss data collection for managing, tracking and reporting risk information is effectively in place.

Risk and Controls Self-Assessment (RCSA)

A qualitative and quantitative risk assessment is conducted within NCB using an identified universe of operational risks contained in the Risk & Control Self-Assessment Framework (RCSA). The assessment of risks and controls is conducted at the business unit level and is subject to treatment and escalation to Group Heads, which set out the operational risk exposure that NCB is willing to tolerate. The Operational Risk department continued conducting the RCSA exercise across NCB covering core and support function divisions in order to ensure active comprehensive operational risk register for NCB is being held.

e. Description of the process of risk information reporting provided to the board and senior management

The board is constantly informed and updated regarding the risk status of the bank through several reports. Following are the key reports which are considered comprehensive and hence provide Group wide risk assessment on periodic basis.

Quarterly Risk Report is submitted to the Board Risk Committee encompassing risks related to the aggregate Group, underlying business groups and the material subsidiaries. The report provides a concise overview of key regulatory ratios and thresholds, capital adequacy, asset quality and provision coverage, risk adjusted return, liquidity position of the Bank, market risk due to the trading activities, interest rate risk in the banking book, major operational risk incidents and mitigating actions, and information security update.

Risk appetite monitoring of the Bank is an integral part of the quarterly reporting to the Board and senior management, which it combines the Bank's business model, governance, and strategic decisions. It holistically integrates the risk limits and performance targets for the Bank and the business groups, and sets the overall risk tolerance boundaries. Additionally, it facilitates the management decisions with various risk targets in order to ensure compliance with regulatory constraints and changing economic conditions.

Stress testing is another key component of the quarterly risk reporting process to the Board and senior management that assesses the potential risk and the resulting impact due to stressed operating scenarios, both macroeconomic or/and idiosyncratic. Stress testing framework at NCB is comprehensive and is reasonably granular, which enables the management and the Board to assess the impact of different scenarios on specific portfolios and sub-portfolios in terms of credit quality, liquidity, and capital adequacy.

Internal Capital Adequacy Assessment Process (**ICAAP)** is considered as the most comprehensive exercise that conducts the risk assessment of the Bank on forward looking basis, given the business plan and growth aspirations. This provides a complete overview of existing capital adequacy and future capital requirements to the Board and the senior management, which aids the long term capital management process in the Bank.

Moreover, senior management exercises its risk management function through various management committees which require more frequent and more granular reporting on risk exposures.

f. Qualitative information on stress testing

NCB conducts its stress test, as mandated by Saudi Arabian Monetary Authority, which is submitted to the regulator on semi-annual basis. However, it is considered as an important internal tool of analyzing the risk profile of the Bank at the enterprise level and provides an understanding of how Group's capital adequacy is impacted by extreme conditions. It is also part of the internal capital adequacy assessment plan (ICAAP) and supplements Bank's internal capital planning.

The stress testing framework is comprehensive and covers all material portfolios which include corporate lending, retail products, treasury investments, Turkish subsidiary and Financial Institutions. All Major risk types are considered within the scope of the NCB stress testing such as credit risk, market risk and operation risk, interest rate risk in the banking book, liquidity risk and concentration risk.

The Bank has formulated several scenarios which include Saudi macroeconomic conditions and external stressed events while appropriately taking into consideration the regulator's requirements. Under each scenario, stressed losses and their impact on capital adequacy ratio (CAR) are assessed. The approach to determining stress test scenarios involves a combination of historical information and expert judgment. In addition to the impact assessment on capital adequacy, NCB also considers stress testing as a key tool to measure and evaluate the Group's funding liquidity position due to sudden and severe stress events. In this regard, the Bank calculates the stressed liquidity outflow due to select scenarios and varying level of shocks to the risk factors. Further, the Bank also conducts sensitivity analysis to assess the combined impact of shift in risk factors under three levels of severity, and a reverse stress test to assess the losses that the Bank would incur in order that it triggers 8% CAR as the reverse stress test threshold.

g. The strategies and processes to manage, hedge and mitigate risks that arise from the bank's business model and the processes for monitoring the continuing effectiveness of hedges and mitigants.

NCB's risk governance structure is designed to manage and mitigate various risks highlighted earlier. Primarily, risks are mitigated through various policies, limits, and proactive actions. A description of major risk mitigation process is provided below.

Credit Risk Mitigation

The Bank uses a wide variety of techniques to reduce credit risk on its lending; one important credit risk mitigation technique is accepting guarantees and collaterals with appropriate coverage. The Bank ensures that the collateral held is sufficiently liquid, legally effective and regularly valued. The method and frequency of revaluation depends on the nature of the collateral involved. Types of acceptable collateral to the Bank include time and other cash deposits, financial guarantees, equities, real estate, other fixed assets and salary assignment in case of individuals.

The collateral is held mainly against commercial and individual financings and is managed against relevant exposures at its net realizable values. NCB monitors the market value of collaterals, requests additional collaterals in accordance with the underlying agreements. Whenever possible, finances are secured by acceptable forms of collateral in order to mitigate credit risk.

NCB's policy is to lend against the cash flow of an operating commercial entity as a first way and primary source of repayment. Collaterals provided by the customer shall be considered only as a secondary source for repayment.

Market Risk Mitigation

Limits are set through a rigorous process whereby the limits proposal is discussed between the Treasury and the Risk Group taking into consideration factors such as risk level of individual investments, risk appetite of the Bank, market conditions, potential impact of correlation and stress scenarios et cetera. The limits package is circulated to the Assets and Liabilities Committee (ALCO) for concurrence, and then to the Risk Committee/Board for approval.

- Market Risk independently checks and monitors adherence to the set limits. This ensures controls are in place and breaches are escalated as applicable.
- Investments are only permissible in approved asset classes as agreed by the Board in the annual limits package.
- Treasury is allowed to deal (whether with client or for trading purposes) only in approved products. Product approvals are obtained through the Treasury Product Approval Committee in alliance with the Bank's major stakeholders to ensure risk, accounting, operations and compliance aspects are covered.
- Reporting to ALCO and the Board/Risk Committee ensures Senior Management oversight.
- The high level of automation achieved contributes to the minimization of operational errors.

Liquidity Risk Mitigation

In order to mitigate the risk of funding crisis and to effectively prepare a Contingency Funding Plan (CFP) has been established by the Bank. CFP is the compilation of policies, procedures and action plans for assessing and responding to severe disruptions to a Bank's ability to fund some or all of its activities in a timely manner and at a reasonable cost. In essence, it combines early warning procedures and advance preparation for potential high severity/low probability liquidity risk. At NCB, the CFP framework is put in place to ensure the following.

- The Bank is resilient to funding shock.
- The Bank continues assessment of the Bank's overall liquidity position and its funding sources that's is reviewed by treasurer, escalated to ALCO if needed.
- The Bank continues to operate, as normal as possible, during a funding crisis to protect franchise value.
- There is no forced additional funding or equity at unacceptable cost.

The ALCO sets the broad framework for the Treasury Group in seeking to ensure that NCB is in a position to meet its financial commitments on a constant basis. Any changes to pricing strategy and environment require ALCO approval. An ALCO meeting is held on a monthly basis to handle, consider and address any issues relating to maturity mismatches, commission rate risk/sensitivity and yield/cost analysis. Key features of Bank's ongoing liquidity risk mitigation plan are as below.

- NCB maintains a minimum of liquid assets to manage unforeseen conditions.

- The Bank manages its liquidity and cash flow dynamically through the use of various money market instruments such as interbank placements, repo and long-term debt products as well as hybrid structures.
- ALCO’s endorsement is required for any changes to be made to the pricing strategy and environment.
- Diversification of the depositor base is achieved by reducing dependence on large depositors and maintaining a mix of deposits including low-cost deposit.
- Periodic look through of the investment book liquidity profile under normal, stress and extreme market conditions is undertaken.

OV1 – Overview of RWA

		a	b	c
		RWA		Minimum capital Requirements
		T (Dec-17)	T-1 (Sep-17)	T (Dec-17)
1	Credit risk (excluding counterparty credit risk) (CCR)	291,957,977	298,544,782	23,356,638
2	Of which standardized approach (SA)	291,957,977	298,544,782	23,356,638
3	Of which foundation internal ratings-based (F-IRB) approach			
4	Of which supervisory slotting approach			
5	Of which advanced internal ratings-based (A-IRB) approach			
6	Counterparty credit risk	8,089,254	7,269,328	647,140
7	Of which standardized approach for counterparty credit risk	8,089,254	7,269,328	647,140
8	Of which internal model method (IMM)			
9	Of which other CCR			
10	Credit valuation adjustment (CVA)	7,312,758	15,845,794	585,021
11	Equity positions under the simple risk weight approach			
12	Equity investments in funds – look-through approach	7,355,271	10,210,228	588,422
13	Equity investments in funds – mandate-based approach			
14	Equity investments in funds – fallback approach	2,548,638	3,394,322	203,891
15	Settlement risk			
16	Securitization exposures in banking book	420,238	511,810	33,619
17	Of which securitization internal ratings-based approach(SEC-IRBA)			
18	Of which securitization external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)			
19	Of which SA/simplified supervisory formula approach (SSFA)	420,238	511,810	33,619
20	Market risk	9,452,340	10,380,150	756,187
21	Of which standardized approach (SA)	9,452,340	10,380,150	756,187
22	Of which internal model approaches (IMM)			
23	Capital charge for switch between trading book and banking book			
24	Operational risk	33,970,252	33,658,074	2,717,620
25	Amounts below the thresholds for deduction (subject to 250% risk weight)			
26	Floor adjustment			
27	**Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)**	**361,106,728**	**379,814,488**	**28,888,538**

The reduction in counterparty risk (RWA) is mainly due to the enhancement in credit quality of the derivatives portfolio and refinement of the computation mechanism. For the investment in funds and securitized asset, the decrease in (RWA) is due to the reduction in portfolio size.

Part 3 – Linkages between financial statements and regulatory exposures

LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with SAMA	37,969,234	37,969,234	37,969,234				
Due from banks and other financial institutions	21,966,218	21,966,218	21,966,218				
Investments, net	114,577,825	114,577,825	112,476,637		2,101,188		
Financing and advances, net	249,234,246	249,234,246	249,234,246				
Positive fair value of derivatives, net	2,688,458	2,688,458		2,688,458			
Investments in associates, net	450,048	450,048	450,048				
Other real estate, net	861,523	861,523	861,523				
Property and equipment, net	5,280,672	5,280,672	5,280,672				
Goodwill and other intangible assets, net	303,037	303,037					303,037
Other assets	10,534,606	10,534,606	10,534,606				
Total assets	**443,865,867**	**443,865,867**	**438,773,184**	**2,688,458**	**2,101,188**		**303,037**
Liabilities							
Due to banks and other financial institutions	48,557,941						48,557,941
Customers' deposits	308,942,120						308,942,120
Debt securities issued	10,250,310						10,250,310
Negative fair value of derivatives, net	1,945,440						1,945,440
Other liabilities	9,894,458						9,894,458
Total liabilities	**379,590,269**						**379,590,269**

LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	443,865,867	438,773,184	2,101,188	2,688,458	
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)					
3	Total net amount under regulatory scope of consolidation	443,865,867	438,773,184	2,101,188	2,688,458	
4	Off-balance sheet amounts	74,535,507	42,887,578			
5	Differences in valuations	861,415				
6	Differences due to different netting rules, other than those already included in row 2					
7	Differences due to consideration of provisions	6,800,896	3,232,341			
8	Differences due to Goodwill	(303,037)				
9	Differences due to prudential filters	(1,330,362)				
10	Derivatives	244,994,907			7,084,268	4,104,294
11	**Exposure amounts considered for regulatory purposes**	**769,425,193**	**484,893,103**	**2,101,188**	**9,772,726**	**4,104,294**

LIA – Explanations of differences between accounting and regulatory exposure amounts

In On-balance sheet amounts, there are no differences between Carrying values as reported in published financial statements and Carrying values under scope of regulatory consolidation. However, off-balance sheet and derivatives amounts have been reported as notional figures in published financials while credit equivalent amounts have been considered under regulatory scope framework after applying Credit Conversion Factors (CCF) in off-balance sheet items including adjustments in derivative portfolio.

For valuation methodologies please refer to notes 2.5, 39, and 40 of the Audited Financial Statements for the year ended 31 December 2017.

Part 5 – Microprudential supervisory measures

CCyB1 – Geographical distribution of credit exposures used in the countercyclical buffer

	a	b	c	d	e
Geographical breakdown	Countercyclical capital buffer rate	Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
		Exposure values	Risk-weighted assets		
N/A*	N/A				
Sum					
Total		309,752,759	252,160,459	-	-

*as per the definitions and instructions of CCyB, NCB does not have any private sector exposure that is attracting a countercyclical capital buffer in any jurisdiction

Part 6 – Leverage ratio

LR1 – Summary comparison of accounting assets vs leverage ratio exposure measure

		a
1	Total consolidated assets as per published financial statements	443,865,867
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
4	Adjustments for derivative financial instruments	2,811,078
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	42,887,578
7	Other adjustments	(303,037)
8	**Leverage ratio exposure measure**	**489,261,486**

LR2 – Leverage ratio common disclosure template

		a	b
		T (Dec-17)	T-1 (Sep-17)
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs),but including collateral)	441,177,409	441,879,885
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(303,037)	(323,681)
3	**Total on-balance sheet exposures** (excluding derivatives and SFTs) (sum of rows 1 and 2)	**440,874,372**	**441,556,204**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	2,688,458	2,799,375
5	Add-on amounts for PFE associated with all derivatives transactions	2,811,078	3,457,725
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework		
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
8	(Exempted CCP leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	**Total derivative exposures (sum of rows 4 to 10)**	**5,499,536**	**6,257,100**
Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions		
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	CCR exposure for SFT assets		
15	Agent transaction exposures		
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**		
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	74,535,507	79,842,679
18	(Adjustments for conversion to credit equivalent amounts)	(31,647,929)	(35,517,689)
19	**Off-balance sheet items (sum of rows 17 and 18)**	**42,887,578**	**44,324,990**
Capital and total exposures			
20	**Tier 1 capital**	**63,825,326**	**62,260,027**
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	**489,261,486**	**492,138,294**
Leverage ratio			
22	**Basel III leverage ratio**	**13.0%**	**12.7%**

Part 7 - Liquidity

LIQA – Liquidity Risk Management

a. Governance of liquidity risk management

The management of liquidity risk within the bank is undertaken within a formal governance structure. The Board of Directors oversees the liquidity risk appetite and strategy of the bank; the Risk Committee of the Board of Directors reviews the key liquidity metrics in the context of the bank's overall risk profile on a quarterly basis.

The Asset and Liability Management Committee (ALCO) chaired by the Chief Executive Officer and including Head of Corporate Banking Group, Head of Finance Group, Head of Retail Banking Group, Head of Risk Group, Head of Treasury Group, Head of Strategy & Business Development Group, Head of Economics, Head of Principal Strategies, sets metrics across a number of asset and liability targets and these are cascaded to the business and monitored by Finance Group and Risk Group. Treasury Group has the overall responsibility for the daily monitoring and control of the bank's liquidity and funding positions and manages liquidity mismatches and interest rate exposure within ALCO approved limits.

NCB has identified a risk tolerance in terms of key liquidity ratios (e.g. LCR and NSFR) that is aligned to the sound principles of liquidity risk management taking into account regulatory requirements, funding needs and the overall business plan of the bank. In addition to the mandatory regulatory requirements, ALCO has established internal liquidity targets to ensure adequate liquidity is available all the time.

b. Funding strategy

NCB funding strategy is focused on building a strong funding profile and broad customer base that will provide the bank with stable and efficiently priced funding within the parameters of prudent liquidity management. This is achieved through diversification & flexibility.

Maintaining funding diversity is a key element of the bank's funding strategy. Diversity is assessed from a number of perspectives including but not limited to the following:

- Currency
- Type of Market
- Maturity term

Another key aspect of the strategy is to have the maximum flexibility to access the widest range of funding markets (money markets, capital markets). This approach enables the Group to adjust the sources of its funding as market preferences and investor demands change.

c. Liquidity framework and liquidity risk mitigation techniques

NCB has an effective liquidity framework designed to deliver the appropriate term and structure of funding consistent with the Group's Liquidity Risk Appetite and in full compliance with regulatory requirements. Each entity within the Group manages its liquidity within this framework.

Liquidity risk is defined as the risk that the bank is unable to meet its obligations as they fall due, leading to an inability to support normal business activity and meet liquidity regulatory requirements. The framework incorporates a range of ongoing business management tools to monitor, limit and stress-test the balance sheet and contingent liabilities:

- Limit setting and transfer pricing are tools designed to control the level of liquidity risk taken and to drive the appropriate mix of funds, which together reduce the likelihood that a liquidity stress event could lead to an inability to meet the Group's obligations as they fall due.
- The stress tests assess potential contractual and contingent outflows under a range of scenarios, which are then used to determine the size of the liquidity buffer that is immediately available to meet anticipated outflows if a stress occurred.

It is NCB strategy to mitigate liquidity risk through the prudent implementation of various risk mitigation techniques such as:

- Holding liquid assets: NCB maintains a strong and high-quality liquidity pool that consists exclusively of unencumbered assets, representing resources immediately available to meet outflows in a stress situation. The liquidity pool mainly comprises cash and balances with central banks, government bonds and other highly liquid assets, denominated in multiple currencies and with different maturities. The size of the liquidity pool is determined by the size of the stress outflows and in full compliance with regulatory guidelines, ensuring that the Group is able to meet its obligations as they fall due even in the event of a sudden and potentially protracted increase in net cash outflows.

- Diversification of funding sources: through implementing strategies to diversify funding sources across entities and on different maturities.

- Market access: the Group has lines of credit in place that it can access to meet liquidity needs.

d. Liquidity stress testing

Under the liquidity framework, the Bank has established Liquidity Stress Scenarios, together with the appropriate limits for the management of the liquidity risk. This is the level of liquidity risk the Bank chooses to take in pursuit of its business objectives and in meeting its obligations. The key expression of the liquidity risk is through internal stress testing. This involves comparing the liquidity pool with anticipated stressed net contractual and contingent outflows under a variety of stress scenarios.

e. Contingency funding plan

In addition, NCB maintains a contingency funding plan that details how liquidity stress events of varying severity would be managed. As the precise nature of any stress event cannot be known in advance, the plan is designed to be flexible to the nature and severity of the stress event, and provide a menu of options that could be used as appropriate at the time. The plan is part of the approved liquidity risk policy. ALCO monitors early warning indicators for potential liquidity risk and would activate the contingency funding plan as and when appropriate.

Additional quantitative disclosures

	Less than 8 days	8 – 30 days	30 – 90 days	90 – 180 days	180 – 360 days	1 - 3 years	3 - 5 years	Over 5 years
Assets	41,043,340	22,737,450	34,361,177	30,687,350	33,994,552	89,893,392	61,295,703	126,027,571
Liabilities	272,265,475	37,881,960	23,896,446	13,541,338	9,137,815	2,670,184	2,009,622	5,944,066
Off Balance Sheet Commitments	5,685,232	2,786,870	9,989,197	9,641,348	14,887,095	12,476,712	3,677,064	6,302,088
Liquidity Gap	**(236,907,367)**	**(17,931,380)**	**475,534**	**7,504,664**	**9,969,642**	**74,746,496**	**55,609,017**	**113,781,417**

NCB measures its liquidity positions by monitoring liquidity gaps for various buckets as well as through Basel III liquidity ratios, SAMA"s statutory liquidity ratio and keeping an eye on intraday positions. In the above table, cash inflows and outflows are bucketed based on contractual maturities, while exposures with no maturity are slotted into Over 5 years bucket. This methodology in determining liquidity gaps is monitored and managed by ALCO.

NCB does not impose hard limits on funding composition and concentrations, given the nature of funding mix in the Saudi banking system. However, they are very closely managed by the Treasury Group and monitored by the Risk Group and Finance Group. Key measures are monthly reported to ALCO. NCB also monitors concentration in accepted collaterals to ensure its quality and eliminate undue risk.

Funding needs of NCB's subsidiaries are determined and managed at the subsidiary level. To ensure that NCB supports the liquidity position of its subsidiaries and extend resources in times of stress, it sets limits on lines of funding available to subsidiaries based on the budget, additional funding requirements, and liquidity needs. These limits are reviewed on annual basis as part of the budgeting process of the group.

LIQ1 – Liquidity Coverage Ratio (LCR)

		a Total unweighted value (average)	b Total weighted value (average)
High-quality liquid assets			
1	Total HQLA		95,128,719
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	**219,155,543**	**21,063,761**
3	Stable deposits		
4	Less stable deposits	219,155,543	21,063,761
5	**Unsecured wholesale funding, of which:**	**88,060,043**	**42,280,008**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	88,060,043	42,280,008
8	Unsecured debt		
9	**Secured wholesale funding**		**4,203,527**
10	**Additional requirements, of which:**	**16,296,018**	**767,967**
11	Outflows related to derivative exposures and other collateral requirements	(634,206)	(634,206)
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	16,930,224	1,402,173
14	**Other contractual funding obligations**		
15	**Other contingent funding obligations**	**117,839,596**	**2,577,416**
16	**TOTAL CASH OUTFLOWS**		**70,892,679**
Cash inflows			
17	**Secured lending (e.g. reverse repos)**		
18	**Inflows from fully performing exposures**	**36,455,017**	**17,231,268**
19	Other cash inflows		
20	**TOTAL CASH INFLOWS**	**36,455,017**	**17,231,268**
			Total adjusted value
21	**Total HQLA**		**95,128,719**
22	**Total net cash outflows**		**53,661,411**
23	**Liquidity Coverage Ratio (%)**		**177%**

Part 8 – Credit Risk

CRA – General information about credit risk

a. Business model and credit risk profile

Credit risk is the risk that a customer or counterparty of NCB fails to meet its obligations in accordance with the relevant agreed terms causing NCB to incur a financial loss. Given the business model, credit risk of the Bank emerges primarily from three sources – (i) financing activities, (ii) investments, and (iii) over the counter derivatives. NCB manages its credit exposure through various tools and functions e.g. target market and risk acceptance criteria (TM & RAC), credit limits, collateral arrangements, exposure management of derivatives book et cetera. Overall credit risk management is governed by the credit and investment policies of the Bank and various policy bulletins from time to time. Acceptance of specific credit initiation is undertaken either on individual customer basis (mainly in corporate) or on credit program basis (mainly in retail). All acceptances of credit risk are undertaken through the approval by appropriate risk authority levels – either on individual basis or on a program basis that are independent from the origination.

b. Criteria and approach used for defining credit risk management policy and for setting credit risk limits

Credit Risk Policies - There are two main credit risk management policies, *viz.* Corporate Banking Group Credit Policy Manual and Consumer Finance Islamic Credit Policy.

The Corporate Banking Group Credit Policy Manual covers core credit policies for identifying, measuring, approving, managing, and reporting credit risk in the Corporate Banking Group. In addition, the corporate banking credit policy standard has following two notable features.

- **Credit Program** is used to approve a series of credit proposals where the facility type and associated risks are homogenous in character or for transaction types that require a specific set of TM & RAC such as real estate financing, and project finance.
- **Credit Procedures** are mainly addressed through Credit Bulletins and appendices approved by the Head of Corporate Risk Management (HCRM) when the processes are substantially controlled by Corporate Risk Management. Procedures that are substantially controlled by other business or support units will be written by those units and reviewed by other stakeholders including Corporate Risk Management.

The Consumer Finance Islamic Credit Policy Manual encompasses the following governance policies.

- **Consumer Finance Islamic Credit Policy** provides the definition of policy content, organizational structure, broad process description and responsibilities.
- **Business Credit Policy** defines detailed credit policies at the product level, authorities at operational level, product level portfolio management & processes, and scoring methodologies & mechanisms.
- **Credit Operational Procedures** defines Know Your Customers (KYC) processes, implementation processes, credit related authorities at operational level, and collection strategy.

The Bank strives to maintain the credit quality of its financing assets through effective risk management practices with an objective to manage loss provisioning, defaults, and write-offs which, in turn, would help the Bank in achieving its financial targets within overall strategy.

Credit Concentration Risk Management Policy – The policy provides a framework that facilitates effective management of concentration at the bank wide level. The policy defines concentration risk as any single credit exposure or group of exposures with the potential to produce losses large enough to threaten NCB's ability to maintain its financial performance. The framework functions under the following principles to identify, assess, control, and mitigate concentration risk:

- Setting parameters which identify sources of concentration risk.
- Determination of measurement methods and acceptable levels of concentration.
- Establishment of concentration risk monitoring and reporting mechanism.
- Development of a mitigation plan in order to treat deviations of acceptable concentration levels in light of the bank's strategy and future plans.

The main objective of the credit concentration policy is to maintain a well-diversified credit loans and investments portfolios. This entails determining the adequate compensation for acceptable concentration levels.

Concentration risk parameters are defined in parallel with NCB's overall strategy, risk appetite and normal course of credit risk management. These parameters include, but are not limited to, business segments, economic sectors, loan products, lending currencies, and maturities.

NCB carries out a regular analysis of its portfolio and exposures and takes into account of the results of these analyses in setting limits for identified material concentration parameters, thresholds or similar concepts for concentration risk management. Subsequently, limits are monitored against actual exposures following these steps:

1. Collecting and aggregating input data relevant to identified concentration parameters.
2. Analyzing data and measure the current concentration levels against the approved concentration limits.
3. Reporting the status of the credit portfolio in comparison to the concentration limits.
4. Assess the results of the report and study/analyze the rationale of the movements within the portfolio.
5. Determining whether any actions are needed in cases of breaches or non-breaches.

The credit concentration risk management policy ensures that corrective action plan is communicated to the adequate level of authority. The aim is to instill accountability and enforceability of action plans in a timely manner.

Target Market and Risk Acceptance Criteria (TM & RAC) - When originating a credit relationship and during regular reviews of such relationship, NCB sets a carefully screened Target Market (TM) and an appropriate set of Risk Acceptance Criteria (RAC) to determine the type of client/segment (TM) and type of exposure (RAC). The principle of overall risk acceptance, among other factors, takes into consideration two important risk factors, viz. (i) macroeconomic risk and (ii) concentration risk. *First,* the macroeconomic risk is carefully assessed through annual review of industry trends and the short and medium terms impacts are conducted with the Economics Department. *Second,* the concentration risk, which is relevant in case of corporate credit portfolio, is managed specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration of risk which is implemented through customer and sector limit structures. Risk and business conduct alignment review sessions to continuously monitor portfolio and segment limits and concentrations. Further, all interrelated companies controlled by the same management and/or ownership structure are treated as one entity/group.

c. Structure and organization of the credit risk management and control function

Credit risk is managed through a Board approved framework of policies and procedures covering the approval, the measurement and the management of credit risk. All credit exposure limits are approved within a defined credit approval authority framework. The Bank manages its credit exposures following the principle of diversification across products, country limits, industries, client and customer segments, and through continuous assessment of the counterparties' creditworthiness.

Corporate Credit - The Corporate Credit Risk function primarily comprises of (i) undertaking independent reviews and approval of corporate credit proposals and (ii) developing and maintaining the Bank's credit policy. The Corporate credit risk function, led by the Head of Corporate Risk Management (HCRM), includes senior credit officers based regionally with industry specializations Kingdom wide. These senior officers fulfill an essential role in the risk approval and control process given their expertise and independence from business line management. They objectively scrutinize and approve credit proposals within the limits set by the credit policy of the Bank. Approval of the Executive Committee and/or Board is required to extend facilities to the customer above certain risk-based thresholds.

Retail Credit - The Retail risk function, led by the Head of Retail Risk Management, comprises of two departments, viz. Credit Policy and Portfolio Management & Collections Strategy to manage the overall risk profile of the consumer lending business. The Credit Policy Department is responsible for consumer credit risk management and developing and maintaining the Bank's retail credit policies. The Retail Portfolio Management & Collections Strategy handles all portfolio and risk analytic activities, including strategy and support to collections related to the consumer portfolio regarding the management of past due accounts and recoveries of written-off accounts.

Relationships between the credit risk management, risk control, compliance and internal audit functions

The relationship is based on clear separation between the credit risk management, risk controls, compliance and internal audit. Each of the aforementioned functions has a well-defined mandates. This is to ensure full independence of each of these functions organizationally and functionally. However, all these functions operate in a coordinated manner to ensure that the Bank maintains the desired risk quality of the various credit portfolios.

Credit Risk Management, as mentioned above, is responsible for conducting credit assessments, and credit approval within the Bank's tolerance level, risk appetite and policy standard.

Credit Control is responsible for ensuring appropriate documentation for all facilities throughout the credit life cycle. Any deficiencies in the credit workflow and documentation are escalated to the appropriate business groups as part of quality assurance and process control. In addition, limits and collaterals are maintained and monitored by credit control to ensure no breaches of limits and adequate coverage of collaterals.

Compliance Division is responsible for implementing local regulatory and statutory requirements pertaining to credit risk and assisting the Board, the Audit Committee, Risk Committee and Senior Management in managing and controlling NCB's compliance risk.

Internal Audit Division, which reports directly to the Audit Committee is responsible for providing an independent, objective assurance and consulting service to the Audit Committee designed to improve NCB's credit practices and operations. Internal Audit conducts a comprehensive and independent review of credit process at least on annual basis.

d. Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors

The scope of credit risk management and its exposures includes NCB and its consolidated subsidiaries, which are as below.

- NCB and its branch in Bahrain
- NCB Capital and its consolidated subsidiaries
- Turkiye Finans, NCB's subsidiary in Turkey

As mentioned earlier, the credit risk is managed through a set of policies and procedures covering the approval, the measurement and the management of credit risk. The Bank manages its credit exposures following the principles of diversification across products, country limits, industries, client and customer segments, and through continuous assessment of the counterparties' creditworthiness. Various reports intended to provide a comprehensive assessment of credit risk to the Board and senior management include the following.

- Quarterly Risk Reports – complete overview of bank's risk exposures presented to the Risk Committee of the Board at the Group, business groups and subsidiaries level.
- Credit Remedial Management Committee – detailed credit portfolio performance presented to senior management on monthly basis
- Risk Appetite – monitoring key credit risk indicators, limits, and threshold on quarterly basis.
- Concentration Risk Report – review exposures in the predefined parameters against concentration limits on a quarterly basis.

CR1 – Credit quality of assets

		a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	4,768,992	251,266,150	6,800,896	249,234,247
2	Debt Securities		110,107,728	31,790	110,075,938
3	Off-balance sheet exposures		74,535,507	308,793	74,226,714
4	**Total**	**4,768,992**	**435,909,385**	**7,141,479**	**433,536,899**

A **default** is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

1. The obligor is past due for 90 days or more on any material credit obligations to the Bank including principal instalments, interest payments and fees. The materiality threshold for recognition of default is 5% of the total outstanding credit obligations of the client.
2. The bank considers that the obligor is unlikely to pay its credit obligations to the bank in full, without recourse by the bank to actions such as realizing security (if any).

CR2 – Changes in stock of defaulted loans and debt securities

		a
1	**Defaulted loans and debt securities at end of the previous reporting period**	3,925,482
2	Loans and debt securities that have defaulted since the last reporting period	3,916,813
3	Returned to non-defaulted status	688,816
4	Amounts written off	1,722,278
5	Other changes	(662,209)
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**4,768,992**

CRB – Additional disclosure related to the credit quality of assets

a. The scope and definitions of "past due" and "impaired" exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes.

Definition of "**Past due**": When a payment obligation on a credit account is not fulfilled in a timely fashion, the account should be considered 'past due'.

In case of loan accounts where there is a clear date of payment, each day the account is past due should be counted until the obligation is met. The number of days that the obligor is past due at a given point in time should be referred to as 'days past due'.

Impaired: A loan is considered impaired when management determines that it is more probable that the bank will not be able to collect all amounts due according to the original contractual terms or the equivalent value. Part c will further describe the methods used to determine impairments.

b. The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.

The 90 days past due rule will generally apply unless the Bank has strong documentary evidence to support a different classification. Substantial scrutiny is required to ensure that such evidence is in place and fully documented.

c. Description of methods used for determining impairments.

Impairment is considered to have occurred with regard to a particular exposure when either or both of the two following events have taken place:

1. The exposure is past due for 90 days or more on any material credit obligations to the Bank including principal instalments, interest payments and fees. The materiality threshold for recognition of default is 5% of the total outstanding credit obligations of the client.
2. The bank considers that the obligor is unlikely to pay its credit obligations to the bank in full, without recourse by the bank to actions such as realizing security (if any).

d. The bank's own definition of a restructured exposure.

A restructuring applies to a single payment or multiple payment obligations being extended for more than 90 days beyond the maximum period approved for that facility.

A Restructuring or Forbearance occurs on transactional basis when:

- A counterparty is experiencing **financial difficulties** in meeting its financial commitments; and
- A bank grants a **concession** that it would not otherwise consider.

Quantitative disclosures: the required information are described in the below tables from section (e) to (h)

(e) The following tables in section e provide breakdown of On-Balance sheet, Off-Balance sheet and Derivatives exposures by geography, industry and maturity:

Geographic Breakdown (SAR '000)								
Portfolios	Geographic area							
	Saudi Arabia	Other GCC & Middle East	Europe	Turkey	North America	South East Asia	Others countries	Total
Sovereigns and central banks:	77,971,596	5,808,816		9,333,418	5,765,844	2,724,798	1,785,443	**103,389,915**
SAMA and Saudi Government	77,971,596							**77,971,596**
Others		5,808,816		9,333,418	5,765,844	2,724,798	1,785,443	**25,418,319**
Multilateral Development Banks (MDBs)	2,073,847				652,958	57,895		**2,784,700**
Public Sector Entities (PSEs)				3,996				**3,996**
Banks and securities firms	8,957,945	8,369,004	12,302,504	1,513,079	1,507,381	345,916	6,621,510	**39,617,338**
Corporates	147,076,136	18,332,165	871,657	16,029,819	6,234,472	1,514,211	4,793,488	**194,851,948**
Retail non-mortgages	72,470,179			8,694,397				**81,164,576**
Small Business Facilities Enterprises (SBFE's)	1,119,439			7,105,822				**8,225,260**
Mortgages	24,335,729			7,724,896				**32,060,625**
Residential	19,972,700			3,111,202				**23,083,902**
Commercial	4,363,029			4,613,694				**8,976,723**
Securitized assets					2,101,188			**2,101,188**
Equity	1,544,376	15,531	1,377	4,915	3,814,362			**5,380,562**
Others	21,509,053	496,756	8,750,581	3,076,977	243,503		1,275,971	**35,352,841**
Total	**355,938,861**	**33,022,272**	**21,926,119**	**46,381,497**	**20,319,707**	**4,642,820**	**14,476,412**	**496,707,689**

Industry Sector Breakdown (SAR '000)													
Portfolios	Industry sector												
	Government and quasi government	Banks and other FI	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health services	Building and construction	Commerce	Transportation and communication	Services	Consumer loans & credit cards	Others	Total
Sovereigns and central banks:	103,389,915												**103,389,915**
SAMA and Saudi Government	77,971,596												**77,971,596**
Others	25,418,319												**25,418,319**
Multilateral Development Banks (MDBs)		2,784,700											**2,784,700**
Public Sector Entities (PSEs)										3,908		88	**3,996**
Banks and securities firms		39,617,338											**39,617,338**
Corporates	10,404,197	91,758	722,824	34,940,057	7,912,926	25,338,444	20,744,800	46,485,419	16,108,749	21,238,523		10,864,250	**194,851,948**
Retail non-mortgages		29,955	137,125	2,404,501	67,629	142,060	1,238,379	3,497,211	305,103	738,406	72,602,545	1,662	**81,164,576**
Small Business Facilities Enterprises (SBFE's)		6,090	137,117	2,359,646	67,624	142,060	1,237,816	3,232,760	305,085	737,062			**8,225,260**
Mortgages		6,970	96,020	1,775,956	45,223	224,175	2,497,164	3,850,864	142,261	1,351,859	22,070,133		**32,060,625**
Residential		3,638	16,017	215,173	8,281	22,292	414,428	369,096	47,445	138,078	21,849,454		**23,083,902**
Commercial		3,332	80,003	1,560,783	36,941	201,883	2,082,736	3,481,768	94,816	1,213,781	220,680		**8,976,723**
Securitized assets		2,101,188											**2,101,188**
Equity		5,000,709		11,050				367,802		1,000			**5,380,562**
Others		10,996,865	6,182	86,535	5,256	3,777	77,941	150,255	6,377	904,451		23,115,203	**35,352,841**
Total	**113,794,112**	**60,629,483**	**962,151**	**39,218,099**	**8,031,035**	**25,708,455**	**24,558,283**	**54,351,552**	**16,562,490**	**24,238,147**	**94,672,678**	**33,981,203**	**496,707,689**

Residual Maturity Breakdown (SAR '000)									
Portfolios	Maturity breakdown								
	Less than 8 days	8-30 days	30-90 days	90-180 days	180-360 days	1-3 years	3-5 years	Over 5 years*	Total
Sovereigns and central banks:	5,299,541	9,400,535	909,769		3,048,633	3,786,503	15,338,965	65,605,968	**103,389,915**
SAMA and Saudi Government	3,070	9,400,535	5,154		1,455	891	9,357,117	59,203,375	**77,971,596**
Others	5,296,471		904,615		3,047,179	3,785,613	5,981,848	6,402,593	**25,418,319**
Multilateral Development Banks (MDBs)						1,943,959	187,783	652,958	**2,784,700**
Public Sector Entities (PSEs)	553	27	133	69	1,106	76		2,032	**3,996**
Banks and securities firms	5,535,854	3,272,620	8,986,425	3,334,770	8,234,980	5,750,975	1,890,582	2,611,132	**39,617,338**
Corporates	1,982,938	4,527,638	48,784,292	32,931,008	31,146,003	23,377,937	24,409,073	27,693,058	**194,851,948**
Retail non-mortgages	3,636,394	417,860	1,045,484	1,726,511	2,645,822	16,078,622	49,148,099	6,465,784	**81,164,576**
Small Business Facilities Enterprises (SBFE's)	359,427	294,652	821,925	1,288,894	1,535,325	3,056,152	400,149	468,735	**8,225,260**
Mortgages	299,580	596,088	868,885	1,091,934	1,112,822	3,439,791	1,949,353	22,702,171	**32,060,625**
Residential	60,710	30,852	106,265	167,491	360,581	1,109,854	741,429	20,506,721	**23,083,902**
Commercial	238,871	565,236	762,620	924,443	752,242	2,329,937	1,207,925	2,195,450	**8,976,723**
Securitized assets								2,101,188	**2,101,188**
Equity	4,915							5,375,647	**5,380,562**
Others	11,223,117	189,225	542,840	1,242,353	928,465	233,887	243,152	20,749,802	**35,352,841**
Total	**27,982,891**	**18,403,994**	**61,137,829**	**40,326,645**	**47,117,832**	**54,611,751**	**93,167,008**	**153,959,739**	**496,707,689**

**Under over 5 years, there are items such as statutory legal reserve with SAMA of SAR 18,045,112 and fixed assets of SAR 5,280,672 which have no fixed maturities*

(f)

Impaired Loans, Past Due Loans and Allowances (SAR '000)										
Industry sector	Impaired loans	Defaulted	Aging of Past Due Loans (days)				Specific allowances			General allowances
			Less than 90	90-180	180-360	Over 360	Charges during the period	Charge-offs during the period	Balance at the end of the period	
Government and quasi government										
Banks and other financial institutions	115	115	216			115	21	(39)	75	
Agriculture and fishing	29,279	29,279	1,192	1,532	2,388	25,359	1,385	(6,707)	20,337	
Manufacturing	953,161	953,161	350,308	133,675	291,931	527,554	327,309	(146,620)	688,581	
Mining and quarrying	11,841	11,841	1,509	673	1,124	10,044	766	(5,845)	6,261	
Electricity, water, gas and health services	23,077	23,077	21,961	121	3,495	19,461	3,882	(125)	17,577	
Building and construction	1,018,994	1,018,994	324,463	102,663	519,695	396,636	627,534	(236,691)	883,261	
Commerce	1,702,837	1,702,837	859,749	91,753	317,328	1,293,757	323,080	(226,138)	1,303,759	
Transportation and communication	107,150	107,150	32,547	1,199	8,437	97,513	(2,171)	(10,674)	97,351	
Services	251,646	251,646	87,501	29,164	15,499	206,982	16,432	(8,425)	179,020	
Consumer loans and credit cards	583,944	583,944	3,480,383	433,687	76,202	74,055	1,078,050	(1,081,014)	298,591	
Others	86,948	86,948	760,343	10,886	5,207	70,853	11,293		73,742	
Total	**4,768,992**	**4,768,992**	**5,920,172**	**805,354**	**1,241,307**	**2,722,330**	**2,387,581**	**(1,722,278)**	**3,568,555**	**3,232,341**

Impaired Loans, Past Due Loans And Allowances (SAR '000)							
Geographic area	Impaired loans	Aging of Past Due Loans (days)				Specific allowances	General allowances
		Less than 90	90-100	180-360	Over 360		
Saudi Arabia	3,368,998	4,645,618	653,610	1,032,296	1,683,091	2,609,636	2,930,221
Other GCC & Middle East							
Turkey	1,399,994	1,274,554	151,744	209,011	1,039,239	958,919	302,120
Others countries							
Total	**4,768,992**	**5,920,172**	**805,354**	**1,241,307**	**2,722,330**	**3,568,555**	**3,232,341**

Reconciliation Of Changes In The Allowances For Loan Impairment (SAR '000)		
Particulars	Specific allowances	General allowances
Balance, beginning of the year	2,903,251	3,025,155
Charge-offs taken against the allowances during the period	(1,722,278)	
Amounts set aside (or reversed) during the period	2,473,039	227,429
Other adjustments:		
- exchange rate differences	(85,458)	(17,157)
- business combinations		
- acquisitions and disposals of subsidiaries		
- etc.		(3,087)
Transfers between allowances		
Balance, end of the year	**3,568,554**	**3,232,340**

(g)

Portfolios	Less than 30 days	30-59 days	60-89 days	Total
Consumer loans and credit cards	2,149,990	658,704	383,461	3,192,155
Corporate	958,033	399,994	92,425	1,450,452
Others	495,242	377,282	405,041	1,277,565
Total	**3,603,265**	**1,435,980**	**880,927**	**5,920,172**

(h)

Restructured exposures	Impaired	Not Impaired
7,110,160	**-**	**7,110,160**

CRC – Qualitative disclosure requirements related to credit risk mitigation techniques

a. Core features of policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting.

NCB does not make use of on- and off-balance sheet netting for capital adequacy or financial position purposes.

b. Core features of policies and processes for collateral evaluation and management.

The credit policy manual of the Bank defines collaterals to include tangible and physical securities, which are easily identifiable and where the title / ownership can be made enforceable without difficulty. This can be further divided into two categories: Liquid Collateral (i.e., can be readily converted to cash) and Illiquid Collateral (where realization of security may take some time due to underlying processes).

NCB accepts following types of collaterals as below.

Liquid Collateral:

Cash Margin, Time Deposits, collection accounts, Investment Portfolios, Government Securities / bonds / Sukuk, Publicly traded shares, and Unconditional and Irrevocable Bank Guarantees.

Illiquid Collateral:

Commercial Land and Commercial Real Estate, Plant, Machinery and Equipment, and Precious Metals.

Illiquid collateral must be evaluated by independent professional firms approved for this purpose by NCB and the value of security must be its fair market value. The evaluation should be conducted frequently on the whole portfolio and on a case by case basis as per the credit policy.

The acceptance of any collateral by NCB is undertaken with prescribed coverage. The coverage ratio considers haircuts that represent potential declines in the value of the collateral asset due to market price fluctuation and liquidity. Collaterals are being revalued frequently to ensure adherence to the required coverage ratio.

All collaterals are held under Credit Control Department (CCD) custody to ensure full independence organizationally and functionally. CCD is responsible for communicating the business regarding any document deficiency and identifying all collaterals that need to be revaluated. In cases where NCB accepts collateral as fixed assets such as buildings, warehouses and contents, plant, machinery and equipment, the customer is required to provide insurances, where NCB must be named as Loss Payee in the insurance policy. Where the same collateral is shared by other banks, NCB must be mentioned as a Loss Payee on a shared, pari passu basis with the other banks.

c. Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative providers).

In order to ensure effective risk mitigation NCB's approved collateral types are limited in nature and hence are exposed to collateral concentrations. NCB actively manages collateral concentration at relationship as well at sector level. NCB has established limits which are imposed to ensure that collaterals accepted do not breach the regulatory thresholds with respect to shares, guarantees et cetera. These limits are monitored and reviewed on a quarterly basis.

CR3 – Credit risk mitigation techniques – overview

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	226,135,536	23,098,711	491,769	15,363,457	15,363,457		
2	Debt securities	107,965,751	2,110,187	-	2,110,187	2,110,187		
3	Total	334,101,287	25,208,898	491,769	17,473,644	17,473,644		
4	Of which defaulted	4,599,115	169,877	760				

CRD – Qualitative disclosures on banks' use of external credit ratings under the standardized approach for credit risk

a. Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the bank, and the reasons for any changes over the reporting period;

The Bank uses the following External Credit Assessment Institutions (ECAIs).

i) Standards and Poor's Rating Group
ii) Moody's Investor Service
iii) Fitch Group

b. The asset classes for which each ECAI or ECA is used;

External Credit Assessment Institutions risk assessments are used by the Bank as part of the determination of risk weightings for the following classes of exposure.

- Sovereign and Central Banks;
- Banks and Securities Firms; and
- Corporates.

c. A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the banking book (see paragraphs 99–101 of the Basel framework); and

The credit rating is based on the issue-specific (security) which is assessed by using the second lowest ratings of the three agencies (S&P, Moody's and Fitch). And in case if the issue is not rated from all agencies, NCB relies on the issuer rating only to senior claims on that issuer in accordance with paragraphs 99-101 of International Convergence of Capital Measurement and Capital Standards (June 2006), otherwise all other claims are treated as unrated.

d. The alignment of the alphanumerical scale of each agency used with risk buckets (except where the relevant supervisor publishes a standard mapping with which the bank has to comply).

The alignment of the alphanumerical scale of agencies used with risk buckets is based on the guidance issued by SAMA. Risk weights are determined by relevant tables in Basel framework. These tables use Standards and Poor's as a standard benchmark. The following table provides the alignment NCB uses for the remaining used ECAIs ratings to the Standards and Poor's alphanumerical scale.

Fitch	Standards and Poor's	Moody's
AAA	AAA	Aaa
AA+	AA+	Aa1
AA	AA	Aa2
AA-	AA-	Aa3
A+	A+	A1
A	A	A2
A-	A-	A3
BBB+	BBB+	Baa1
BBB	BBB	Baa2
BBB-	BBB-	Baa3
BB+	BB+	Ba1
BB	BB	Ba2
BB-	BB-	Ba3
B+	B+	B1
B	B	B2
B-	B-	B3
CCC+	CCC+	Caa1
CCC	CCC	Caa2
CCC-	CCC-	Caa3
CC	CC	Ca
C	C	C
D	D	WR
NR	NR	NR

CR4 – Standardized approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

		a	b	c	d	e	f
		Exposures before CCF & CRM		Exposures post-CCF & CRM		RWA and RWA density	
Asset classes		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	102,024,012	1,123,597	120,045,632	816,705	9,435,789	8%
2	Non-central government public sector entities	729	8,192	729	3,267	3,854	96%
3	Multilateral development banks	2,795,132		2,784,700			0%
4	Banks	24,065,327	16,087,575	23,888,115	10,439,880	18,704,054	54%
5	Securities firms						
6	Corporates	164,738,711	45,707,301	149,464,757	24,719,846	155,260,010	89%
7	Regulatory retail portfolios	77,963,846	10,452,327	76,282,346	2,868,659	59,140,783	75%
8	Secured by residential property	22,910,185	405,397	22,910,185	173,716	17,312,926	75%
9	Secured by commercial real estate	8,526,119	751,118	8,526,119	450,604	8,976,723	100%
10	Equity	2,010,189		1,566,200		1,145,870	73%
11	Past-due loans	4,768,959		1,166,192		1,255,687	108%
12	Higher-risk categories						
13	Other assets	30,422,048		30,421,475	3,414900	20,722,280	59%
14	**Total**	**440,225,257**	**74,535,507**	**437,056,451**	**42,887,578**	**291,957,977**	**61%**

CR5 – Standardized approach – exposures by asset classes and risk weights

		a	b	c	d	e	f	g	h	i	j
Asset classes/ Risk weight*		0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	109,211,971		1,348,628		2,271,349		8,030,389			120,862,337
2	Non-central government public sector entities (PSEs)	142						3,854			3,996
3	Multilateral development banks (MDBs)	2,784,700									2,784,700
4	Banks			5,587,755		22,316,872		6,412,454	11,678		34,328,758
5	Securities firms										
6	Corporates	305,409		10,670,919		20,222,594		142,937,065	51,769		174,187,756
7	Regulatory retail portfolios	228,513		89,515			78,829,062				79,147,091
8	Secured by residential property						23,083,902				23,083,902
9	Secured by commercial real estate							8,976,723			8,976,723
10	Equity					1,083,124		402,254		80,821	1,566,200
11	Past-due loans							987,203	178,989		1,166,192
12	Higher-risk categories										
13	Other assets	9,684,484		4,286,515		798		19,864,577			33,836,374
14	**Total**	**122,215,220**		**21,983,332**		**45,894,736**	**101,912,965**	**187,614,519**	**242,436**	**80,821**	**479,944,029**

Part 9 – Counterparty Credit Risk

The counterparty credit risk section includes all exposures in the banking book and trading book that are subject to a counterparty credit risk charge, including the CVA capital charges and charges applied to exposures to central counterparties (CCPs)

CCRA – Qualitative disclosure related to counterparty credit risk

a. Risk management objectives and policies related to counterparty credit risk, including:

Most of the NCB's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves profiting from price differentials between markets or products.

The bank's policies enforces that any transactions in derivatives must take the form of International Swaps and Derivatives Association (ISDA), Credit Support Annex (CSA) and/or Global Master Repurchase Agreement (GMRA) with its respective financial institution counterparties. Each product may have its specific confirmation and term sheet. Business Development and Support within Treasury Group is responsible negotiating these legal contracts in collaboration with Legal and Shariah (if it is Shariah compliant version). As for NCB Corporate customers, they sign only CTA and/or TMA for hedging transactions.

The bank has an established end to end process for executing Treasury transactions. Treasury dealers conclude transactions with approved counterparties (i.e. having signed CTA or ISDA). Upon deal conclusion Treasury front office dealers capture deals in the Treasury system and provide all documents (confirmation, term sheet etc.) to Treasury operations. Based on the documentation Treasury operations thoroughly check the trade details and validate the deal. After validation by Treasury operations the system automatically generates the contingent entries and post in core banking system. Treasury operations make sure all documents are in place and duly signed by the customer. On settlement date the system generates payment messages that is checked, validated then released by Treasury operations.

Pre-settlement Exposure (PSE) or Pre-settlement Risk (PSR) is an estimate of how much counterparty in Foreign Exchange and Derivative trading transaction might owe over the life of a transaction (or Portfolio of transactions). PSR is a function of positive Mark to Market (MTM) and the Potential Future Exposure, PFE stands for the Maximal Potential Future Exposure over the remaining life of the deal taking into account a predefined confidence interval, volatility of underlying asset, and duration of the transaction. PSE is incurred from a wide set of transactions, from cash trades that settle in a few days, to Forward transactions that settle in a few months to multi-year swaps with periodic cash flows. The Quantification of PSE may be impacted by the presence of netting, margining, re-couponing and early termination agreements. PSE limit must be established for counterparties with which the bank has trading relationships.

b. The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposures and for CCP exposures;

Credit limits are assigned to Financial Institutions and CCPs according to the following:

- Country risk assessment and approved country limit guidelines by ALCO.
- Financial Institutions credit risk assessment (qualitative & quantitative) for identifying key risks and assigning mitigants accordingly.
- Target Market & Risk Acceptance Criteria for Financial Institutions. This includes tiering guidelines according to NCB Bank policies based on total assets size, tangible net worth, capital adequacy, and assigned risk rating and hence to provide total facilities and products permitted.
- Business needs according to the counterparties requirements.
- Country limits.
- SAMA regulations.

The country limit guidelines are driven by a model created based on country risk assessment, taking into account multiple macro-economic indicators such as total external debt, debt coverage ratio, import cover, current account deficit and foreign reserve, etc. Political/Neighborhood risks through judgmental discretion, country ratings and size of the country as measured by its GDP. The model caps the country limit to Benchmark (as a % of NCB's Eligible Capital) to control concentration risks.

Setting the risk indicators score is calculated as follows:

- Each indicator has a different category that weights certain extent of risk (Low-Med-High). Those selected indicators will validate the quantum of risk being taken in each country covering three main segments (Economic, Political and Currency).
- Then in each category, scoring ranges were assigned.
- The indicators data will be updated using the latest EIU numbers, then the model will score the data automatically by ascribing points to each risk, therefore each country will have total points and limits will be reflected accordingly.

c. Policies relating to guarantees and other risk mitigants and assessments concerning counterparty risk, including exposures towards CCPs;

NCB uses a master netting agreement that follows the rules of ISDA and CSA in its dealings with FI counterparties. Based on CSA agreement, only cash and bonds are accepted as a collateral for Initial and Variation margin calls.

NCB receives / sends margin call on a daily basis for variations in derivatives market value and once the amount is agreed upon with the counterparties, payment instruction will be sent to operations for processing. Variation margins are always compared against the trades' market value before confirmation. NCB may dispute or partially agree on the margin call received from the counterparties if significantly inconsistent with the trade's market value.

d. Policies with respect to wrong-way risk exposures;

Specific wrong-way risk arises, if future exposure to a specific counterparty is expected to be high when the counterparty's probability of default is also high. The Bank's Treasury Products Approval Committee (TPAC) approves all new products. As part of its approval process the TPAC ensures that any new treasury product will not result in specific wrong-way risk.

e. The impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade.

Existing derivatives contracts in which NCB is engaged in do not have provisions for posting additional collaterals in case of a credit rating downgrade.

CCR1 – Analysis of counterparty credit risk (CCR) exposure by approach

		a	b	c	d	e	f
		Replacement cost	**Potential future exposure**	**EEPE**	**Alpha used for computing regulatory EAD**	**EAD post-CRM**	**RWA**
1	SA-CCR (for derivatives)*	2,688,458	5,060,192		1.4	10,848,110	8,089,254
2	Internal Model Method (for derivatives and SFTs)						
3	Simple Approach for credit risk mitigation (for SFTs)						
4	Comprehensive Approach for credit risk mitigation (for SFTs)						
5	VaR for SFTs						
6	**Total**						**8,089,254**

CCR2 – Credit valuation adjustment (CVA) capital charge

		a	b
		EAD post-CRM	**RWA**
1	Total portfolios subject to the Advanced CVA capital charge		
2	(i) VaR component (including the 3× multiplier)		
3	(ii) Stressed VaR component (including the 3× multiplier)		
4	All portfolios subject to the Standardized CVA capital charge	10,848,110	7,312,758
5	**Total subject to the CVA capital charge**	**10,848,110**	**7,312,758**

CCR3 – Standardized approach of CCR exposures by regulatory portfolio and risk weights

	a	b	c	d	e	f	g	h	i
Regulatory portfolio*/ Risk weight**	**0%**	**10%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures**
Sovereigns and their central banks									
Non-central government public sector entities (PSEs)									
Multilateral development banks (MDBs)									
Banks			705,910	4,386,623					5,092,533
Securities firms									
Corporates						1,988,468			1,988,468
Regulatory retail portfolios					3,266				3,266
Other assets						3,763,843			3,763,843
Total			**705,910**	**4,386,623**	**3,266**	**5,752,311**			**10,848,110**

**The breakdown by risk weight and regulatory portfolio included in the template is for illustrative purposes. Banks may complete the template with the breakdown of asset classes according to the local implementation of the Basel framework.*
***Banks subject to the simplified standardized approach should indicate risk weights determined by the supervisory authority in the columns.*

CCR5 – Composition of collateral for CCR exposure

	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency						
Cash – other currencies	1,202,375		(1,475,354)			
Domestic sovereign debt						509,813
Other sovereign debt						1,033,054
Government agency debt						
Corporate bonds						
Equity securities						
Other collateral						
Total	**1,202,375**		**(1,475,354)**			**1,542,867**

Part 10 – Securitization

SECA – Qualitative disclosure requirements related to securitization exposures

The Bank does not have any securitization activities which transfer credit risk away from the Bank to other entities. However, the bank invests in securitized assets that are highly rated as part of its available for sale book.

SEC1 – Securitization exposures in the banking book

		a	b	c	d	e	f	g	h	i
		Bank acts as originator			Bank acts as sponsor			Banks acts as investor		
		Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
1	Retail (total) – of which							406,957		406,957
2	residential mortgage									
3	credit card									
4	other retail exposures							406,957		406,957
5	re-securitization									
6	Wholesale (total) – of which							1,694,231		1,694,231
7	loans to corporates							1,694,231		1,694,231
8	commercial mortgage									
9	lease and receivables									
10	other wholesale									
11	re-securitization									

SEC4 – Securitization exposures in the banking book and associated capital requirements – bank acting as investor

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
		Exposure values (by RW bands)					Exposure values (by regulatory approach)				RWA (by regulatory approach)				Capital charge after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW	IRB RBA (including IAA)	IRB SFA	SA/SSFA	1250%	IRB RBA (including IAA)	IRB SFA	SA/SSFA	1250%	IRB RBA (including IAA)	IRB SFA	SA/SSFA	1250%
1	**Total exposures**	**2,101,188**							**2,101,188**				**420,238**				**33,619**	
2	Traditional securitization	2,101,188							2,101,188				420,238				33,619	
3	Of which securitization	2,101,188							2,101,188				420,238				33,619	
4	Of which retail underlying	406,957							406,957				81,391				6,511	
5	Of which wholesale																	
6	Loans to corporate	1,694,231							1,694,231				338,846				27,108	
7	Of which re-securitization																	
8	Of which senior																	
9	Of which non-senior																	
10	Synthetic securitization																	
11	Of which securitization																	
12	Of which retail underlying																	
13	Of which wholesale																	
14	Of which re-securitization																	
15	Of which senior																	
16	Of which non-senior																	

Part 11 – Market Risk

The market risk section includes the market risk capital requirements calculated for trading book and banking book exposures that are subject to a market risk charge, it also includes capital requirements for securitization positions held in the trading book. However, it excludes the counterparty credit risk capital charges that apply to the same exposures, which are reported in Part 9 – Counterparty credit risk.

MRA – Qualitative disclosure requirements related to market risk

a. Strategies and processes of the bank

Trading book includes positions arising from market making activities to facilitate customer transactions as well as proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis. Market Risk Management aims to accurately measure all types of market risks by a comprehensive set of risk metrics reflecting economic and regulatory requirements.

In accordance with economic and regulatory requirements, we measure market and related risks by the following key risk metrics:

- Value-at-risk and stressed value-at-risk: For each asset class a separate value-at-risk is calculated, e.g. interest rate, equity, foreign exchange and commodity. For each asset class this is achieved through historical simulation. Market data of various risk factors for stressed periods in the markets are used to compute stressed VaR
- Market Risk Standardized Approach (MRSA): used to calculate regulatory capital requirements for market risk
- Stress tests: applicable to trading and investment-AFS portfolios. Stress assumptions are applied to the portfolio and impact assessed
- Market Risk economic capital: calculated for the investment-AFS portfolio
- Sensitivities: DV01 is calculated for the investment-AFS portfolio
- Market value/Notional (concentration risk): monitored vs Board approved limits

These measures are viewed as complementary to each other and in aggregate define the Market Risk framework, by which all businesses can be measured and monitored.

Market Risk management will measure and report the market risk in the Trading Portfolio of NCB on a daily Monday to Friday basis. The market risk quantified will be calculated using an appropriate VaR (Value at Risk) methodology. Economic Capital on the Trading Portfolio of NCB is measured and reported quarterly using a one-year holding period and a 99.9% confidence interval level.

Market Risk will act as an independent unit to monitor daily adherence of the business to various market risk limits approved by the Board of Directors such as VaR limits, investment limits, concentration limits, and issuer limits etc. All positions including turnover and stale positions are monitored. In general the main limits used for the trading areas are Stop Loss limits, VaR, Exposures/Notional holdings.

Treasury is responsible for the day-to-day execution of interest rate strategy. Treasury's task is to safeguard the Bank's earnings from adverse movements in interest rates and to enhance net interest income through appropriate action and anticipation of the extent of directional shifts in interest rates. Treasury uses hedging to manage its interest rate exposure and safeguard its strategic positions against adverse shifts in the direction of rates. This is carried out through derivatives such as interest rate swaps, futures and cross currency swaps. These are generally done through cash flow hedges or fair value hedges where one type of interest payment (fixed/float) is substituted in favor of another (float/fixed).

Hedge effectiveness is the measure in the extent to which the change in the fair value or cash flows of the hedging instruments offset the change in the fair value or cash flows of the hedged item, equally hedge ineffectiveness is the measure of the of the extent to which the change in the fair value or cash flows of the hedging instruments doesn't offset change in the fair value or cash flows of the hedged item.

For prospective and retrospective hedge effectiveness testing we are using the regressing analysis the dollar offset for the accounting.

b. Structure and organization of the market risk management function

Overall authority for market risk is vested in the Board of Directors. The Risk Group is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day-to-day review of their implementation.

The Head Of Risk - Markets is appointed by the Chief Risk Officer, to have senior responsibility for the oversight of the Trading and Investment portfolios of the Bank and activities including the following key roles:

a. Monitoring actual portfolio against target portfolio and working with Business Management to ensure that the actual portfolio is kept within the target portfolio parameters.
b. Establishing Market Risk policies (in coordination with Business Managers), standards and practices for the approval, measurement, reporting, monitoring, managing limits and analysis of risk.
c. Developing a market risk management culture by promoting good analysis, judgment, flexibility and balance between risk and reward
d. Developing an effective partnership with the Business on:
    I. Its strategy and plans to achieve business goals.
    II. Effective communication of the bank risk strategy and market risk policies and procedures at all levels.
e. Assisting Business Management in defining the portfolio strategies.
f. Determining "material" policy exceptions and requesting the additional approval of the Chief Risk Officer as needed.
g. Establishing risk-reporting requirements.
h. Managing the Bank Risk Management Market Risk Team.

c. Scope and nature of risk reporting and/or measurement systems.

The Bank separates its exposure to market risk between trading and banking books. Trading book is mainly held by the Treasury division and includes positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

The principal tool used to measure and control market risk exposure within the Group's trading book is Value at Risk (VaR). The VaR of a trading position is the estimated loss that will arise on the position over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period, except for Fair Value through Income Statement (FVIS) investments which are computed over a 3-month holding period (i.e., VaR is measured daily, except for VaR on FVIS investments which are computed on a monthly basis), to facilitate the comparison with the trading income (loss) which is also computed and reported on a daily and monthly basis respectively for these products. The model computes volatility and correlations using relevant historical market data.

The Bank uses VaR limits for total market risk embedded in its trading activities including derivatives related to foreign exchange and special commission rate. The Group also assesses the market risks using VaR in its FVIS investments which are controlled by volume limits. The overall structure of VaR limits is subject to review and approval by the Board of Directors. VaR limits are allocated to trading book. The daily reports of utilization of VaR limits are submitted to the senior management of the Group. In addition, regular summaries about various risk measures including the Economic Capital are submitted to the Risk Committee of the Board.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon. This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading book. In addition, the Bank uses stress tests to model the financial impact of exceptional market scenarios on individual trading books and the Bank's overall trading position.

MR1 – Market risk under standardized approach

		a
		Capital charge in SA
1	General interest rate risk	537,064
2	Equity risk	
3	Commodity risk	9,523
4	Foreign exchange risk	209,601
5	Credit spread risk – non-securitizations	
6	Credit spread risk – securitizations (non-correlation trading portfolio)	
7	Credit spread risk – securitization (correlation trading portfolio)	
8	Default risk – non-securitizations	
9	Default risk – securitizations (non-correlation trading portfolio)	
10	Default risk – securitizations (correlation trading portfolio)	
11	Residual risk add-on	
12	**Total**	**756,187**

Part 12 - Interest Rate in the Banking Book

IRRBBA – IRRBB risk management objectives and policies

a. The bank definition of IRRBB for purposes of risk control and measurement.

Interest rate risk arises from movement in interest rates affecting earnings and capital. In principle, NCB takes into consideration repricing risk, basis risk, yield curve risk, and optionality risk for IRRBB purpose and risk control.

b. A description of the bank's overall IRRBB management and mitigation strategies.

Interest Rate Risk Governance

The Risk Committee of the Board provides oversight to the Asset and Liability Management Committee (ALCO), which has overall responsibility for interest rate risk monitoring and management to optimize NCB's earnings and net asset values and sets the Interest Rate Gap Limit. Treasury is responsible for the day-to-day execution of interest rate strategy. Treasury manages interest rate risk in the following manner.

- Clear definition of authorized investments and position taking strategies
- Identification of the frequency and methodology for measuring interest rate risk
- The setting of quantitative limits in line with the risk appetite

Interest Rate Risk Policy Standards

The asset and liability management policy sets out guidelines for the governance and management of the asset-liability structure and the critical components of ALM. One of the primary business objectives underpinning ALM policy is to take into account interest rate risk/hedging/return strategy for the Bank to ensure the optimization of NCB's balance sheet structure.

Interest Rate Risk Assessment and Monitoring Tools

The interest rate risk is monitored through a regular update to ALCO where the interest rate limits and repricing/maturity schedules are discussed.

Interest Rate Risk Management and Mitigations Tools

Following are the key tools adopted by the Bank concerning interest rate risk management and mitigation.
- Net GAP position monitoring
- Earning sensitivity monitoring on a monthly basis
- DV01 Limit as a high-level control
- Hedging as an appropriate tool to manage interest rate risk

c. The periodicity of the calculation of the bank's IRRBB measures. and a description of the specific measures that the bank uses to gauge its sensitivity to IRRBB.

The Bank calculates its IRRBB on a quarterly basis and uses NII to gauge its sensitivity to IRRBB. The interest rate risk is also taken into account as part of the Bank's Pillar 2 capital management and of the annual ICAAP.

d. A description of the interest rate shock and stress scenarios that the bank uses to estimate changes in the economic value and in earnings.

The Bank uses historical data of changes in the interest rate to derive interest rate volatility and estimates the impact on the NII. The standard regulatory scenarios are used to report EVE.

e. Significant modelling assumptions used in the bank's internal measurement systems.

NCB uses the re-pricing gap between all assets and liabilities sensitive to interest rate shocks as basis for computing the impact of change in interest rate. The Bank considers three-time buckets, covering the gap between assets and liabilities that are subject to re-pricing during next one month, three months and twelve months in an adverse interest rate scenario. Then, Interest rate shock (derived from daily volatility of the interest rate for the last 5 years at 99.9% confidence level) for each time bucket is considered to derive the capital charge.

f. A high-level description of how the bank hedges its IRRBB, as well as the associated accounting treatment.

Treasury uses hedging to manage its interest rate exposure and safeguard NCB's strategic positions against adverse shifts in the direction of rates. This is carried out through derivatives such as interest rate swaps, futures and cross-currency swaps. These are generally done through cash flow hedges or fair value hedges where one type of interest payment (fixed/float) is substituted in favor of another (float/fixed). Hedging becomes critical in a rising/falling rates environment for the enablement of locking in a higher rate of return and/or limiting potential revaluation.

g. A high-level description of key modelling and parametric assumptions used in calculating △EVE and △NII in Table B, which includes:

- For △EVE. whether commercial margins and other spread components have been included in the cash flows used in the computation and discount rate used.

The Bank includes commercial margin for all assets and liabilities in its calculations. For the discounting purpose, risk-free interest rates for specific currencies are used.

- How the average repricing maturity of non-maturity deposits in (1) has been determined (including any unique product characteristics that affect assessment of repricing behavior).

Average maturity of NMDs has been determined separately for retail and wholesale deposits – currency wise, by using last 10 years of monthly data and by employing a regression-based core deposit modeling technique subject to thresholds established by the guidelines.

- The methodology used to estimate the prepayment rates of customer loans, and/or the early withdrawal rates for time deposits and other significant assumptions.

The early settlements of loans are immaterial as compared to the whole portfolio – approximately 2.1% on average for the last 10 years, ranging from 1.5% to 3.1%. It may also be noted that that the interest rate risk arising from early settlement is mitigated by charges on clients in the event of a early payments at agreed upon terms. Therefore it is not taken into consideration. No assumptions with respect to early withdrawals of deposits have been made.

- Any other assumptions (including for instruments with behavioral optionalities that have been excluded) that have a material impact on the disclosed △EVE (delta EVE) and △NII (delta EVE) in Table B, including an explanation of why these are material.

There is no such specific assumption.

Quantitative disclosures	
1	**<u>Average maturity (years) assigned to NMDs.</u>** SAR Retail: 5 SAR Wholesale: 1.67 USD Retail: 0.1 USD Wholesale: 0.1 TRY Retail: 0.86 TRY Wholesale: 0.33
2	**<u>Longest repricing maturity (years) assigned to NMDs.</u>** SAR Retail: 25 SAR Wholesale: 9.5 USD Retail: 0.88 USD Wholesale: 0.63 TRY Retail: 4.50 TRY Wholesale: 2.50

Definitions:
EVE: Economic Value of Equity
NII: Net Interest Income
∆EVE: Change in EVE, i.e. base EVE – stress EVE
∆NII: Change in NII, i.e. base NII – stress NII

IRRBB1 – Quantitative information on IRRBB

In reporting currency	△EVE		△NII	
Period	**T (Dec-17)**	**T-1 (Sep-17)**	**T (Dec-17)**	**T-1 (Sep-17)**
Parallel up	5,154,469	5,558,375	(975,310)	(1,007,241)
Parallel down	956,581	-	975,310	1,007,241
Steepener	907,451	1,042,729		
Flattener	2,374,045	1,240,544		
Short rate up	3,957,565	3,544,378		
Short rate down	-	-		
Maximum	**5,154,469**	**5,558,375**	**975,310**	**1,007,241**
Period	**T (Dec-17)**		**T-1 (Sep-17)**	
Tier 1 Capital	**63,825,327**		**62,260,027**	

One of the key contributors to the increase in the stressed EVE in December 2017 under the flattener scenario was the increased positive gaps over short to medium term buckets (6M through 3 years) that resulted in decline in EVE. This is because of the fact that under this scenario the short rate starts going above the base curve and hence the discounting impact becomes bigger leading to larger decline in EVE. This was accompanied by reduced magnitude of positive gap in the longest bucket and hence the benefit of reduced long rate (below the base rate) was lower in December.

Part 13 – Remuneration

Remuneration Governance

The Board of Directors of the Bank (NCB) is responsible for overseeing and approving the overall design of the reward framework and ensuring that the system is working effectively.

NCB Board has a Compensation, Nomination and Governance Committee (CNGCO) whose objective is to support and advise the Board on matters concerning compensation, nomination, corporate governance and Human Resource.

NCB's Board of Directors oversees its subsidiaries and affiliates through representation in the boards of directors of these subsidiaries and affiliates. The election and removal of NCB representation in subsidiaries/affiliates boards shall be recommended by the CNGCO and shall be approved by the Board of NCB. An input shall be provided from the Chief Executive Officer when selecting NCB's executives to represent NCB in other subsidiaries/affiliates. The respective representatives in subsidiaries boards will present on quarterly or biannual basis the "HR/Succession Report" to CNGCO. The CNGCO currently comprises five Independent Non-Executive Directors.

All CNGCO members have the required experience and expertise in remuneration, either through their qualification or experience as members of committees/boards of other entities, which enable them to achieve effective governance of NCB remuneration system. The CNGCO has a regular annual meeting cycle. The full list of responsibilities of the CNGCO is outlined in its Charter; however, below listed are key responsibilities of CNGCO in terms of NCB's HR/Remuneration functions:

- Make recommendations to the Board that promote appropriate remuneration policies and practices for NCB and oversee that these remuneration policies and practices are in the interest of the shareholder and do not induce participation in taking high risk transactions to achieve short-term profits.
- Coordinate with HR to develop a succession and replacement policy and ensure the compliance of the executive management with such policy.
- Make recommendations to the Board in respect of the remunerations of the senior executives in accordance with the approved policy.
- Review the structure of the executive management and provide recommendations regarding changes that may be made to such structure.
- Ensure that the Bank's incentive system is reviewed periodically and does not encourage participation in high risk operations to achieve short-term profits and is consistent with the Bank's approved risk policy.
- Recommend the Board for its approval on the pool of fund required for the payment of short term incentives and bonuses.
- Review the long term Incentive plans and the participation of executives to such plans and recommend the required approvals of the Board.

The NCB compensation policy covers the following:

- NCB, in Kingdom of Saudi Arabia (KSA) and its overseas branches/offices.
- All levels and types of employees: Formal Staff (directly employed - national and expatriate); Overseas Branch/Representative Offices' Staff, and Outsourced Staff.
- All compensation elements: basic salary; fixed allowances; job based allowances; employee benefits; recognition schemes, variable pay - short-term and long-term.

- Key determinants of compensation: job grade; individual performance, business and corporate performance; risk alignment; compensation and market conditions; and regulatory requirements.

The description of Material Risk Takers at NCB are the employees whose roles entail risk taking that may lead to material loss including, but not limited to, those in businesses such as Treasury, Retail and Corporate banking. Material Risk Controllers are employees whose faulty actions, lack of due diligence or negligence in duly controlling risk taken may lead to material loss, including, but not limited to, those in Control and Support functions; while senior management are those executive persons, including an executive director, having authority and responsibility for planning, directing and controlling the activities of the bank, directly or indirectly.

For Material Risk Takers, the common measure of "impact "on risk exposure shall be financial. The bank deems a loss, howsoever arising, of SR 250 Million to have a "material impact" for the purpose of "Risk Aligned Compensation Plan".

Remuneration Design and Structure

The NCB remuneration structure is designed to:

- Attract, retain and engage a high-performance work force.
- Align reward practices with firm's strategy to support its execution in a risk aware manner.
- Ensure internal pay equity.
- Balance of Pay mix according to nature of business, type of the role and the seniority of the role.
- Reinforce a business culture based on high standards of performance.
- Allow differentiation based on performance "Pay-for-Performance".
- Ensure that a meaningful proportion of reward is 'at risk'.

The policy provides the following components of remuneration:

A. Fixed Pay comprising:
   - Base remuneration: includes basic pay and other fixed allowances.
   - Job related remuneration: includes all job/position related allowances.
   - Other remuneration: includes statutory and other benefits.

B. Variable Pay comprising:
   - Short-Term Incentive: includes annual performance bonus and sales incentives.
   - Long-Term Incentive: includes grants in cash or shares.

During the year 2017, the Board and the CNGCO have reviewed the bank's remuneration policy to ensure it continues to meet its overriding objective of delivering superior performance over the short and long term, while prudently managing risk. The review was intended to align the policy to SAMA compensation rules that are based on the principles developed by the Financial Stability Board (FSB) within the Bank of International Settlement (BIS) in Basel.

The remuneration of staff whose primary role is risk and control preserves the independence of the function. Variable pay is allocated to risk and control groups based on the quality and integrity of the control functions, and is not determined solely with reference to profitability. The variable pay of risk and control individuals is determined by their relevant line managers without any involvement or influence of business managers of areas they are responsible for.

Remuneration and Risk

The purpose of the compensation risk alignment framework is to ensure that variable compensation for material risks is aligned to the risk profile of the bank. In its endeavour to do so, NCB considers both quantitative measures and qualitative measures in the risk assessment process.

NCB undertakes risk assessment to review financial and operational performance against the business strategy and risk performance prior to distribution of variable pay. Variable pay will take into account the performance of NCB which is considered within the context of the bank's risk management framework.

Ex ante adjustments shall be applied before variable compensation is awarded and adjust variable compensation for risk if the performance outcomes are achieved outside acceptable bounds of the risk appetite set by the bank's management. The bank also uses an ex-post risk assessment framework to back-test actual performance against risk assumptions.

Linking and Adjusting Remuneration to Performance

NCB aims to foster a high performance culture by ensuring that employees are provided with clear performance objectives, on-going coaching and feedback, professional development and recognition for superior work. The performance of all employees is assessed periodically against agreed performance goals and the performance management system requires line managers to assess each employee's contribution as well as their compliance with risk management processes and controls, teamwork, behavioral competencies.

Short term variable pay is paid from the bonus pool which derives from a percentage funding against the bank's adjusted net profit, and is determined with reference to corporate (firm-wide) performance, performance of the business vertical and employee's performance against agreed goals and objectives taking account of the existing and potential risks in the business. Each year performance thresholds are set at corporate, business, and individual levels, if these thresholds are not met, the short term variable pay will not be paid out.

Short term variable pay of senior managers, material risk takers and controllers is administered under a bonus deferral scheme as part of the bank's risk aligned compensation plan, duly approved by the Board. Under this Plan, a percentage of their bonus amounts have been deferred for a number of years, depending on the position's seniority and criticality. The deferred bonus shall vest in cash, on prorate basis, over the vesting period, and is subjected to a forfeiture performance criteria.

NCB also operates a long term incentive plan for executives who influence the long term success of the bank. The purpose of the plan is to retain promising executives and tie their contribution with the shareholders' interests on the long term. The plan award shall be in form of NCB ordinary shares, the performance period shall be (3) calendar years commencing on the first day of the calendar year in which an award is made, and the size of award will be based on criticality of the role. In order for the award to vest, the bank target in terms of market share of net income needs to be achieved. The final plan pay out shall depend on the extent of realizing the approved bank's performance metric, and is subjected to a forfeiture criteria.

REM1 – Remuneration awarded during the financial year

Remuneration amount			a Senior management	b Other material risk-takers
1	Fixed remuneration	**Number of employees**	**23**	**93**
2		**Total fixed remuneration (3 + 5 + 7)**	**43,973**	**99,200**
3		Of which: cash-based	39,178	84,258
4		Of which: deferred		
5		Of which: shares or other share-linked instruments		
6		Of which: deferred		
7		Of which: other forms	4,795	14,942
8		Of which: deferred		
9	Variable remuneration	**Number of employees**	**23**	**93**
10		**Total variable remuneration (11 + 13 + 15)**	**91,316**	**76,643**
11		Of which: cash-based	65,794	55,318
12		Of which: deferred	29,403	21,491
13		Of which: shares or other share-linked instruments	25,522	21,326
14		Of which: deferred	25,522	21,326
15		Of which: other forms		
16		Of which: deferred		
17	**Total remuneration (2 + 10)**		**135,290**	**175,843**

REM2 – Special payments

Special payments	Guaranteed bonuses				Sign-on awards				Severance payments			
	Number of employees		Total amount		Number of employees		Total amount		Number of employees		Total amount	
Senior management	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other material risk-takers	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

REM3 – Deferred remuneration

	a	b	c	d	e
Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management					
Cash	72,251	72,251			34,810
Shares	76,566	76,566			
Cash-linked instruments					
Other					
Other material risk-takers					
Cash	52,196	52,196			30,694
Shares	63,977	63,977			
Cash-linked instruments					
Other					
Total	**264,989**	**264,989**			**65,504**

Part 14 – Operational Risk

Operational Risk Qualitative disclosure

a. Strategies and Processes

The Bank defines operational risk as the risk of loss resulting from inadequate or failed processes, people, systems or external events. Operational risks are inherent in the Bank's operations and are typical of all banking and financial institutions. Operational risk management is a primary duty of the business units.

The operational risk management function is established as a department of the Risk Group that primarily coordinates the implementation and maintenance of the framework.

The main elements comprising the operational risk framework are:

- Governance
- Loss data collection
- Risk and control self-assessment.
- Key risk indicators
- Stress testing & scenario analysis
- Monitoring & reporting

The Operational risk strategy for managing the effectiveness of the operational risk framework is as follows:

- Proactive approach through Risk & Control Self-Assessment process.
- Reactive approach through Loss & Events Data Collection, and Analysis.
- Maintaining culture and awareness programs.
- Introducing comprehensive monitoring and reporting tools.
- Developing supportive practices for managing Operational Risk exposures.

b. Structure and Organization of Operational Risk Management

Operational Risk Department is led by the Head of Operational Risk, who reports functionally to the Chief Risk Officer and is responsible for the development and implementation of NCB Operational Risk Framework. Operational Risk Department is organized into Risk Assessment, Loss Collection and Analytic, Policy and Organization Strategy, Process Architecture, Training and Awareness, and IT Risk units that work collaboratively in executing their respective duties.

c. Operational Risk Assessment

Governance

The Board of Directors approves, monitors and reviews the operational risk appetite, framework, policies and practices; ensuring proper development, implementation and maintenance of a framework that is fully integrated into the bank's overall risk management processes. Business Group Heads are actively involved in evaluating exposure to operational risks associated with their business through the Operational Risk Committee. A network of Divisional Operational Risk Managers (DORMs) within business units assists management with the monitoring and mitigation of operational risks. Material operational risks are addressed to the senior management of the individual business units, escalated to the Operational Risk department and to the ORC when necessary.

System and Loss Data Collection

The SAS Operational Risk Monitor is being used for collecting operational risk losses that occur within the bank. The tool is considered to be the industry's prime tool for operational risk losses collection. From this system, NCB is able to record and consider major operational risks/incidents and effectively determine the appropriate measures to mitigate and manage the exposure to these risks. Recorded events are rigorously monitored and analyzed for further escalation. As a result, a comprehensive loss data collection for managing, tracking and reporting risk information is effectively in place.

Risk and Controls Self-Assessment (RCSA)

A qualitative and quantitative risk assessment is conducted within NCB using an identified universe of operational risks contained in the Risk & Control Self-Assessment Framework (RCSA). The assessment of risks and controls is conducted at the business unit level and is subject to treatment and escalation to Group Heads, which set out the operational risk exposure that NCB is willing to tolerate. In 2017, the Operational Risk department continued conducting the RCSA exercise across NCB covering core and support function divisions in order to ensure active comprehensive operational risk register for NCB is being held.

High Level of Awareness Culture Across NCB

One of SAMA & Basel requirements is to ensure that an appropriate level of operational risk training is available at all levels throughout the organization, Operational risk management continues the training and awareness programs (Internal and External).

Key risk indicators

To ensure that NCB is compliant with Basel III requirements, the Operational Risk department uses its risk management and control system to provide a reliable and effective reporting mechanism. Key Risk Indicators (KRIs) are used as a monitoring tool to provide early warnings of operational problems or highlight failures. KRI reports that are generated by businesses are reviewed on a quarterly basis and monitored by the Operational Risk department for effective management.

d. Application of the standardized approach for Operational Risk

The Bank uses the Standardized Approach of Basel III to calculate the required Regulatory Capital as well as Economic Capital for operational risk. This approach requires banks to divide its activities into eight business lines: corporate finance, trading and sales, retail banking, commercial banking, payment and settlement, agency services, asset management, and retail brokerage. A range of beta coefficients (12%-18%) is then applied to the average gross income for the preceding three financial years for each of the eight business lines to calculate the required regulatory capital.

Türkiye Finans Katılım Bankası A.Ş.(TFK) uses Basic Indicator Approach for their standalone Prudential. However, this is not impacting the computations at the group level.

Appendix

The below list of tables and templates are Not Available as the related approach is Not Applicable to the Bank

	Tables and templates	ref. #
Part 8 – Credit risk	CRE – Qualitative disclosures related to IRB models	B.15
	CR6 – IRB - Credit risk exposures by portfolio and PD range	B.16
	CR7 – IRB – Effect on RWA of credit derivatives used as CRM techniques	B.17
	CR8 – RWA flow statements of credit risk exposures under IRB	B.18
	CR9 – IRB – Back testing of probability of default (PD) per portfolio	B.19
	CR10 – IRB (specialized lending and equities under the simple risk weight method)	B.20
Part 9 – Counterparty credit risk	CCR4 – IRB – CCR exposures by portfolio and PD scale	B.25
	CCR6 – Credit derivatives exposures	B.27
	CCR7 – RWA flow statements of CCR exposures under the Internal Model Method (IMM)	B.28
	CCR8 – Exposures to central counterparties	B.29
Part 10 – Securitization	SEC2 – Securitization exposures in the trading book	B.32
	SEC3 – Securitization exposures in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor	B.33
Part 11 – Market risk	MR2 – RWA flow statements of market risk exposures under an IMA	MR2
	MR3 – IMA values for trading portfolios	MR3
	MR4 – Comparison of VaR estimates with gains/losses	MR4

Basel III Qualitative and Quantitative Pillar 3 Disclosures Policy:

To assure compliance with the requirements of the guidance issued by SAMA dated March 2017, NCB has created Basel III Pillar 3 Disclosures Policy which approved by the board.

The policy document governs the implementation, process and reporting of Basel III Pillar 3 Disclosures. It describes the scope, guiding principles, required standards and regulations, roles and responsibilities and internal controls for these disclosures.