National Commercial Bank

Qualitative and Quantitative Pillar 3 Disclosures
As of 31 December 2013

Contents

1.0 Scope of Application

1.1 Introduction

The Pillar 3 disclosures and the related regulations apply to the National Commercial Bank (the Bank) at a consolidated level. Please refer to note 1.1 of the *Audited Financial Statements for the year ended 31 December 2013* for details on the incorporation and activities of the Bank.

1.2 Basis of Consolidation

The Bank does not have any subsidiaries other than banking, securities and financial entities, accordingly, there is no difference in the basis of consolidation used in the *Audited Financial Statements for the year ended 31 December 2013* and that used for regulatory purposes.

SCOPE OF APPLICATION (SAMA reference table 1)	
Capital Deficiencies (Table 1, (e))	
Particulars	**Amount (SR '000)**
The aggregate amount of capital deficiencies in subsidiaries not included in the consolidation i.e. that are deducted:	Nil

For Regulatory Capital purposes, banking, securities and other financial entities and insurance investments, if significant (exceeding 10% of the outstanding equity shares) are deducted at 50 percent from Tier 1 capital, and 50 percent from Tier 2 capital.

(i) Entities (within the group) fully consolidated for regulatory purposes

Following is a list of the consolidated subsidiaries of the Bank.

(1) NCB Capital Company (NCBC)

(2) Türkiye Finans Katılım Bankası A.Ş.(TFK)

(3) Eastgate Capital Holdings Inc. (Eastgate)

(4) NCBC Investment Management Umbrella Company Plc

(5) Real Estate Development Company (Redco)

Please refer to note 1.2 of the *Audited Financial Statements for the year ended 31 December 2013* for details on the incorporation and activities of the subsidiaries of the Bank.

(ii) Entities (within the group) deducted for regulatory purposes

(1) Al-Ahali Takaful Company

The Bank has a 30% ownership in Al-Ahali Takaful Company. Al-Ahali Takaful Company (the Company) is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030171573 dated 21 Rajab 1428H, corresponding to 4 August 2007. The object of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company was listed on the Saudi stock market on 18 August 2007. The Company commenced its commercial operations on 4 February 2008.

(2) Arabian Financial Services Company

The Bank has 13% ownership in Arabian Financial Services (AFS) company. It is the region's leading provider of electronic-payments and consumer-finance outsourcing services.

(3) Saudi Traveler Cheques Company

The Bank has 25% ownership in the Saudi Travelers Cheques Company (STCC). Saudi Riyal Travelers Cheques are issued by the company which was jointly established by the banks of Saudi Arabia.

(4) The Saudi Credit Bureau

The Bank has 11% ownership in the Saudi Credit Bureau (SIMAH). It is the first and sole licensed national credit bureau offering consumer and commercial credit information services to respective members in the Kingdom of Saudi Arabia.

(iii) Entities (within the group) neither consolidated nor deducted

All other equity investments are risk weighted at 100%.

1.3 Transferability of Capital

There are no restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.

2.0 Capital Structure

The capital of the bank consists of the following:

(1) Eligible paid-up share capital

The authorized, issued and fully paid share capital of the Bank excluding Treasury shares[1] consists of 1,496 million shares of SR 10 each. All these shares carry equal voting rights and are not redeemable. These shares rank junior to all other claims on the Bank.

(2) Eligible reserves

Eligible reserves comprise statutory reserves, other reserves, retained earnings, minority interest and eligible portfolio (collective) provisions. Eligible reserves are mainly created by accumulated appropriations of profit and are maintained for future growth.

Goodwill, intangible assets and other prescribed deductions are deducted from eligible capital.

[1] The bank acquired its own equity shares from a customer as a result of partial set-off of debt. Treasury shares are deducted from equity and accounted for at cost, being the value of set-off.

Following tables give the balance sheet and capital structure of the Bank.

TABLE 2: CAPITAL STRUCTURE

Balance sheet - Step 1 (Table 2(b))	*All figures are in SAR'000*		
	Balance sheet in Published financial statements (C)	Adjustment of banking associates / other entities (*) (D)	Under regulatory scope of consolidation (E)
Assets			
Cash and balances at central banks	39,089,688		39,089,688
Due from banks and other financial institutions	14,831,332		14,831,332
Investments, net	125,294,012		125,294,012
Loans and advances, net	187,687,037		187,687,037
Investment in associates	828,915		828,915
Other real estate, net	216,001		216,001
Goodwill	540,897		540,897
Other intangible assets	332,739		332,739
Property and equipment, net	2,761,528		2,761,528
Other assets	5,698,185		5,698,185
Total assets	**377,280,334**		**377,280,334**
Liabilities			
Due to Banks and other financial institutions	24,725,314		24,725,314
Customer deposits	300,601,675		300,601,675
Debt securities in issue	1,511,250		1,511,250
Other liabilities	7,905,915		7,905,915
Subtotal	**334,744,154**		**334,744,154**
Paid up share capital	15,000,000		15,000,000
Treasury Shares	(177,093)		(177,093)
Statutory reserves	15,102,989		15,102,989
Other reserves	1,353,948		1,353,948
Retained earnings	9,699,260		9,699,260
Minority Interest	1,602,273		1,602,273
Proposed dividends	1,645,573		1,645,573
Foreign currency translation reserve	(1,690,770)		(1,690,770)
Total liabilities and equity	**377,280,334**		**377,280,334**

TABLE 2: CAPITAL STRUCTURE

Balance sheet - Step 2 (Table 2(c)) *All figures are in SAR'000*

	Balance sheet in Published financial statements (C)	Adjustment of banking associates / other entities (D)	Under regulatory scope of consolidation (E)	Reference*
Assets				
Cash and balances at central banks	39,089,688		39,089,688	
Due from banks and other financial institutions	14,831,332		14,831,332	
Investments, net	125,294,012		125,294,012	
of which Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) - 50% deducted from Tier 1	11,484		11,484	A
of which Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) - 50% deducted from Tier 2	11,484		11,484	B
Loans and advances, net	187,687,037		187,687,037	
of which Collective provisions	(2,408,255)		(2,408,255)	C
Investment in associates	828,915		828,915	
of which Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) - 50% deducted from Tier 1	20,973		20,973	D
of which Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) - 50% deducted from Tier 2	20,973		20,973	E
Other real estate, net	216,001		216,001	
Goodwill	540,897		540,897	F
Other intangible assets	332,739		332,739	G
Property and equipment, net	2,761,528		2,761,528	
Other assets	5,698,185		5,698,185	
Total assets	377,280,334		377,280,334	
Liabilities				
Due to Banks and other financial institutions	24,725,314		24,725,314	
Customer deposits	300,601,675		300,601,675	
Debt securities in issue	1,511,250		1,511,250	
Other liabilities	7,905,915		7,905,915	
Subtotal	334,744,154		334,744,154	
Paid up share capital	15,000,000		15,000,000	
Treasury Shares	(177,093)		(177,093)	H
Statutory reserves	15,102,989		15,102,989	
Other reserves	1,353,948		1,353,948	
Retained earnings	9,699,260		9,699,260	
Minority Interest	1,602,273		1,602,273	
Proposed dividends	1,645,573		1,645,573	
Foreign currency translation reserve	(1,690,770)		(1,690,770)	
Total liabilities and equity	377,280,334		377,280,334	

*Please refer to pages 7 and 8 for the impact of these adjustments on the capital structure

TABLE 2: CAPITAL STRUCTURE

Common template (transition) - Step 3 (Table 2(d)) i

(From January 2013 to 2018 identical to post 2018) With amount subject to Pre- Basel III Treatment

All figures are in SAR'000

	Components of regulatory capital reported by the bank	Amounts subject to Pre - Basel III treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2*(see page 6)*
Common Equity Tier 1 capital: Instruments and reserves			
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	15,000,000		
Retained earnings	11,344,833		
Accumulated other comprehensive income (and other reserves)	14,766,167		
Common share capital issued by subsidiaries and held by third parties (amount allowed in group Common Equity Tier 1 - CET1)	1,602,273		
Common Equity Tier 1 capital before regulatory adjustments	**42,713,273**		
Common Equity Tier 1 capital: Regulatory adjustments			
Goodwill (net of related tax liability)	540,897		F
Other intangibles other than mortgage-servicing rights (net of related tax liability)	332,739		G
Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	177,093		H
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	32,458		A + D
Total regulatory adjustments to Common equity Tier 1	1,083,187		
Common Equity Tier 1 capital (CET1)	41,630,086		
Tier 1 capital (T1 = CET1 + Additional Tier 1 CapitalAT1)	41,630,086		

TABLE 2: CAPITAL STRUCTURE

Common template (transition) - Step 3 (Table 2(d)) ii

(From January 2013 to 2018 identical to post 2018) With amount subject to Pre- Basel III Treatment

All figures are in SAR'000

	Components of regulatory capital reported by the bank	Amounts subject to Pre - Basel III treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2*(see page 6)*
Tier 2 capital: instruments and provisions			
Provisions	2,408,255		C
Tier 2 capital before regulatory adjustments	**2,408,255**		
Tier 2 capital: regulatory adjustments			
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	32,458		B + E
Total regulatory adjustments to Tier 2 capital	32,458		
Tier 2 capital (T2)	2,375,797		
Total capital (TC = T1 + T2)	44,005,883		
Total risk weighted assets	256,828,583		
Capital ratios			
Common Equity Tier 1 (as a percentage of risk weighted assets)	16.2%		
Tier 1 (as a percentage of risk weighted assets)	16.2%		
Total capital (as a percentage of risk weighted assets)	**17.1%**		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	2,408,255		
Cap on inclusion of provisions in Tier 2 under standardized approach	2,833,015		

3.0 Capital Adequacy

The bank defines capital as the resources necessary to cover unexpected losses and thus NCB, at all times, maintains a sufficient capital to cover risks inherent in its business operations and to maintain a strong credit rating.

The Bank has an Internal Capital Adequacy Assessment Process (ICAAP) by which it examines its risk profile from both regulatory and economic capital point of view and ensures that the level of capital supply:

- remains sufficient to support the Bank's risk profile;
- exceeds the Bank's formal, minimum regulatory capital requirements by a predefined buffer;
- is capable of withstanding stressed scenarios;
- remains consistent with the Bank's strategic and operational plans.

Within the framework of the ICAAP, an annual Capital Plan is prepared. The Capital Plan is reviewed by the Senior Management and approved by the Board of Directors of the Bank and is submitted to SAMA in accordance with their directives.

Regulatory and economic capital assessments are used for the management of risk and capital within the Bank. The economic capital assessment is the more risk-sensitive measure and it takes into account the correlation between different risks.

The economic capital models employed at the Bank are calibrated to quantify the level of capital that is sufficient to absorb potential losses over a one-year time horizon at a 99.9 percent degree of confidence.

The Bank identifies and manages the risks it faces through defined internal control procedures and stress testing. It assesses and manages the following risks via the capital planning process:

- Credit risk
- Market risk
- Operational risk
- Liquidity risk
- Interest rate risk
- Concentration risk
- Macroeconomic and business cycle risk
- Strategic risk
- Reputation risk
- Settlement and Pre-settlement Risks

Scenario analysis and stress testing

The Bank regularly assesses eligible capital supply against stressed losses under a range of scenarios. Stress scenarios are developed using historical losses, qualitative and quantitative techniques, and are employed to estimate the impact on capital requirements. The Senior Management and the Board are regularly informed of the results of the stress tests to ensure that the Bank has sufficient capital and that any unacceptable risks are mitigated. These scenarios are regularly reviewed and updated to account for the changing market conditions.

The Bank's Capital Plan shows that the Bank's current and projected capital is adequate to bear any stressed losses and to support its current activities and future strategies and operational plans.

Following table gives the Bank's Capital Adequacy Ratios (CAR) as of 31st of December 2013.

CAPITAL ADEQUACY – CAR (SAMA reference table 3)		
Capital Adequacy Ratios (TABLE 3, (f))		
Particulars	Total capital ratio	Tier 1 capital ratio
	%	
Top consolidated level	17.1%	16.2%

4.0 Credit risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations. Credit exposures arise principally in credit-related risk that is embedded in loans and advances and investments. There is also credit risk in foreign exchange and derivative transactions, as well as off-balance sheet financial instruments, such as loan commitments. Among the risks the Bank engages in, credit risk generates the largest regulatory capital requirement.

Following table gives exposures subject to credit risk and related capital charges as of 31st of December 2013.

CAPITAL ADEQUACY – Credit Risk (SAMA reference table 3)						
Amount of Exposures Subject To Standardized Approach of Credit Risk and related Capital Requirements (TABLE 3, (b))						
Portfolios	Amount of exposures (On Balance Sheet) (SAR '000)	Capital requirements (SAR '000)	Amount of exposures (Off Balance Sheet + Derivatives) (SAR '000)	Capital requirements (SAR '000)	Total Amount of Exposure (SAR '000)	Total Capital requirements (SAR '000)
Sovereigns and central banks:	105,700,950	209,275	-	-	105,700,950	209,275
SAMA and Saudi Government	73,432,990	-	-	-	73,432,990	-
Others	32,267,961	209,275	-	-	32,267,961	209,275
Multilateral Development Banks (MDBs)	9,203,238	-	-	-	9,203,238	-
Public Sector Entities (PSEs)	21,015	1,619	15,286	597	36,301	2,216
Banks and securities firms	9,387,845	282,192	7,476,551	298,077	16,864,397	580,269
Corporates	145,911,623	8,591,482	31,786,104	2,317,119	177,697,727	10,908,601
Retail non-mortgages	58,366,618	3,493,346	3,024,147	145,104	61,390,765	3,638,450
Small Business Facilities Enterprises(SBFE's)	4,038,082	232,845	1,685,502	97,701	5,723,584	330,546
Mortgages	17,611,052	1,055,315	785,817	31,433	18,396,869	1,086,748
Residential	11,107,890	709,239	379,045	15,162	11,486,935	724,401
Commercial	6,503,163	346,076	406,771	16,271	6,909,934	362,347
Securitized assets	8,310,224	132,964	-	-	8,310,224	132,964
Equity	3,289,905	263,192	-	-	3,289,905	263,192
Others	18,348,774	1,156,045	341,836	153,539	18,690,611	1,309,584
Total	**376,151,244**	**15,185,430**	**43,429,741**	**2,945,869**	**419,580,985**	**18,131,299**

Following tables give exposures subject to credit risk as of 31st of December 2013 and the average exposure during the year then ended.

CREDIT RISK (SAMA reference table 4)		
Credit Risk Exposure (Table 4, (b))		
Portfolios	**Total gross credit risk exposure (SAR '000)**	**Average gross credit risk exposure over the period * (SAR '000)**
Sovereigns and central banks:	105,700,950	102,206,629
SAMA and Saudi Government	73,432,990	71,784,648
Others	32,267,961	30,421,980
Multilateral Development Banks (MDBs)	9,203,238	9,170,425
Public Sector Entities (PSEs)	36,301	28,231
Banks and securities firms	16,864,397	18,455,486
Corporates	177,697,727	175,946,630
Retail non-mortgages	61,390,765	59,597,935
Small Business Facilities Enterprises (SBFE's)	5,723,584	5,637,365
Mortgages	18,396,869	17,226,160
Residential	11,486,935	10,447,209
Commercial	6,909,934	6,778,950
Securitized assets	8,310,224	4,216,773
Equity	3,289,905	3,154,369
Others	18,690,611	17,508,867
Total	**419,580,985**	**407,511,505**

* The average is calculated on a quarterly basis

4.1 Strategies

The principal objective of credit risk management is to ensure a high quality credit portfolio and the minimization of losses. This objective is accomplished by:

- maintaining a strong culture of responsible lending, supported by a robust risk policy and control framework;
- challenging business originators effectively in defining and implementing risk appetite within individual obligor and industry concentration limits; and
- ensuring independent, expert scrutiny and approval of credit risks and their mitigation.

4.2 Organization Structure

Corporate Sector

The Head of Corporate Risk Management (HCRM) within the Credit Risk function supports the Chief Risk Officer (CRO), as head of the Risk function, in overseeing credit risks at the highest level. The Credit Risk function primarily comprises: undertaking independent reviews and approval of larger and higher-risk credit proposals, setting a risk appetite framework and developing and maintaining the Bank's credit policy.

The credit risk function includes Senior Credit Officers based regionally and with industry specialization Kingdom-wide. These officers including the HCRM, fulfill an essential role as independent risk control and approving units as distinct 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 Credit Committee and/or Board is required to extend facilities to the customer above certain risk-based thresholds.

Retail Sector

The Head of Retail Risk Management within the Credit Risk function supports the Chief Risk Officer (CRO), and is comprised of three departments, Credit Policy, Portfolio Management & Risk Analytics, and Collections to manage the overall risk profile of the consumer lending business.

The Credit Policy Department is responsible for consumer credit risk management including setting the risk appetite framework and developing and maintaining the Bank's credit policies. The Consumer Lending business is governed by Consumer Finance Islamic Credit Policy (CFICP) Manual which is approved by the Board of Directors, and defines the policies and procedures for the handling of all activities related to consumer lending.

The Retail Portfolio Management & Risk Analytics Department handles all portfolio and risk analytic activities, including application and behavioural scoring models related to the consumer portfolio.

The Collections Department is responsible for centrally managing Delinquent Accounts and Recoveries of Written-off accounts.

Risk Management Strategy & Analytics

Risk Management Strategy & Analytics unit, as part of its Credit Risk function, is responsible for reporting on risk matters to Senior Management, Board and to regulator, providing credit analytics, calculating and reporting the Bank's regulatory and economic capital and performing stress tests. It owns and develops credit risk models. It prepares quarterly risk reports for the Senior Management and the Risk Management Committee of the Board.

4.3 Risk reporting and monitoring – risk rating systems

The Bank's exposure to credit risk arises from a wide range of asset classes, customers and product types. A breakdown of the Bank's loans and advances to major economic sectors is provided in note 7.5 of the *Audited Financial Statements for the year ended 31 December 2013*.

To measure and manage the risk in these exposures, both to individually assessed customers and to those aggregated into portfolios, the Bank employs risk rating systems and other methodologies (such as analysis of past dues). The main characteristics of the Bank's credit risk rating system are set out in notes 7.4 and 31 of the *Audited Financial Statements for the year ended 31 December 2013*.

Following table gives a geographic breakdown of exposures as of 31st of December 2013.

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES								
Geographic Breakdown (Table 4, (c))								
Portfolios	Geographic Area (SAR '000)							
	Saudi Arabia	Other GCC & Middle East	Europe	North America	South East Asia	Turkey	Other Countries	Total
Sovereigns and central banks:	73,432,990	12,359,075	1,068,375	7,237,324	921,863	9,460,436	1,220,888	105,700,950
SAMA and Saudi Government	73,432,990							73,432,990
Others		12,359,075	1,068,375	7,237,324	921,863	9,460,436	1,220,888	32,267,961
Multilateral Development Banks (MDBs)	3,570,563		656,250	4,038,925	937,500			9,203,238
Public Sector Entities (PSEs)						36,301		36,301
Banks and securities firms	3,210,169	3,103,886	947,367	2,972,385	369,940	2,281,257	3,979,393	16,864,397
Corporate	125,593,354	11,218,071	3,893,093	15,305,502	522,375	20,054,830	1,110,503	177,697,727
Retail non-mortgages	53,332,979	174	8,161	320	3	8,048,953	173	61,390,765
Small Business Facilities Enterprises (SBFE's)			2,746			5,720,753	85	5,723,584
Mortgages	8,773,054		5,382	831		9,613,929	3,673	18,396,869
Residential	6,624,632		4,056	784		4,853,877	3,586	11,486,935
Commercial	2,148,422		1,326	47		4,760,052	87	6,909,934
Securitized assets				8,310,224				8,310,224
Equity	3,289,905							3,289,905
Others	10,185,765	1,873,564	2,502,763	1,986,217		2,082,593	59,708	18,690,610
Total	**281,388,778**	**28,554,770**	**9,081,391**	**39,851,727**	**2,751,681**	**51,578,300**	**6,374,338**	**419,580,985**

Following table gives an industry sector breakdown of exposures as of 31st of December 2013.

TABLE 4 (STA): CREDIT RISK: GENERAL DISCLOSURES

Industry Sector Breakdown (Table 4, (d))

Portfolios	Industry sector (SAR '000)												
	Government and quasi government	Banks and other financial institutions	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health services	Building and construction	Commerce	Transportation and communication	Services	Consumer loans and credit cards	Others	Total
Sovereigns and central banks:	105,700,950												105,700,950
SAMA and Saudi Government	73,432,990												73,432,990
Others	32,267,961												32,267,961
Multilateral Development Banks MDBs)		9,203,238											9,203,238
Public Sector Entities (PSEs)				3,702	34	2,919	1,352	12		27,932		350	36,301
Banks and securities firms		16,785,833										78,564	16,864,397
Corporates	6,327,546	22,113,307	1,082,545	30,378,493	3,517,983	17,139,095	25,330,406	35,086,123	15,928,149	17,398,815	449,499	2,945,766	177,697,727
Retail non-mortgages		6,094	92,447	1,539,411	52,654	13,510	928,424	2,587,883	155,631	300,029	53,394,082	2,320,599	61,390,765
Small Business Facilities Enterprises (SBFE's)		6,066	92,436	1,539,310	52,652	13,510	927,401	2,511,741	155,595	299,798	67,344	57,731	5,723,584
Mortgages		6,523	103,210	1,221,401	40,777	70,648	1,765,292	1,947,217	151,350	521,352	8,894,321	3,674,778	18,396,869
Residential		3,876	28,160	335,611	13,091	34,109	688,804	589,141	85,567	158,737	6,662,920	2,886,919	11,486,935
Commercial		2,647	75,050	885,791	27,686	36,540	1,076,488	1,358,076	65,783	362,615	2,231,401	787,858	6,909,934
Securitized assets												8,310,224	8,310,224
Equity		2,467,500		11,050				800,355		11,000			3,289,905
Others		4,864,522	7,253	108,445	225	2,166	185,777	103,231	19,958	9,147	1,118	13,388,768	18,690,611
Total	**112,028,496**	**55,447,016**	**1,285,455**	**33,262,502**	**3,611,673**	**17,228,338**	**28,211,251**	**40,524,822**	**16,255,088**	**18,268,275**	**62,739,020**	**30,719,049**	**419,580,985**

Following table gives a maturity breakdown of exposures as of 31st of December 2013.

CREDIT RISK (SAMA reference table 4)									
Residual Contractual Maturity Breakdown (Table 4, (e))									
Portfolios	Maturity breakdown (SAR '000)								
	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:	29,153,529	1,600,000	7,547,192	9,378,721	8,830,652	6,966,549	5,291,543	36,932,764	105,700,950
SAMA and Saudi Government	22,918,490	1,600,000	7,516,242	8,535,346	7,947,718	1,778,982	189,749	22,946,463	73,432,990
Others	6,235,040		30,950	843,375	882,935	5,187,567	5,101,794	13,986,301	32,267,961
Multilateral Development Banks (MDBs)				1,331,250	579,938	2,265,625	1,838,925	3,187,500	9,203,238
Public Sector Entities (PSEs)	8,726	27			1,203	12,152	8,823	5,371	36,301
Banks and securities firms	5,609,949	421,757	1,810,233	1,064,185	1,193,788	3,000,199	3,161,115	603,172	16,864,397
Corporates	18,179,793	15,531,691	22,913,585	31,392,154	22,642,055	26,987,633	19,134,692	20,916,124	177,697,727
Retail non-mortgages	3,912,525	1,850,049	3,250,872	4,763,963	8,445,514	25,568,411	12,054,707	1,544,725	61,390,765
Small Business Facilities Enterprises (SBFE's)	288,081	233,002	643,216	1,133,476	1,340,884	1,477,315	293,406	314,204	5,723,584
Mortgages	149,317	134,185	338,417	606,468	1,280,826	3,468,354	2,677,004	9,742,298	18,396,869
Residential	58,288	78,131	139,929	260,919	525,629	1,407,513	1,430,724	7,585,803	11,486,935
Commercial	91,029	56,055	198,488	345,549	755,197	2,060,841	1,246,280	2,156,495	6,909,934
Securitized assets						79,500	353,420	7,877,303	8,310,224
Equity								3,289,905	3,289,905
Others	9,567,307	21,489	55,061	75,062	46,030	553,396	147,825	8,224,440	18,690,611
Total	**66,581,147**	**19,559,198**	**35,915,360**	**48,611,803**	**43,020,004**	**68,901,818**	**44,668,054**	**92,323,602**	**419,580,985**

4.4 Internal methodologies for calculating economic capital requirements

The Bank's credit risk rating framework incorporates probability of default (‘PD’) of an obligor and loss severity expressed in terms of exposure-at-default (‘EAD’) and loss-given-default (’LGD’). These measures are used to calculate expected loss and capital requirements.

For Corporate business, obligor PD is estimated using a 16-grade Customer Risk Rating scale for performing customers. These grades represent varying degrees of strength of financial condition and qualitative factors. The Customer Risk Ratings are mapped to a PD value range.

For retail business, the portfolios are analyzed by pools and models are available to provide PD and LGD estimates based on historical experience.

4.5 Credit risk management policy, past due and impaired, specific and general allowances

A discussion on the bank's credit risk management policy is included in note 31 of the *Audited Financial Statements for the year ended 31 December 2013*.

The bank considers all the facilities for a counterparty to be defaulted if any one of the facilities of the counterparty is past due more than 90 days.

The approaches followed for specific and general allowances (portfolio provision) are explained in note 2.5 of the *Audited Financial Statements for the year ended 31 December 2013*.

Following table gives an industry sector breakdown of impaired and past due loans and related allowances (provisions) as of 31st December 2013.

CREDIT RISK (SAMA reference table 4)										
Impaired Loans, Past Due Loans and Allowances (Table 4, (f))										
Industry sector	Impaired loans (SR '000)	Defaulted (SR '000)	Aging of Past Due Loans (days) (SR '000)				Specific allowances (SR '000)			General allowances (SR '000)
			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	4,127	4,127	572	346	969	2,812	(1,084)	(37,500)	3,880	
Agriculture and fishing	20,618	20,618	14,745	1,729	4,843	14,046	7,039	(7,179)	11,903	
Manufacturing	477,643	477,643	342,523	263,990	50,613	163,039	132,766	(82,357)	346,484	
Mining and quarrying	2,459	2,459	13,225	206	578	1,675	1,744		1,744	
Electricity, water, gas and health services	9,021	9,021	42,845	756	2,119	6,145	(4,490)	(17,084)	4,362	
Building and construction	585,742	585,742	475,724	38,799	34,219	512,724	93,763	(1,048,387)	540,007	
Commerce	1,221,753	1,221,753	694,866	232,177	88,233	901,343	131,339	(1,208,856)	1,076,443	
Transportation and communication	25,583	25,583	96,850	708	1,983	22,893	(62,833)	(1,621)	23,715	
Services	47,857	47,857	152,371	1,264	36,324	10,268	(22,462)	(23,823)	40,168	
Consumer loans and credit cards	435,264	435,264	3,047,663	341,723	44,169	49,373	845,059	(762,349)	329,079	
Others	89,380	89,380	845	2,484	6,960	79,936	1,379	(59,296)	56,143	
Total	**2,919,447**	**2,919,447**	**4,882,229**	**884,182**	**271,010**	**1,764,255**	**1,122,220**	**(3,248,452)**	**2,433,927**	**2,408,255**

Following table gives a geographic breakdown of impaired and past due loans and related allowances (provisions) as of 31st December 2013.

CREDIT RISK (SAMA reference table 4)							
Impaired Loans, Past Due Loans And Allowances (Table 4, (g))							
Geographic area (SR '000)	Impaired loans (SR '000)	Aging of Past Due Loans (days) (SR '000)				Specific allowances (SR '000)	General allowances (SR '000)
		Less than 90	90-180	180-360	Over 360		
Saudi Arabia	2,140,598	3,391,831	818,877	88,061	1,233,660	1,881,542	2,231,145
Other GCC & Middle East							
Turkey	778,849	1,490,398	65,305	182,949	530,595	552,385	177,110
Others Countries							
Total	**2,919,447**	**4,882,229**	**884,182**	**271,010**	**1,764,255**	**2,433,927**	**2,408,255**

Following table gives the movement in specific and general allowances for the year ended 31st December 2013.

CREDIT RISK (SAMA reference table 4)		
Reconciliation Of Changes In The Allowances For Loan Impairment (Table 4, (h))		
Particulars	**Specific allowances (SAR '000)**	**General allowances (SAR '000)**
Balance, beginning of the year	4,560,159	2,494,970
Charge-offs taken against the allowances during the period	(3,248,452)	
Amounts set aside (or reversed) during the period	1,217,797	(56,443)
Other adjustments:		
- exchange rate differences	(95,577)	(30,272)
- business combinations		
- acquisitions and disposals of subsidiaries		
- etc.		
Transfers between allowances		
Balance, end of the year	2,433,927	2,408,255

Charge-offs and recoveries that have been recorded directly to the income statement are SAR 4,538K and SAR (403,209)K respectively.

4.6Application of the standardized approach for credit risk

The Bank uses the Standardized approach of Basel III to calculate the risk weighted assets and required Regulatory Capital for Pillar -1 (including credit risk, market risk and operational risk). It requires banks to use risk assessments prepared by External Credit Assessment Institutions (ECAI) to determine the risk weightings applied to rated counterparties. For counterparties not rated externally the assigned risk weightings are in accordance with SAMA guidelines.

Following table gives a breakdown by risk weightings (buckets) of the Bank's exposures after the impact of credit risk mitigation (CRM), as of 31st December 2013.

CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH (SAMA reference table 5)										
Allocation Of Exposures To Risk Buckets (Table 5, (b))										
Particulars	Risk buckets (SAR '000)									Deducted
	0%	20%	35%	50%	75%	100%	150%	Other risk weights	Unrated	(SAR '000)
Sovereigns and central banks:	114,286,906	921,863		4,801,232		30,950				
SAMA and Saudi Government	87,772,990									
Others	26,513,916	921,863		4,801,232		30,950				
Multilateral Development Banks (MDBs)	9,203,238									
Public Sector Entities (PSEs)		52		1,588		34,311				
Banks and securities firms		4,387,507		12,683,352						
Corporates	620,610	24,388,892		9,132,619		126,350,797	165,827			
Retail non-mortgages					60,353,258	216,229				
Small Business Facilities Enterprises (SBFE's)					5,490,538	13,918				
Mortgages				9,625,358		8,771,511				
Residential				4,863,845		6,623,090				
Commercial				4,761,512		2,148,422				
Securitized assets		8,310,224								
Equity						3,289,905				64,916
Others	5,107,011	3,355,636		137,946	9,404	11,128,712	1,975,275	290,776		

4.7 Credit Risk Mitigation

Risk mitigation is an important aspect of the Bank's effective credit risk management and it takes many forms.

The Bank in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in certain loans and advances. The collaterals are held mainly against commercial and individual loans and are managed against relevant exposures at their net realizable values. The Bank monitors the market value of collateral obtained periodically and requests additional collateral in accordance with the terms of the underlying agreements.

These collaterals mostly include time and other cash deposits, financial guarantees from other banks, local and international equities, real estate and other fixed assets

The Bank’s policy is set out in note 31 of the *Audited Financial Statements for the year ended 31 December 2013*.

In terms of the regulatory guidelines, not all forms of collateral currently used by the Bank are recognized for the purposes of the calculation of the credit risk capital requirement. The bank uses the Basel III 'comprehensive method' for the treatment of financial collaterals which requires a standard supervisory haircut to be applied to the collateral to account for currency and maturity mismatches between the underlying exposure and the collateral applied.

Eligible financial collaterals under the Standardised Approach as per SAMA guidelines is restricted to:

a. Cash (as well as certificates of deposit or comparable instruments);
b. Gold; and
c. Debt Securities

Non-financial collaterals mainly include guarantees.

Following table gives the eligible collateral held by the bank as of 31st December 2013.

CREDIT RISK MITIGATION (CRM): DISCLOSURES FOR STANDARDIZED APPROACH (SAMA reference table 7)		
Credit Risk Exposure Covered By CRM (Table 7, (b) and (c))		
Portfolios	Covered by	
	Eligible financial collateral (SAR '000)	Guarantees / credit derivatives (SAR '000)
Sovereigns and central banks:		
SAMA and Saudi Government		
Others		
Multilateral Development Banks (MDBs)		
Public Sector Entities (PSEs)	350	
Banks and securities firms		3,976,133
Corporates	3,503,826	14,381,473
Retail non-mortgages	821,278	
Small Business Facilities Enterprises (SBFE's)	219,128	
Mortgages		
Residential		
Commercial		
Securitized assets		
Equity		
Others	6,432	2,520
Total	**4,331,887**	**18,360,126**

4.8 Use of External Credit Assessment Institutions (ECAIs)

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

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.

The process used to transfer credit assessment ratings to the banks’ counterparties is as follows. A data file containing external ratings is downloaded from a specialist third party supplier (Bloomberg). The rating records from the External Credit Assessment Institutions specified above are then linked with the Bank's counterparty records. As the majority of the bank's corporate borrowers are not rated by external agencies, for regulatory capital calculations under the Basel III 'Standardised Approach' these are treated as 'unrated' exposures. The use of external ratings within the Corporate exposure class mainly relates to its investments in corporate bonds.

The alignment of the alphanumerical scale of agencies used with risk buckets is based on the guidance issued by SAMA.

4.9 Exposure related to counterparty credit risk

Economic and Regulatory Capital is calculated for counterparty credit exposures on the Bank's derivatives portfolio using the 'Current Exposure Method' within the Basel III Standardised Approach. Limits for corporate and banking counterparty credit exposures including derivatives are approved by the relevant authority. Risk Group of the Bank is responsible for monitoring adherence to these limits on a daily basis.

Following table gives the exposures to counterparty credit risk for derivatives as of 31st of December 2013.

GENERAL DISCLOSURES FOR EXPOSURES RELATED TO COUNTERPARTY CREDIT RISK (CCR) (SAMA reference table 8)	
General Disclosures (Table 8, (b) and (d))	
Particulars	**Amount (SAR '000)**
Gross positive fair value of contracts	503,733
Netting Benefits	
Netted Current Credit Exposure	
Collateral held:	
-Cash	
-Government securities	
-Others	
Exposure amount (under the applicable method)	1,355,421
-Current Exposure Method (CEM)	1,355,421
Notional value of credit derivative hedges	
Current credit exposure (by type of credit exposure):	1,355,421
-Interest rate contracts	167,342
-FX contracts	1,188,079
-Equity contracts	
-Credit derivatives	
-Commodity/other contracts	

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.

The Bank usually does not take collateral nor is it required to provide collateral in connection with its over-the-counter derivatives activity. Credit reserves are created in accordance with impairment of financial assets policy stated in note 3.14 of the *Audited Financial Statements for the year ended 31 December 2013*.

4.10 Securitization

The Bank is not involved in any securitization activities which transfer credit risk away from the Bank to other entities.

5.0 Market Risk

Market risk is the risk that changes in market prices, such as special commission rate, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates, will affect the Bank's income or the value of its holdings of financial instruments.

For risk capital computations, 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.

5.1 Strategies

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

5.2 Organization Structure

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 Group has an independent market risk management and control function which is responsible for measuring, monitoring and reporting market risk exposures according to defined policies and limits on a regular basis.

5.3 Risk reporting and monitoring

The Bank uses tools such as Value-at-Risk (VaR) and other measures to monitor and limit market risk exposures. The scope and nature of risk reporting and measurement systems used are explained in detail in note 32 of the *Audited Financial Statements for the year ended 31 December 2013*.

Stress testing

As VaR is a measure based on historical volatilities and correlations, which may break down during stressed market conditions, the Bank also performs stress testing to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. Consideration is given to the actual market risk exposures, along with market events, in determining the stress scenarios.

Stress testing is performed by the Risk Group at a portfolio level, based on historical and stressed scenarios which are regularly reviewed and updated. The stress testing results are regularly reported to the Senior Management and the Risk Management Committee of the Board and provide them with an assessment of the financial impact such events would have on the capital and profitability of the Group.

5.4 Risk Mitigation – Hedging

The Bank's hedging and risk mitigation strategies primarily comprise the use of traditional market instruments, such as swaps and cash instruments, to address risk factors arising at portfolio level. The Market Risk Management function is responsible for monitoring the continuing effectiveness of the hedges.

5.5 Internal methodologies for calculating economic capital requirements

The main principal tool used by the Bank to calculate Economic Capital requirements for market risk is Value at Risk (VaR). The key assumptions used in the VaR model are explained in note 32.1 of the *Audited Financial Statements for the year ended 31 December 2013*.

5.6 Application of the standardized approach for market risk

The Bank uses the Standardized approach of Basel III to calculate the required Regulatory Capital for market risk which covers general market and specific risks. Brief descriptions of the risk items covered by market risk are given below:

a. Interest rate risk is the impact on Bank's earnings and equity of changes in interest rates; the risk is two-fold:
- Specific Risk: risk of loss caused by an adverse price movement of a debt instrument or security due principally to factors related to the issuer.
- General Market Risk: risk of loss arising from adverse changes in market conditions.

b. Equity risk is the risk that the Bank's investments will depreciate due to equity market dynamics.

c. Foreign exchange risk is the risk arising from a change in exchange-rates on the Bank net asset / liability positions.

d. Commodity risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities.

The primary market risks to which the Bank is exposed are foreign exchange risk and interest rate risk associated with its trading book that is marked-to-market daily (mainly derivatives).

Following table gives the capital requirement for market risk as of 31st of December 2013.

CAPITAL ADEQUACY – Market Risk (SAMA reference table 3)					
Capital Requirements For Market Risk (822, Table 3, (d) & Table 10, (b))					
	Interest rate risk (SAR '000)	Equity position risk (SAR '000)	Foreign exchange risk (SAR '000)	Commodity risk (SAR '000)	Total (SAR '000)
Standardized approach	221,831	-	234,787	-	456,618

6.0 Operational risk

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 risks management is a primary duty of the business units.

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

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

- Proactive approach through Risk & Control Self-Assessment process.
- Reactive approach through Loss & Events Data Collection, and Analysis.
- Maintain culture and awareness programs.
- Introduce comprehensive monitoring and reporting tools.
- Develop and implement practices supporting Operational risk.

6.1 Operational Risk 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
- Measurement of residual risks

6.2 Operational Risk Assessment

6.2.1 Governance

The Board of Directors approves, monitors and reviews the operational risk appetite, framework, policies and practices; ensuring proper developing, implementing and maintaining 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.

6.2.2 Loss Data Collection

The bank has a comprehensive fit-for-purpose loss data collection system "SAS Operational Risk Monitor" for operational risk losses which enables the bank managing, tracking and reporting its risk information.

6.2.3 Risk and Control Self-Assessment [RCSA]

Qualitative & quantitative risk assessment is conducted in NCB Bank 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 business unit level and is subject to treatment and escalation to Group Heads, which sets out the operational risk exposure that NCB is willing to tolerate.

6.2.4 High level of awareness culture across NCB

Operational risk management continued the training programs (Internal and External) and encouraged the participation of all staff with functions that are assigned with roles and responsibilities that oversee operational risks within their respective areas. Operational Risk Awareness sessions were delivered to officers across the Kingdom regions.

6.2.5 Key Risk Indicator [KRI]

Key Risk Indicators (KRIs) are used as a monitoring tool to give early warnings of operational problems or highlight failures. KRI reports -that are generated by the businesses- are reviewed monitored by the Operational Risk Department regularly.

6.3 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.

Following table gives the capital requirement for operational risk as of 31st of December 2013.

CAPITAL ADEQUACY – Operational Risk (SAMA reference table 3)	
Capital Requirements for Operational Risk (Table 3, (e))	
Particulars	**Capital requirement (SAR '000)**
Standardized approach	1,958,370
Total	**1,958,370**

7.0 Equities in Banking Book

The Bank's equity investments are intended to be held for an unspecified period of time, and may be sold in response to the Bank's needs. Quoted equity investments are valued based on market prices whereas unquoted equity investments are carried at cost. Impairment provisions, if required, are created in accordance with the accounting policies mentioned in note 3.14 of the *Audited Financial Statements for the year ended 31 December 2013*.The Bank does not actively trade these investments.

Following table gives the value of equity investments as of 31st of December 2013.

EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS (SAMA reference table 13)					
Value Of Investments (Table 13, (b))					
	Un-quoted investments		Quoted investments		
	Value disclosed in Financial Statements (SAR '000)	Fair value (SAR '000)	Value disclosed in Financial Statements (SAR '000)	Fair value (SAR '000)	Publicly quoted share values (if materially different from fair value) (SAR '000)
Investments	824,732	N/A	2,465,173	2,465,173	

Following table gives an industry sector breakdown of equity investments as of 31st of December 2013.

EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS (SAMA reference table 13)		
Types And Nature of Investments (Table 13, (c))		
Investments	Publicly traded (SAR '000)	Privately held (SAR '000)
Government and quasi government		
Banks and other financial institutions	2,465,173	2,327
Agriculture and fishing		
Manufacturing		11,050
Mining and quarrying		
Electricity, water, gas and health services		
Building and construction		
Commerce		800,355
Transportation and communication		
Services		11,000
Others		
Total	**2,465,173**	**824,732**

Following table gives the realized and unrealized gains on equity investments as of 31st of December 2013.

EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS (SAMA reference table 13)	
Gains / Losses Etc. (Table 13, (d) and (e))	
Particulars	**Amount (SAR '000)**
Cumulative realized gains (losses) arising from sales and liquidations in the reporting period	157,362
Total unrealized gains (losses)	1,155,840
Total latent revaluation gains (losses)	
Unrealized gains (losses) included in Capital	1,155,840
Latent revaluation gains (losses) included in Capital	

Following table gives an industry sector breakdown of capital requirements on equity investments as of 31st of December 2013.

EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS (SAMA reference table 13)	
Capital Requirements (Table 13, (f))	
Equity grouping	**Capital requirements (SAR '000)**
Government and quasi government	
Banks and other financial institutions	197,400
Agriculture and fishing	
Manufacturing	884
Mining and quarrying	
Electricity, water, gas and health services	
Building and construction	
Commerce	64,028
Transportation and communication	
Services	880
Others	
Total	**263,192**

8.0 Interest Rate Risk in Banking Book

An explanation of the nature of Interest Rate Risk in the Banking Book, the Bank's processes to monitor and manage this risk and a sensitivity analysis is given in the note 32.2.1 of the *Audited Financial Statements for the year ended 31 December 2013*.

Following table gives the impact of a 200 basis points change in interest rates on the bank's earnings by major currencies based on outstanding position as of 31st December 2013.

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) (SAMA reference table 14)	
200bp Interest Rate Shocks for currencies with more than 5% of Assets or Liabilities (Table 14, (b))	
Rate Shocks	**Change in earnings (SAR '000)**
Upward rate shocks:	
SAR	2,062,934
USD	(372,434)
GBP	(721)
EUR	(35,607)
TRY	153,084
Downward rate shocks:	
SAR	(2,062,934)
USD	372,434
GBP	721
EUR	35,607
TRY	(153,084)

Summary of Pillar 3 Qualitative disclosure requirements.

Summary of Pillar 3 Quantitative disclosure requirements.