

الأهلي كابيتال  
NCB Capital



## **PILLAR III DISCLOSURES**

**NCB CAPITAL GROUP**

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March 2017

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## 1 Scope of Application

NCB Capital (hereinafter referred as “NCBC” or “the Firm”) is a subsidiary of The National Commercial Bank (NCB), Saudi Arabia. The Firm is authorized by the Capital Market Authority of the Kingdom of Saudi Arabia with a license number 37-06046 to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities. Formed in accordance with the Capital Market Authority's Resolution No. 2-83-2005 dated 21 Jumad Al-Awal 1426H (28 June 2005), NCBC was the first investment Firm to obtain a CMA license.

The Pillar III disclosures contained herein relate to the NCBC including the following subsidiaries as of the year ending December 31, 2016.

| Entity Name   | Capital       | Ownership Percentage | Objective   | Domicile of Residence & Place of Business |
|---|---------------|----------------------|---|---|
| NCB Capital Real Estate Investment Company  | SAR 10,000    | 100%                 | Hold and register real estate on behalf of real estate funds        | Saudi Arabia                              |
| NCB Capital Dubai Inc. formerly known as Eastgate Capital Group Limited (via the Holding company) | USD 2,500,000 | 100%                 | Investment management services                                      | DIFC, Dubai                               |
| The Capital Partnership (Cayman) Holdings Limited (SPV) *   | USD 50,000    | 100%                 | Investment  | Cayman Islands                            |
| ORYX Regional Private Equity Fund*  | BD 1,000      | 50%                  | Fund Company  | Bahrain                                   |
| BACO WLL*   | BD 20,000     | 100%                 | Employee Investment Scheme Programme                                | Bahrain                                   |
| NCBC Investment Management Umbrella Company plc*  | N/A           | 100%                 | Investment company with variable capital, structured as an umbrella | Dublin, Ireland                           |

\*Some of the Subsidiaries are created by NCB Capital as Special Purpose Vehicles (SPVs) which do not have real commercial activities.

Table 1 – Subsidiaries

This report is compiled in accordance with CMA’s Prudential Rules and the format of the report is in line with the CMA’s recommended format for Pillar 3 qualitative and quantitative risk disclosures.

### 1.1 Pillar I – Minimum capital requirements

Pillar I sets minimum capital requirements to meet Credit, Market and Operational risks.

NCBC used the Standardized Approach in the calculation of the capital required for Credit risk.

The Firm’s Market risk capital charge covers CMA defined categories such as Equity & Fund risk, FX risk and Excess Exposure risk. The capital charge for Market risk is assessed for each risk category separately in accordance with the rules prescribed by CMA.

Regarding Operational risk, the Firm has adopted the Basic Indicator Approach (BIA) in compliance with CMA requirements as this is a more conservative approach as it leads to a higher operational risk capital charge than the Expenditure Based Approach (EBA).

## 1.2 Pillar II – Internal Capital Adequacy Assessment Process (ICAAP)

ICAAP is introduced under Pillar II of the Prudential Rules set by CMA, which is contained in Part 6 (Article 66) and Annex 9. Pillar II requires Authorized Persons (AP) to perform a thorough review of its material risks, stress testing, strategic capital plans, corporate governance, the internal control framework as well as the roles and responsibilities of departments / individuals that are critical to the implementation of ICAAP framework.

The Firm has taken various initiatives to implement ICAAP and assess capital requirements in accordance with its risk profile, size and complexity of operations.

## 1.3 Pillar III – Market discipline

Pillar III provides a detailed risk reporting and disclosure framework that enhances market discipline. The disclosures are intended to enhance transparency and facilitate an objective assessment of NCBC by its stakeholders, including but not limited to shareholders, regulators, analysts, clients, counterparties and the general market and industry. This is an effective means of informing the market about the Firm's exposure to risks and enhances comparability.

The information provided in this report has been prepared and reviewed by Finance, Risk, Compliance and Internal Audit Departments, with additional reviews by senior management and the Board Risk Committee and is in accordance with the disclosure rules in force at the time of publication, covering both the qualitative and quantitative items. NCBC updates and publishes the Pillar III risk disclosure on its website annually.

## 1.4 Material or Legal Impediments between AP and its Subsidiaries

NCBC does not have any material or legal impediments affecting the prompt transfer of capital or repayment of liabilities with any of its subsidiaries.

## 2 Capital Structure

For regulatory purposes, capital is categorized into two main classes. These are Tier 1 and Tier 2, which are as described below.

### 2.1 Tier 1 Capital

Tier-1 capital consists of paid-up capital, reserves (other than revaluation reserves), and audited retained earnings and has deductions in the form of dividend expense from retained earnings and negative equity items. As of 31<sup>st</sup> Dec 2016, the total Tier I capital of the Firm is SAR 932 million (31 Dec 2015: SAR 999 million).

| Tier-1 capital                             | 2016           | 2015           |
|--|----------------|----------------|
|  | SAR '000       |                |
| Paid-up capital                            | 1,000,000      | 1,000,000      |
| Audited retained earnings                  | 91,399         | 165,293        |
| Share premium                              | --             | --             |
| Reserves (other than revaluation reserves) | 104,248        | 80,248         |
| Tier-1 capital contribution                | --             | --             |
| Deductions from Tier-1 capital             | (264,014)      | (246,444)      |
| <b>Total Tier-1 capital</b>                | <b>931,633</b> | <b>999,097</b> |

Table 2 – Tier 1 Capital

## 2.2 Tier 2 Capital

Tier-2 capital of the Firm consists of revaluation reserves, which resulted from the change in fair value of Available for Sale (AFS) equity investments. As of 31<sup>st</sup> Dec 2016, the total Tier 2 capital of the Firm is SAR Nil (As at 31 Dec 2015: SAR 12 million).

| Tier-2 capital                             | 2016           | 2015             |
|--|----------------|------------------|
|  | SAR '000       |                  |
| Subordinated loans                         | --             | --               |
| Cumulative preference shares               | --             | --               |
| Revaluation reserves                       | --             | 11,953           |
| Other deductions from Tier-2 (-)           | --             | --               |
| Deduction to meet Tier-2 capital limit (-) | --             | --               |
| <b>Total Tier-2 capital</b>                | <b>--</b>      | <b>11,953</b>    |
| <b>TOTAL CAPITAL BASE (Tier-1 &amp; 2)</b> | <b>931,633</b> | <b>1,011,050</b> |

Table 3 – Tier-2 Capital and Total capital Base

Please refer to [Appendix 1](#) for the detailed disclosure on capital base.

## 3 Capital Adequacy

NCBC views capital adequacy as paramount to cover unexpected losses and hence maintains adequate levels of capital to cover risks inherent in its business operations and to support current and future activities.

### 3.1 Capital Adequacy Ratio and Minimum Capital Requirements

For the year ending 31<sup>st</sup> December, 2016, the Firm is adequately capitalized with a Tier I capital ratio of 2.07x (2015: 2.38x) and a total capital ratio of 2.07x (2015: 2.41x). This is well above CMA's minimum requirement of 1.00x.

The following table reflects the comparative analysis of capital adequacy numbers in 2016 and 2015.

(All amounts in '000 SAR)

| Particulars                       | As of 31 <sup>st</sup> Dec, 2016 | As of 31 <sup>st</sup> Dec, 2015 | % Change     |
|-----------------------------------|----------------------------------|----------------------------------|--------------|
| Tier I Capital                    | 931,633                          | <b>999,097</b>                   | -6.75%       |
| Tier II Capital                   | --                               | <b>11,953</b>                    | -100%        |
| Total                             | <b>931,633</b>                   | <b>1,011,050</b>                 | -7.85%       |
| <b>Minimum capital required</b>   |                                  |                                  |              |
| Market Risk                       | 162,937                          | 162,919                          | 0.01%        |
| Credit Risk                       | 185,870                          | 160,437                          | 15.85%       |
| Operational Risk                  | 100,520                          | 97,037                           | 3.59%        |
| <b>Total</b>                      | <b>449,327</b>                   | <b>420,393</b>                   | <b>7.10%</b> |
| Tier-1 Capital Ratio              | 2.07x                            | 2.38x                            | -13.03%      |
| Total Capital Ratio               | 2.07x                            | 2.41x                            | -14.11%      |
| Surplus (Deficit) in Capital Base | 482,306                          | 590,656                          | -18.34%      |

Table 4 – Comparison of Capital adequacy and capital numbers – 2016 vs. 2015

Please refer to [Appendix 2](#) for more detailed disclosures on capital adequacy.

### 3.2 ICAAP

NCBC has an ICAAP process in which it examines its risk profile from primarily a capital adequacy point of view. The ICAAP at the Firm evaluates the Firm’s business strategy, its forecasts for risk-weighted assets for the next three years, its risk appetite and the assessment of specific risk exposures, their mitigation and the capital allocated to these risks. In effect, the ICAAP is a crucial part of the Firm’s strategic decision-making process and risk management framework. This framework and the results are up dated and reviewed by the board on an annual basis.

### 3.3 Scenario Analysis and Stress Testing

Scenario analysis and stress testing refer to various techniques (quantitative and/or qualitative) used by the Firm to assess their susceptibility to exceptional but probable events. It is a risk management technique used to evaluate the potential effects of specific events and/or movement in a set of financial variables on the Firm’s financial condition. NCBC has in place a robust stress testing process that ensures that sufficiently adverse scenarios are considered while testing the resilience and the ability of the Firm to absorb such shocks. Senior Management is regularly informed of the stress test outcomes to ensure that any unacceptable risks are mitigated.

## 4 Risk Management

Risk management is an integral function within NCBC encompassing all risk groups. The mission of Risk Management Department at NCBC is to develop and maintain programs that protect the Firm from unanticipated losses. This involves establishing and strengthening the risk management practices at NCBC as well as to create robust risk infrastructure at the Firm for various stakeholders.

### 4.1 Scope of Risk Management

#### 4.1.1 Risk Management Strategies and processes

NCBC’s risk management framework encompasses all of the activities at the Firm that affect its risk profile. Risk management is the process by which Firm identifies, measures, controls and monitors its risk exposures. These include decisions and actions to avoid, mitigate, transfer, insure against, put limits on or explicitly assume risk. Thus, risk management may be viewed as a “life cycle” which includes the following four stages:



Figure 1 - Risk Management lifecycle



The Firm's strategic objective is to optimize the risk / return trade-off by either maximizing return for a given level of risk or minimizing the risk for a desired level of return.

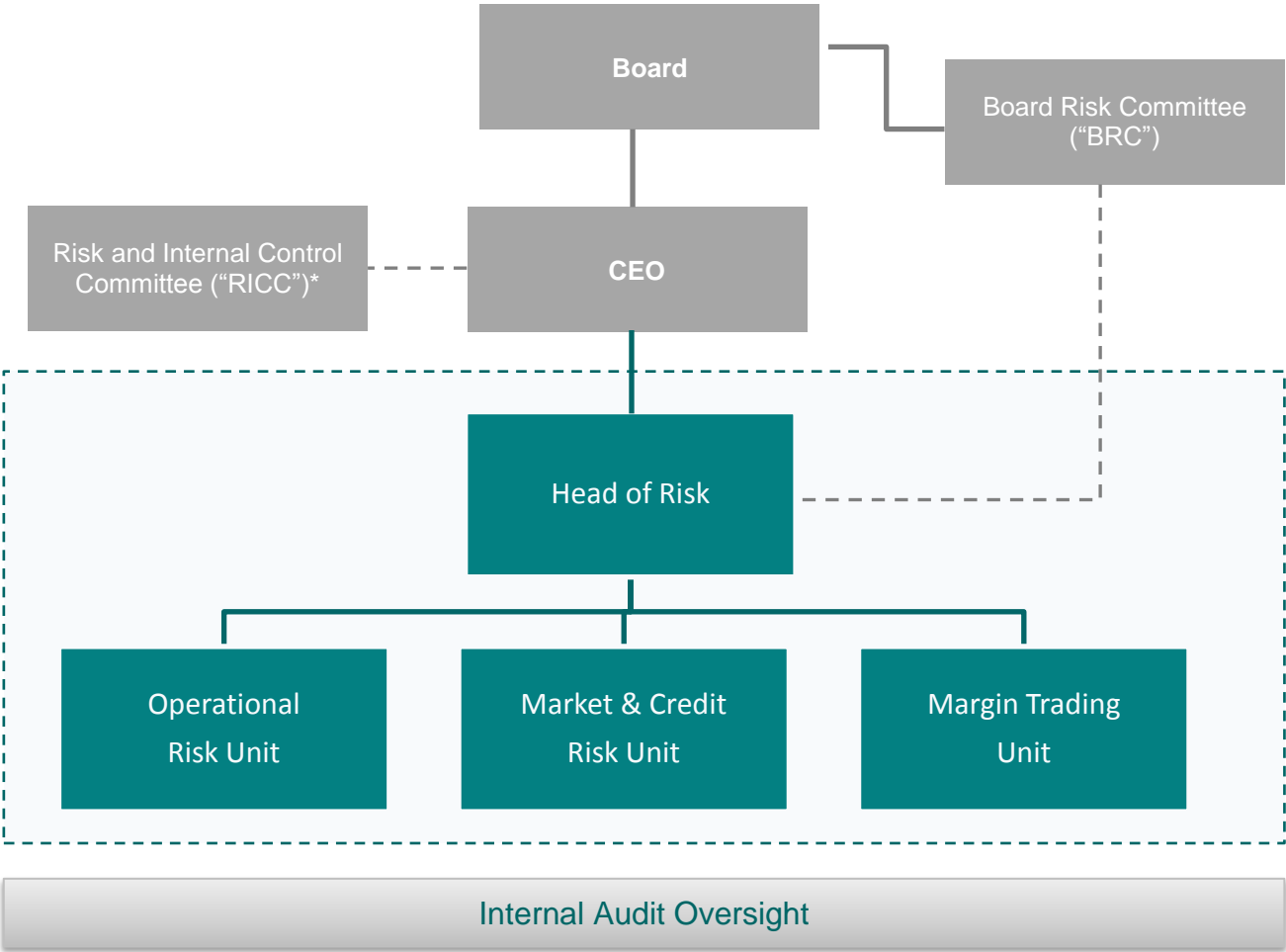
#### **4.1.2 Structure and organization of Risk Management**

At NCBC, the Risk Management function is independent from business and is led by a Head of Risk who reports directly to the CEO. The Head of Risk is responsible for the overall risk management function at department as well as organization level. Risk Management department acts as the coordinator and main driver with respect to the ICAAP and the department's roles and responsibilities in that regard are as follows:

- Management of Market, Credit, Fiduciary and Operational risks across business lines (Brokerage, Asset Management & Investment Banking);
- Risk oversight on prop-book management including credit , market, liquidity risk and capital management;
- Ensuring NCBC's adherence to the capital adequacy guidelines mandated by CMA;
- Monitoring liquidity risk at organizational level as well as business unit levels; and
- Independent review of Capital Adequacy Module (Pillar I) regulatory reporting, development and implementation of the ICAAP framework (Pillar II) at the Firm as well as development and update of the Risk Disclosure (Pillar III)

4.1.3 NCBC Risk Governance

NCBC’s Risk Management Structure and Risk Governance framework is described in the diagram below.



\* RICC is chaired by Head of Risk

Figure 2 - Risk Management structure at NCBC

**Board Risk Sub-Committee**

In 2016, NCBC Board approved the formation of a Board Risk subcommittee (“the Board Risk Committee” or “BRC”) to assist the Board in discharging its risk management oversight. The new sub-committee was formed in December 2016 and part of its mandate includes but it is not limited to the following:

- Annually review and recommend for Board approval risk management strategy, risk management policies, risk appetite and limits;
- Annually review risk management structures and annual operating plans;
- Quarterly review of risk management reports incorporating operational risk, liquidity risk, credit risk, capital adequacy, margin trading reports, fiduciary risk and reputational risk and margin trading;
- Annually review and recommend for Board approval the ICAAP and quarterly review of capital adequacy monitoring;
- Review and recommend for Board approval risk framework and oversight of prop book management; and

The Board established the subcommittee in recognition of its obligations to ensure proper Board risk management oversight and alignment of risk governance, risk appetite, and overall capital management. Members of the Board Risk Committee are appointed by the Board. The Head of Risk is not a member of the Board Risk Committee, but an invitee. The committee meets at a minimum four times in a year.

**Risk and Internal Control Committee (“RICC”)**

The RICC is a management level committee that has responsibility and oversight of the Firm’s internal control framework focusing mostly on operational risk related issues. In 2016, the firm reconstituted and strengthened the membership of the RICC. The Committee is chaired by the Head of Risk Management and its membership is appointed by the CEO and includes the Head of Compliance, Head of Legal, Head of Finance, Head of Securities and Head of Operations and Technology and other invitees.

**Margin Trading Credit Committee (“MTCC”)**

In 2016, NCBC instituted a new Margin Trading Credit Committee to provide oversight and approval of margin trading facilities. The Committee is chaired by the CEO and other members include Head of Risk Management, Head of Compliance, Head of Finance and Head of Securities (as non-voting). Together with the establishment of the MTCC, management revamped the margin trading governance framework including approval limits, exception management and authority matrix.

**Other Governance Arrangements**

Further to the above, and to ensure proper risk coverage and oversight, the Head of Risk Management is a member of various other governance bodies within the Firm including;

- the Product Development Committee (“PDC”) which is responsible for oversight of introduction, review and termination of NCBC products;
- the Investment Committee, which is responsible for prop-book management and oversight including capital and liquidity management;
- Business Committee, which is a Committee of senior management members, which meets periodically to review Firm financial performance and Strategy;

In addition to the above, and as part of the public funds governance framework, the Head of Risk provides risk management feedback to the Equity and Money Market & Fixed Income Fund Boards.

NCBC’s complete corporate governance structure and framework is show in Figure 3 below.

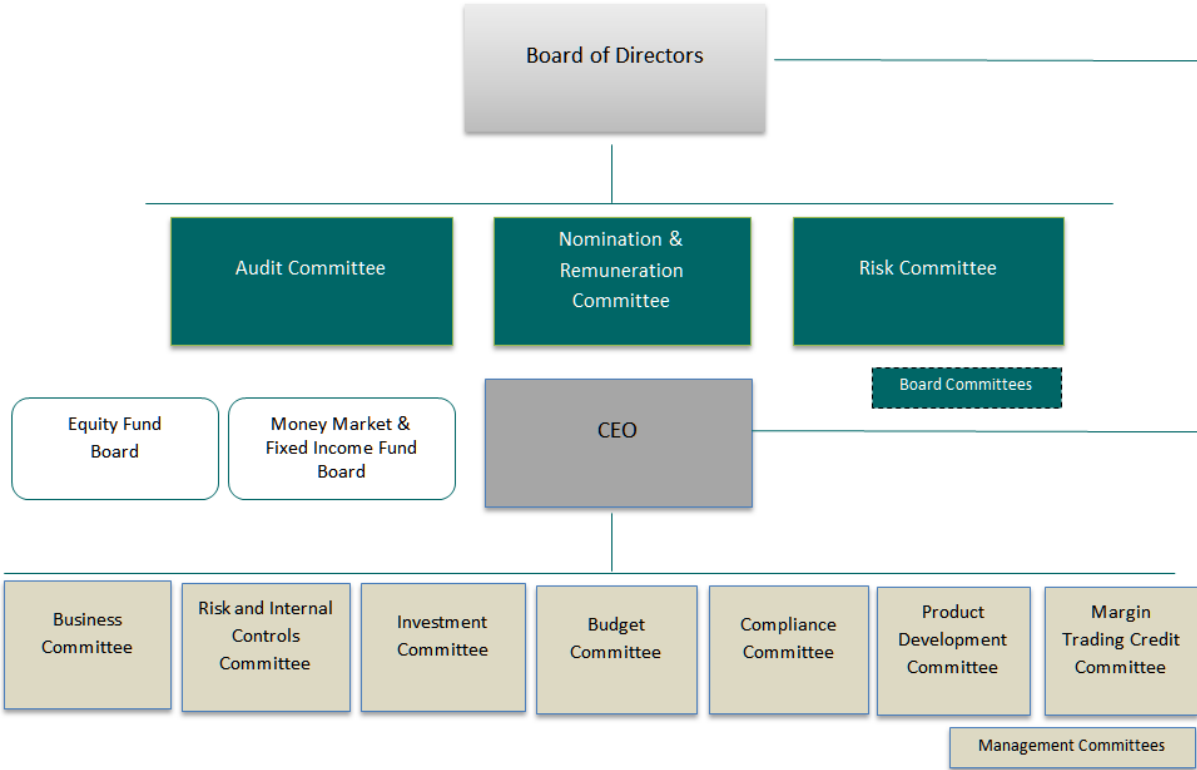


Figure 3 - NCBC Corporate Governance Framework and Structure

**4.1.4 Scope and nature of risk reporting and measurement systems**

The primary goal of risk management is to ensure that NCBC’s asset and liability profile, its trading positions, its credit and operational activities do not expose it to losses that could threaten the viability of the Firm. Risk management helps ensure that risk exposures do not become excessive relative to the Firm’s capital position and its financial position.

NCBC’s risk monitoring relies on reports containing internal financial, operational, and compliance data, as well as external market information about events and conditions that are relevant for decision-making. The reports are distributed at appropriate levels of management. The reports reflect any identified problem area and motivate timely corrective action on outstanding issues. The reports are analysed with a view to improve existing risk management performance as well as to develop new risk management policies and procedures.

NCBC periodically reviews its risk limitation and control strategies and adjusts the Firm’s risk profile accordingly using appropriate strategies in light of the overall risk appetite. Risk identification, evaluation, and management in respect of particular activities are carried out in accordance with internal processes. Risks are assessed with reference to the Firm’s strategic priorities, taking into account the likelihood of the risk occurring, potential impact and the range of implications.

#### 4.1.5 Policies and guidelines for monitoring and mitigating risks

NCBC has established risk policies and limits to monitor risks across various businesses and at the Firm level as a whole. Risk limits are thresholds to monitor that actual risk exposure does not deviate from the Firm's Risk Appetite. Exceeding risk limits typically acts as a trigger for management action. This requires a firm to consider at a more granular level how much risk individual units/heads should be allowed to take. Changes in the regulatory requirements (e.g. new capital or liquidity requirements) can fundamentally lead to a revision of the Risk Appetite. In 2016, the firm initiated an extensive review of its risk appetite statement and framework and this is expected to be finalised and approved in 2017.

## 4.2 Credit risks

The Credit risk is defined as the risk of loss resulting from a drop in credit worthiness of issuers of securities, counterparties and any debtors to which authorized persons are exposed. It is the potential risk of a counterparty failing to meet its obligations in accordance with agreed terms. Counterparty credit risk is managed through an established and approved counterparty risk framework including approved counterparty limits and monitoring by the Risk Management Department. In 2016, management instituted a new margin trading risk and governance framework for the management of credit risk arising from margin trading. Margin trading credit risk acceptance will fall under the general oversight of the MTCC at management level, with escalation to BRC and Board. Further to this, management also took several steps to strengthen the prop-book investment oversight with the formation of a new investment committee to oversee capital deployment, efficient balance sheet, and capital and liquidity optimization.

### 4.2.1 Credit risk exposures

NCBC has complied with CMA regulations and used the Standardized Approach in the calculation of the capital required for Credit risk

The major types of credit exposures are detailed in [Appendix 3](#)

### 4.2.2 External ratings

For exposures, the relevant counterparties' rating bands are also considered as per the rating of external agencies. In the use of external ratings, NCBC recognizes four Credit Rating Agencies ("CRAs") which are Standard and Poor's, Fitch, Moody's and Capital Intelligence. Compared to 2015, there have been no changes in the list of CRAs in 2016 and this is the same list of CRAs listed and referred to in the CMA Prudential Rules. The Risk Management policy also maintains an external conversion and ratings sheet for parity amongst the rating agencies approved by the CMA.

### 4.2.3 Credit quality steps

In compliance with CMA prudential requirements, NCBC uses credit quality steps to determine appropriate risk weights for credit risk exposures for capital charge calculations. To identify the credit quality step the Firm uses the following correspondence table between the credit rating agency's credit ratings and the steps in the credit quality scales as prescribed by CMA.

| Credit Quality Step --> | 1          | 2        | 3            | 4          | 5        | 6              |
|-------------------------|------------|----------|--------------|------------|----------|----------------|
| Standards & Poor's      | AAA TO AA- | A+ TO A- | BBB+ TO BBB- | BB+ TO BB- | B+ TO B- | CCC+ and below |
| Fitch                   | AAA TO AA- | A+ TO A- | BBB+ TO BBB- | BB+ TO BB- | B+ TO B- | CCC+ and below |
| Moody's                 | Aaa TO Aa3 | A1 TO A3 | Baa1 TO Baa3 | Ba1 TO Ba3 | B1 TO B3 | Caa1 and below |
| Capital Intelligence    | AAA        | AA TO A  | BBB          | BB         | B        | C and below    |

Table 5 – Credit Quality Steps and CRA's Rating Mapping

Please refer to [Appendix 4](#) for the details. Note that NCBC considers only long-term ratings for Capital Charge calculation.

### 4.2.4 Past Due

NCBC defines a financial asset as 'Past Due' when counterparty has failed to make a payment that is contractually due. As of 31<sup>st</sup> Dec 2016 (December 31, 2015: Past Due Nil), the Firm does not have any past due credit exposures.

### 4.2.5 Impairments and Specific Provisions

The Firm exercises judgment to consider impairment on the available for sale equity investments. This includes determination of a significant or prolonged decline in the fair value below cost. The determination of what is 'significant' or 'prolonged' is done in accordance with approved internal guidelines. In addition, the Firm considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. The Firm has recognized an impairment loss of Nil as of Dec 31<sup>st</sup> 2016 (December 31, 2015: SAR 0.69 million) on available-for-sale investments in the consolidated statement of income. The table below illustrates the movement in the provision for available-for-sale investments during the year:

(All amounts in '000 SAR)

| Exposure Class                       | As of Dec 31 <sup>st</sup> 2016 | As of Dec 31 <sup>st</sup> 2015 |
|--------------------------------------|---------------------------------|---------------------------------|
| Opening Balance                      | 110,620                         | 109,934                         |
| Provision for Impairment             | --                              | 686                             |
| Reversal of provision for impairment | --                              | --                              |
| <b>Closing Balance</b>               | <b>110,620</b>                  | <b>110,620</b>                  |

Table 6 - Impairment Reconciliation

#### 4.2.6 Geographic Distribution of Exposures

NCBC has about 86% of its assets in the Kingdom of Saudi Arabia. Outside KSA they spread across, Bahrain, UAE, Egypt, USA as well as few other regions in Europe and North Americas. The table below shows the geographic distribution of the Firm's balance sheet across various regions.

(All amounts in '000 SAR as of 31<sup>st</sup> Dec 2016)

| Exposure Class               | Totals           | KSA              | Bahrain    | UAE           | Egypt         | North America | Other Regions |
|------------------------------|------------------|------------------|------------|---------------|---------------|---------------|---------------|
| Balances with banks          | 113,032          | 33,893           | 37         | 34,990        | --            | 4,190         | 39,922        |
| Amount due from NCB          | 2,586            | 2,586            | --         | --            | --            | --            | --            |
| Investments                  | 832,699          | 778,495          | --         | --            | --            | 54,204        | --            |
| Prepayments and other assets | 120,019          | 113,844          | --         | 6,175         | --            | --            | --            |
| Investment in an associate   | 25,196           | --               | --         | --            | 21,151        | --            | 4,045         |
| Property and equipment       | 172,990          | 172,990          | --         | --            | --            | --            | --            |
| <b>Total Assets</b>          | <b>1,266,522</b> | <b>1,101,808</b> | <b>37</b>  | <b>41,165</b> | <b>21,151</b> | <b>58,394</b> | <b>43,967</b> |
| Dividend payable             | 10,409           | 10,409           | --         | --            | --            | --            | --            |
| Amount due to The NCB        | 19,922           | 19,922           | --         | --            | --            | --            | --            |
| Account payable and accruals | 166,386          | 149,955          | 112        | 16,319        | --            | --            | --            |
| Employee benefits            | 50,646           | 50,646           | --         | --            | --            | --            | --            |
| <b>Total Liabilities</b>     | <b>247,363</b>   | <b>230,932</b>   | <b>112</b> | <b>16,319</b> | <b>--</b>     | <b>--</b>     | <b>--</b>     |

(All amounts in '000 SAR as of 31<sup>st</sup> Dec 2015)

| Exposure Class               | Totals           | KSA              | Bahrain       | UAE           | Egypt         | North America  | Other Regions |
|------------------------------|------------------|------------------|---------------|---------------|---------------|----------------|---------------|
| Balances with banks          | 516,754          | 449,612          | 1,113         | 18,997        | --            | 47,001         | 31            |
| Amount due from NCB          | 5,707            | 5,707            | --            | --            | --            | --             | --            |
| Investments                  | 911,420          | 737,083          | -             | --            | --            | 174,337        | --            |
| Prepayments and other assets | 99,505           | 82,203           | 9,032         | 8,270         | --            | --             | --            |
| Investment in an associate   | 25,221           | --               | --            | --            | 25,221        | --             | --            |
| Property and equipment       | 171,966          | 171,966          | --            | --            | --            | --             | --            |
| <b>Total Assets</b>          | <b>1,730,573</b> | <b>1,446,571</b> | <b>10,145</b> | <b>27,267</b> | <b>25,221</b> | <b>221,338</b> | <b>31</b>     |
| Dividend payable             | 372,405          | 372,405          | --            | --            | --            | --             | --            |
| Amount due to The NCB        | 6,195            | 6,195            | --            | --            | --            | --             | --            |
| Account payable and accruals | 191,762          | 183,630          | 446           | 7,686         | --            | --             | --            |
| Employee benefits            | 60,987           | 60,987           | --            | --            | --            | --             | --            |
| <b>Total Liabilities</b>     | <b>631,349</b>   | <b>623,217</b>   | <b>446</b>    | <b>7,686</b>  | <b>--</b>     | <b>--</b>      | <b>--</b>     |

Table 7 – Distribution of exposures by Geography

#### 4.2.7 Residual Contractual Maturity Breakdown

An analysis of the residual maturity profile of NCBC's assets has been conducted segregating them in different maturity buckets. The below table illustrates the results.

(All amounts in '000 SAR as of 31<sup>st</sup> Dec 2016)

| Particulars                    | Up to 3 months | >3 to 12 months | >1 to 5 years | > 5 years | Non Maturity   | Total            |
|--------------------------------|----------------|-----------------|---------------|-----------|----------------|------------------|
| <b>Inflows / Assets</b>        |                |                 |               |           |                | <b>986,549</b>   |
| Cash in hand                   | --             | --              | --            | --        | 118            | 118              |
| Deposits with other banks      | 112,914        | --              | --            | --        | --             | 112,914          |
| HFT Investments                | 709,978        | --              | --            | --        | --             | 709,978          |
| HTM Investments                | 50,250         | --              | --            | --        | --             | 50,250           |
| Amount due from The NCB        | 2,586          | --              | --            | --        | --             | 2,586            |
| Prepayments and other assets   | 110,703        | --              | --            | --        | --             | 110,703          |
| <b>Non-Current Assets</b>      |                |                 |               |           |                | <b>279,973</b>   |
| Investments                    | --             | --              | 72,471        | --        | --             | 72,471           |
| Investment in an associate     | --             | --              | --            | --        | 25,196         | 25,196           |
| Property and equipment         | --             | --              | --            | --        | 172,990        | 172,990          |
| Prepayments and other assets   | --             | --              | 9,316         | --        | --             | 9,316            |
| <b>Total Assets</b>            | <b>986,431</b> | <b>--</b>       | <b>81,787</b> | <b>--</b> | <b>198,304</b> | <b>1,266,522</b> |
| <b>Off-balance sheet Items</b> |                |                 |               |           | <b>11,120</b>  |                  |

(All amounts in '000 SAR as of 31<sup>st</sup> Dec 2015)

| Particulars                    | Up to 3 months | >3 to 12 months | >1 to 5 years | > 5 years | Non Maturity     | Total            |
|--------------------------------|----------------|-----------------|---------------|-----------|------------------|------------------|
| <b>Inflows / Assets</b>        |                |                 |               |           |                  |                  |
| <b>Current Assets</b>          |                |                 |               |           |                  | <b>1,461,841</b> |
| Cash in hand                   | --             | --              | --            | --        | 117              | 117              |
| Deposits with other banks      | 516,637        | --              | --            | --        | --               | 516,637          |
| HFT Investments                | --             | --              | --            | --        | 847,209          | 847,209          |
| Amount due from The NCB        | 5,707          | --              | --            | --        | --               | 5,707            |
| Prepayments and other assets   | 92,171         | --              | --            | --        | --               | 92,171           |
| <b>Non-Current Assets</b>      |                |                 |               |           |                  | <b>268,732</b>   |
| Investments                    | --             | --              | 64,211        | --        | --               | 64,211           |
| Investment in an associate     | --             | --              | --            | --        | 25,221           | 25,221           |
| Property and equipment         | --             | --              | --            | --        | 171,966          | 171,966          |
| Prepayments and other assets   | --             | --              | 7,334         | --        | --               | 7,334            |
| <b>Total Assets</b>            | <b>614,515</b> | <b>--</b>       | <b>71,545</b> | <b>--</b> | <b>1,044,513</b> | <b>1,730,573</b> |
| <b>Off-balance sheet Items</b> |                |                 |               |           | <b>11,908</b>    |                  |

Table 8 – Residual Maturity Analysis



### 4.3 Credit Risk Mitigation

Any credit risk mitigation related transaction comes under purview of both Risk Management and Legal Departments in terms of documentation. Risk Management as an independent risk function performs internal credit reviews before business units engage in transactions with new potential counterparties. Credit guidelines at NCBC ensure that limits are approved for only those counterparties that meet the appropriate credit criteria and credit review is conducted periodically. As of December 31, 2016 (December 31, 2015: Nil), NCBC does not have any exposures that are covered by financial collateral, guarantees or netting agreements.

#### 4.3.1 Credit Risk Exposures before/ after Credit Risk mitigation

Please refer to [Appendix 5](#) for the details.

### 4.4 Counterparty Credit Risk and Off Balance Sheet Exposures

NCBC does not have exposures to OTC derivatives, repos and reverse repos and securities borrowing/lending, hence this section does not have any disclosure on counterparty credit risk. In terms of off-balance sheet items, NCBC has SAR 11.12 million of off-balance sheet assets as of 31<sup>st</sup> Dec 2016 (As at 31 Dec 2015: SAR 11.91million). These are future commitments arising from leasehold commitments, PE investments and IT contracts. For more details, please refer to [Appendix 3](#).

### 4.5 Market Risk

Market risk is the risk of losses in on-and off-balance sheet positions arising from movements in market rates or prices such as profits rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices resulting in a loss to earnings and capital.

#### 4.5.1 Market Risk Management

The guidelines for managing Market risk are contained in the Risk Management policy. Market risk is monitored on a daily basis by the Risk Management Department.

NCBC's Equity and Fund risk is derived from its Held for trading investments. NCBC has a very conservative approach and most of these investments are in its own money market funds (~85%). A relatively small portion is in other asset classes including alternative investments, sukuks and murabaha placements for diversification purposes. The Firm has limited exposure to foreign exchange risk as its foreign exchange (FX) risk exposure is mostly to USD and GCC currencies which are pegged to the USD. Lastly, the firm has Excess Exposure Risk due to its investments in its own Money Market Funds because these exposures are in excess of 25% of the capital base and therefore attract additional capital charge as per the CMA guidelines. These funds are invested in well-diversified and highly liquid money market instruments. The capital charge for these identified Market risks are shown in table 8..

The Firm monitors Market Risk through the establishment of risk limits. These risk limits are established using a variety of risk measurement tools, including sensitivity analysis, value-at-risk and stress test methodologies.

## 4.5.2 Market Risk Capital Charge

In compliance with CMA guidelines, NCBC has used Standardized approach to determine capital requirement for the Market risk. The breakdown of the capital charge across risk types is indicated below:

(All amounts in '000 SAR)

| Risk                 | Capital Required |                |
|----------------------|------------------|----------------|
|                      | 31 Dec 2016      | 31 Dec 2015    |
| Equity & Fund Risk   | 113,596          | 135,554        |
| Interest Rate Risk   | --               | --             |
| Commodities Risk     | --               | --             |
| FX Risk              | 5,142            | 16,614         |
| Underwriting Risk    | --               | --             |
| Excess Exposure Risk | 44,199           | 10,751         |
| Settlement Risk      | --               | --             |
| <b>Total</b>         | <b>162,937</b>   | <b>162,919</b> |

Table 9 – Market Risk Capital

## 4.6 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, this will include legal risks covering, but not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

### 4.6.1 Operational Risk Management

The Firm considers breakdowns in internal controls and corporate governance as the most important aspect of Operational risk as such breakdowns can lead to financial losses through error, fraud, or failure to perform in a timely manner. The Firm recognizes that good management information systems (MIS) and a strong internal control culture and contingency planning are all crucial elements of effective operational risk management and takes measures to continually develop procedures and systems to support such requirements.

Operational risk profiles are updated periodically in order to ensure that internal controls are proactively realigned to mitigate emerging risks. Individual line managers are responsible for identifying and assessing the operational risks of their area; this process is supported by the Head of Risk.

The Firm follows a structured method to identify and mitigate Operational Risk and this includes identification, quantification, and monitoring. In 2016, the firm completed an extensive operational risk assessment exercise aimed at revamping its approach to operational risk management and conducted an enterprise-wide operational risk project to refresh its risk library and reassess operational risks within the company.

As part of the improvements launched in 2016, operational risk management reporting mechanisms have been strengthened to manage and mitigate operational risk related incidents, operational loss data is now linked with incident reporting, and finance control processes. In addition, a new Operational Risk Policy framework was approved by the Board.

For low-probability high-impact insurable operating risks, the Firm makes use of insurance policies and in this respect has insurance coverage under the following insurance policies:

- Professional Indemnity Insurance;
- Directors and Officers Liability Insurance;
- General Public Liability Insurance;
- Cybercrime Risk Liability Insurance;
- Bankers Blanket Bond Insurance; and
- Property All Risk Insurance

### Business Continuity Management

The Firm has also developed a comprehensive Business Continuity Management (BCM) program to maintain and enhance the operational resilience within NCBC. Various plans and procedures like Business Continuity, Incident Management, Emergency response procedures, Business recovery plans and strategy are in place to deal with the continuity of critical Business processes for complete line of Business and support functions and form the BCM framework. In order to ensure adoption of the framework throughout the organization, NCBC has also established the BCM Steering Committee to develop, implement, and monitor the program. In 2016, management made readjustments to the BCM governance framework including appointment of BCM sponsorship and reporting lines under the authority of the Head of Operations and Technology.

#### 4.6.2 Operational Risk capital charge

In compliance with CMA requirements, the Firm has adopted the Basic Indicator Approach (BIA) as this is a more conservative approach as it leads to a higher capital charge than the Expenditure Based Approach (EBA). The summary is in the below table.

(All Amounts in SAR '000, as of 31<sup>st</sup> Dec, 2016)

| Approach 1                       | Year | Gross Income | Average Gross Income    | Risk Capital Charge (%) | Capital Required |
|----------------------------------|------|--------------|-------------------------|-------------------------|------------------|
| Basic Indicator Approach (BIA)   | 2014 | 757,649      | 670,136                 | 15%                     | 100,520          |
|                                  | 2015 | 679,562      |                         |                         |                  |
|                                  | 2016 | 573,196      |                         |                         |                  |
| Approach 2                       | Year | Expenses     | Risk Capital Charge (%) |                         | Capital Required |
| Expenditure Based Approach (EBA) | 2016 | 354,947      | 25%                     |                         | 88,737           |
| <b>Maximum of (BIA or EBA)</b>   |      |              |                         |                         | <b>100,520</b>   |

(All Amounts in SAR '000, as of 31<sup>st</sup> Dec, 2015)

| Approach 1                       | Year | Gross Income | Average Gross Income    | Risk Capital Charge (%) | Capital Required |
|----------------------------------|------|--------------|-------------------------|-------------------------|------------------|
| Basic Indicator Approach (BIA)   | 2013 | 504,023      | 646,910                 | 15%                     | 97,037           |
|                                  | 2014 | 757,145      |                         |                         |                  |
|                                  | 2015 | 679,562      |                         |                         |                  |
| Approach 2                       | Year | Expenses     | Risk Capital Charge (%) |                         | Capital Required |
| Expenditure Based Approach (EBA) | 2015 | 370,641      | 25%                     |                         | 92,660           |
| <b>Maximum of (BIA or EBA)</b>   |      |              |                         |                         | <b>97,037</b>    |

Table 10 – Operational Risk Capital

## 4.7 Liquidity Risk

Liquidity risk is the inability of an organization to honour payment commitments when they are due and replace funds when they are withdrawn in a timely and cost effective manner. This can be caused by market disruptions or credit downgrades. Effective liquidity risk management therefore helps to ensure the Firm's ability to meet its cash flow obligation and in maintaining diverse funding sources to the Firm. Often, liquidity risk arises due to mismatch in the maturity pattern of assets and liabilities.

### 4.7.1 Liquidity Risk Management

NCBC's Liquidity Management Strategy is characterized by the following elements:

- i. Preserving the liquidity and security of cash by investing excess liquidity in NCBC's own money market funds or, alternatively, only with approved counterparties using short-term deposits or murabahas;
- ii. In 2016 the Firm did not borrow or use liabilities as a source of funds for any part of its business;
- iii. For its liquidity and cash flows, the company relies on operating cash flows, capital resources and proprietary investments as the key sources of funds on a going-concern basis. Should severe liquidity stress scenarios materialize, liquidation of proprietary investments and reserves as well as intra-group facilities are available;
- iv. The Head of Finance is responsible for the day-to-day liquidity management under the oversight of the Firm's Investment Committee. Risk Management and Internal Audit provide independent oversight and control.

The Firm has also identified potential stress scenarios and the contingency plan recognizes liquidity resources that could be accessed under stress conditions. The plan also provides action items that define different levels of liquidity stress. For each level, the plan evaluates funding capacities; specific actions and procedures to be implemented and identifies alternative contingency funding.

### 4.7.2 Liquidity Reserves

NCBC holds cash required for day-to-day operational cash requirements in a current deposit account as this can be accessed instantly. The Firm actively manages its daily funding obligations through a number of measures including availability of surplus cash and daily monitoring of Asset Management funding requirements.

### 4.7.3 Funding Sources

NCBC has no significant short-term liabilities and earning assets are funded by equity. The Firm does not currently use alternative instruments to fund its assets. The firm benefits from stand-by intra-group support for its investment banking, underwriting commitments as well as to support unusual redemptions on its public funds.

#### 4.7.4 Risk Measures and Ratios

NCBC prepares a statement of expected cash flows arising at the time of settlement of its assets and liabilities and allocates them in different time intervals in which they are expected to occur. The time intervals are stated below:

- Up to 3 months;
- From 3 months to 12 months;
- From 1 year to 5 years;
- Over 5 years; and
- Non-Maturing.

The net cash flows across all time intervals are accumulated to observe the quantum of cumulative net cash flow in each bucket. NCBC's, cumulative gap is positive through all the maturity buckets signifying that the Firm has adequate liquidity to meet its funding obligations. Apart from cash flow gap analysis, following ratio is being monitored to maintain appropriate liquidity levels.

| No. | Indicators   | Dec 2016 | Dec 2015 | Inference  |
|-----|--|----------|----------|--|
| 1   | Current Ratio (Short term Assets / Short Term Liabilities) | 5.02     | 2.56     | This reflects the high level of cushion/comfort level in meeting its short-term liabilities and fixed cost payments. |

*Table 11 – Liquidity Risk – Ratio Analysis*

The Current ratio has increased from 2.56 to 5.02 in 2016 because of increased investment in more liquid assets.

## 5 Appendices

### 5.1 Appendix 1 - Disclosure on Capital Base

| Capital Base                               | 31 Dec 2016    | 31 Dec 2015      |
|--|----------------|------------------|
|  | SAR '000       |                  |
| <b><u>Tier-1 capital</u></b>               |                |                  |
| Paid-up capital                            | 1,000,000      | 1,000,000        |
| Audited retained earnings                  | 91,399         | 165,293          |
| Share premium                              | --             | --               |
| Reserves (other than revaluation reserves) | 104,248        | 80,248           |
| Tier-1 capital contribution                | --             | --               |
| Deductions from Tier-1 capital             | (264,014)      | (246,444)        |
| <b>Total Tier-1 capital</b>                | <b>931,633</b> | <b>999,097</b>   |
|  |                |                  |
| <b><u>Tier-2 capital</u></b>               |                |                  |
| Subordinated loans                         | --             | --               |
| Cumulative preference shares               | --             | --               |
| Revaluation reserves                       | --             | 11,953           |
| Other deductions from Tier-2 (-)           | --             | --               |
| Deduction to meet Tier-2 capital limit (-) | --             | --               |
| <b>Total Tier-2 capital</b>                | <b>--</b>      | <b>11,953</b>    |
|  |                |                  |
| <b>Total Capital Base</b>                  | <b>931,633</b> | <b>1,011,050</b> |

## 5.2 Appendix 2 - Disclosure on Capital Adequacy

(All Amounts in SAR '000, as of 31<sup>st</sup> Dec, 2016)

| Exposure Class                                  | Exposures before CRM | Net Exposures after CRM | Risk Weighted Assets | Capital Requirement |
|---|----------------------|-------------------------|----------------------|---------------------|
| <b><i>Credit Risk</i></b>                       |                      |                         |                      |                     |
| <i>On-balance Sheet Exposures</i>               |                      |                         |                      |                     |
| Governments and Central Banks                   | --                   | --                      | --                   | --                  |
| Authorized Persons and Banks (including cash)   | 165,868              | 165,868                 | 48,225               | 6,751               |
| Corporates                                      | 20,044               | 20,044                  | 143,113              | 20,036              |
| Retail  | --                   | --                      | --                   | --                  |
| Investments                                     | 164,464              | 164,464                 | 584,095              | 81,773              |
| Securitization                                  | --                   | --                      | --                   | --                  |
| Margin Financing                                | --                   | --                      | --                   | --                  |
| Other Assets                                    | 129,182              | 129,182                 | 472,415              | 66,139              |
| <b>Total On-Balance sheet Exposures</b>         | <b>479,558</b>       | <b>479,558</b>          | <b>1,247,848</b>     | <b>174,699</b>      |
| <i>Off-balance Sheet Exposures</i>              |                      |                         |                      |                     |
| OTC/Credit Derivatives                          | --                   | --                      | --                   | --                  |
| Repurchase agreements                           | --                   | --                      | --                   | --                  |
| Securities borrowing/lending                    | --                   | --                      | --                   | --                  |
| Commitments                                     | 11,175               | 11,175                  | 79,793               | 11,171              |
| Other off-balance sheet exposures               | --                   | --                      | --                   | --                  |
| <b>Total Off-Balance sheet Exposures</b>        | <b>11,175</b>        | <b>11,175</b>           | <b>79,793</b>        | <b>11,171</b>       |
| <b>Total On and Off-Balance sheet Exposures</b> | <b>490,733</b>       | <b>490,733</b>          | <b>1,327,641</b>     | <b>185,870</b>      |
| <b>Prohibited Exposure Risk Requirement</b>     |                      |                         |                      |                     |
| <b>Total Credit Risk Exposures</b>              |                      |                         |                      |                     |
|   | <b>Long Position</b> | <b>Short Position</b>   |                      |                     |
| <b><i>Market Risk</i></b>                       |                      |                         |                      |                     |
| Interest rate risks                             | --                   | --                      |                      | --                  |
| Equity price risks                              | --                   | --                      |                      | --                  |
| Risks related to investment funds               | 709,978              | --                      |                      | 113,596             |
| Securitization/ re-securitization positions     | --                   | --                      |                      | --                  |
| Excess exposure risks                           | 603,935              | --                      |                      | 44,199              |
| Settlement risks and counterparty risks         | --                   | --                      |                      | --                  |
| Foreign exchange rate risks                     | 116,161              | 6,437                   |                      | 5,142               |
| Commodities risks.                              | --                   | --                      |                      | --                  |
| <b>Total Market Risk Exposures</b>              | <b>1,430,074</b>     | <b>6,437</b>            |                      | <b>162,937</b>      |
| <b><i>Operational Risk</i></b>                  |                      |                         |                      | <b>100,520</b>      |
| <b><i>Minimum Capital Requirement</i></b>       |                      |                         |                      | <b>449,327</b>      |
| <b><i>Surplus/ (Deficit) in Capital</i></b>     |                      |                         |                      | <b>482,306</b>      |
| <b><i>Total Capital Ratio (time)</i></b>        |                      |                         |                      | <b>2.07</b>         |

## 5.2 Appendix 2 - Disclosure on Capital Adequacy - (Continued)

(All Amounts in SAR '000, as of 31<sup>st</sup> Dec, 2015)

| All Amounts in SAR '000                         |                      |                       |                         |                      |                     |
|---|----------------------|-----------------------|-------------------------|----------------------|---------------------|
| Exposure Class                                  | Exposures before CRM |                       | Net Exposures after CRM | Risk Weighted Assets | Capital Requirement |
| <b>Credit Risk</b>                              |                      |                       |                         |                      |                     |
| <i>On-balance Sheet Exposures</i>               |                      |                       |                         |                      |                     |
| Governments and Central Banks                   | --                   | --                    | --                      | --                   | --                  |
| Authorized Persons and Banks (including cash)   | 522,346              |                       | 522,346                 | 104,469              | 14,626              |
| Corporates                                      | --                   | --                    | --                      | --                   | --                  |
| Retail  | --                   | --                    | --                      | --                   | --                  |
| Investments                                     | 166,914              |                       | 166,914                 | 551,558              | 77,218              |
| Securitization                                  | --                   | --                    | --                      | --                   | --                  |
| Margin Financing                                | --                   | --                    | --                      | --                   | --                  |
| Other Assets                                    | 118,684              |                       | 118,684                 | 404,941              | 56,689              |
| <b>Total On-Balance sheet Exposures</b>         | <b>807,944</b>       |                       | <b>807,944</b>          | <b>1,060,968</b>     | <b>148,533</b>      |
| <i>Off-balance Sheet Exposures</i>              |                      |                       |                         |                      |                     |
| OTC/Credit Derivatives                          | --                   | --                    | --                      | --                   | --                  |
| Repurchase agreements                           | --                   | --                    | --                      | --                   | --                  |
| Securities borrowing/lending                    | --                   | --                    | --                      | --                   | --                  |
| Commitments                                     | 11,909               |                       | 11,909                  | 85,030               | 11,904              |
| Other off-balance sheet exposures               | --                   | --                    | --                      | --                   | --                  |
| <b>Total Off-Balance sheet Exposures</b>        | <b>11,909</b>        |                       | <b>11,909</b>           | <b>85,030</b>        | <b>11,904</b>       |
| <b>Total On and Off-Balance sheet Exposures</b> | <b>819,853</b>       |                       | <b>819,853</b>          | <b>1,145,999</b>     | <b>160,437</b>      |
| <b>Prohibited Exposure Risk Requirement</b>     | --                   | --                    | --                      | --                   | --                  |
| <b>Total Credit Risk Exposures</b>              |                      |                       |                         |                      | <b>160,437</b>      |
| <b>Market Risk</b>                              | <b>Long Position</b> | <b>Short Position</b> |                         |                      |                     |
| Interest rate risks                             | --                   | --                    |                         |                      | --                  |
| Equity price risks                              | --                   | --                    |                         |                      | --                  |
| Risks related to investment funds               | 847,210              | --                    |                         |                      | 135,554             |
| Securitization/ re-securitization positions     | --                   | --                    |                         |                      | --                  |
| Excess exposure risks                           | 286,360              | --                    |                         |                      | 10,751              |
| Settlement risks and counterparty risks         | --                   | --                    |                         |                      | --                  |
| Foreign exchange rate risks                     | 802,639              | 303                   |                         |                      | 16,614              |
| Commodities risks.                              | --                   | --                    |                         |                      | --                  |
| <b>Total Market Risk Exposures</b>              | <b>1,936,209</b>     | <b>303</b>            |                         |                      | <b>162,919</b>      |
| <b>Operational Risk</b>                         |                      |                       |                         |                      | <b>97,037</b>       |
| <b>Minimum Capital Requirement</b>              |                      |                       |                         |                      | <b>420,393</b>      |
| <b>Surplus/ (Deficit) in Capital</b>            |                      |                       |                         |                      | <b>590,656</b>      |
| <b>Total Capital Ratio (time)</b>               |                      |                       |                         |                      | <b>2.41</b>         |





### 5.3 Appendix 3 - Disclosure on Credit's Risk Weight

(All Amounts in SAR '000, as of 31<sup>st</sup> Dec, 2016)

| Risk Weights                            | Exposures after netting and credit risk mitigation |                               |                              |                  |            |        |                |             |                |              |                               |    | Total Exposure after netting and Credit Risk Mitigation | Total Risk Weighted Assets |
|---|--|-------------------------------|------------------------------|------------------|------------|--------|----------------|-------------|----------------|--------------|-------------------------------|----|---|----------------------------|
|   | Governments and central banks                      | Administrative bodies and NPO | Authorised persons and banks | Margin Financing | Corporates | Retail | Past due items | Investments | Securitisation | Other assets | Off-balance sheet commitments |    |   |                            |
| 0%                                      | --   | --                            | --                           | --               | --         | --     | --             | --          | --             | --           | 118                           | -- | 118   | --                         |
| 20%                                     | --   | --                            | 115,500                      | --               | --         | --     | --             | --          | --             | --           | --                            | -- | 115,500   | 23,100                     |
| 50%                                     | --   | --                            | 50,250                       | --               | --         | --     | --             | --          | --             | --           | --                            | -- | 50,250  | 25,125                     |
| 100%                                    | --   | --                            | --                           | --               | --         | --     | --             | --          | --             | --           | --                            | -- | --  | --                         |
| 150%                                    | --   | --                            | --                           | --               | --         | --     | --             | 8,567       | --             | --           | --                            | -- | 8,567   | 12,851                     |
| 200%                                    | --   | --                            | --                           | --               | --         | --     | --             | --          | --             | --           | --                            | -- | --  | --                         |
| 300%                                    | --   | --                            | --                           | --               | --         | --     | --             | 52,342      | --             | 108,682      | --                            | -- | 161,024   | 48,307                     |
| 400%                                    | --   | --                            | --                           | --               | --         | --     | --             | 103,555     | --             | --           | --                            | -- | 103,555   | 414,220                    |
| 500%                                    | --   | --                            | --                           | --               | --         | --     | --             | --          | --             | --           | --                            | -- | --  | --                         |
| 714%<br>(include prohibited exposure *) | --   | --                            | --                           | --               | 20,044     | --     | --             | --          | --             | 20,500       | 11,175                        | -- | 51,719  | 369,274                    |
| Average Risk Weight                     | 0%   | 0%                            | 29%                          | 0%               | 714%       | 0%     | 0%             | 553%        | 0%             | 366%         | 714%                          | -- | 271%  | --                         |
| Deduction from Capital Base             | --   | --                            | 6,751                        | --               | 20,037     | --     | --             | 81,773      | --             | 66,138       | 11,171                        | -- | --  | 185,870                    |

\* Any exposure amount in excess of the exposure limit of 25% of the capital base is termed "prohibited exposure" per CMA prudential guidelines

### 5.3 Appendix 3 - Disclosure on Credit's Risk Weight - (Continued)

(All Amounts in SAR '000, as of 31<sup>st</sup> Dec, 2015)

| Risk Weights                           | Exposures after netting and credit risk mitigation |                               |                              |                  |            |        |                |             |                |              |                               | Total Exposure after netting and Credit Risk Mitigation | Total Risk Weighted Assets |
|--|--|-------------------------------|------------------------------|------------------|------------|--------|----------------|-------------|----------------|--------------|-------------------------------|---|----------------------------|
|  | Governments and central banks                      | Administrative bodies and NPO | Authorised persons and banks | Margin Financing | Corporates | Retail | Past due items | Investments | Securitisation | Other assets | Off-balance sheet commitments |   |                            |
| 0%                                     | --   | --                            | --                           | --               | --         | --     | --             | --          | --             | 117          | --                            | 117   | --                         |
| 20%                                    | --   | --                            | 522,346                      | --               | --         | --     | --             | --          | --             | --           | --                            | 522,346   | 104,469                    |
| 50%                                    | --   | --                            | --                           | --               | --         | --     | --             | --          | --             | --           | --                            | --  | --                         |
| 100%                                   | --   | --                            | --                           | --               | --         | --     | --             | --          | --             | --           | --                            | --  | --                         |
| 150%                                   | --   | --                            | --                           | --               | --         | --     | --             | 20,789      | --             | --           | --                            | 20,789  | 31,184                     |
| 200%                                   | --   | --                            | --                           | --               | --         | --     | --             | --          | --             | --           | --                            | --  | --                         |
| 300%                                   | --   | --                            | --                           | --               | --         | --     | --             | 64,126      | --             | 106,672      | --                            | 170,798   | 512,394                    |
| 400%                                   | --   | --                            | --                           | --               | --         | --     | --             | 81,999      | --             | --           | --                            | 81,999  | 327,996                    |
| 500%                                   | --   | --                            | --                           | --               | --         | --     | --             | --          | --             | --           | --                            | --  | --                         |
| 714%<br>(include prohibited exposure*) | --   | --                            | --                           | --               | --         | --     | --             | --          | --             | 11,814       | 11,909                        | 23,800  | 169,932                    |
| Average Risk Weight                    | 0%   | 0%                            | 20%                          | 0%               | 0%         | 300%   | 0%             | 352%        | 0%             | 358%         | 714%                          | 225%  |                            |
| Deduction from Capital Base            | --   | --                            | 14,626                       | --               | --         | --     | --             | 77,218      | --             | 56,689       | 11,904                        | --  | 160,437                    |

\* Any exposure amount in excess of the exposure limit of 25% of the capital base is termed "prohibited exposure" per CMA prudential guidelines

#### 5.4 Appendix 4 - Disclosure on Credit Risk's Rated Exposure

(All Amounts in SAR '000, as of 31<sup>st</sup> Dec, 2016)

| Exposure Class (All amounts in SAR'000)       | Long term Ratings of counterparties |               |               |               |            |          |                |                |
|---|-------------------------------------|---------------|---------------|---------------|------------|----------|----------------|----------------|
|   | Credit quality step                 | 1             | 2             | 3             | 4          | 5        | 6              | Unrated        |
|   | S&P                                 | AAA TO AA-    | A+ TO A-      | BBB+ TO BBB-  | BB+ TO BB- | B+ TO B- | CCC+ and below | Unrated        |
|   | Fitch                               | AAA TO AA-    | A+ TO A-      | BBB+ TO BBB-  | BB+ TO BB- | B+ TO B- | CCC+ and below | Unrated        |
|   | Moody's                             | Aaa TO Aa3    | A1 TO A3      | Baa1 TO Baa3  | Ba1 TO Ba3 | B1 TO B3 | Caa1 and below | Unrated        |
|   | Capital Intelligence                | AAA           | AA TO A       | BBB           | BB         | B        | C and below    | Unrated        |
| <b>On and Off-balance-sheet Exposures</b>     |                                     |               |               |               |            |          |                |                |
| Governments and Central Banks                 |                                     | --            | --            | --            | --         | --       | --             | --             |
| Authorised Persons and Banks (including cash) |                                     | 31,667        | 91,925        | 42,068        | --         | --       | --             | 118            |
| Corporates                                    |                                     | --            | --            | --            | --         | --       | --             | 20,044         |
| Retail  |                                     | --            | --            | --            | --         | --       | --             | -              |
| Investments                                   |                                     | --            | --            | --            | --         | --       | --             | 164,464        |
| Securitisation                                |                                     | --            | --            | --            | --         | --       | --             | -              |
| Margin Financing                              |                                     | --            | --            | --            | --         | --       | --             | -              |
| Other Assets (excluding Cash)                 |                                     | --            | --            | --            | --         | --       | --             | 129,182        |
| Off-balance sheet commitments                 |                                     |               |               |               |            |          |                | 11,175         |
| <b>Total</b>                                  |                                     | <b>31,667</b> | <b>91,925</b> | <b>42,068</b> | --         | --       | --             | <b>324,983</b> |

**5.4 Appendix 4 - Disclosure on Credit Risk's Rated Exposure – (Continued)**

(All Amounts in SAR '000, as of 31<sup>st</sup> Dec, 2015)

| Exposure Class (All amounts in SAR'000)       | Long term Ratings of counterparties |                |               |              |            |             |                |                |
|---|-------------------------------------|----------------|---------------|--------------|------------|-------------|----------------|----------------|
|   | Credit quality step                 | 1              | 2             | 3            | 4          | 5           | 6              | Unrated        |
|   | S&P                                 | AAA TO AA-     | A+ TO A-      | BBB+ TO BBB- | BB+ TO BB- | B+ TO B-    | CCC+ and below | Unrated        |
|   | Fitch                               | AAA TO AA-     | A+ TO A-      | BBB+ TO BBB- | BB+ TO BB- | B+ TO B-    | CCC+ and below | Unrated        |
|   | Moody's                             | Aaa TO Aa3     | A1 TO A3      | Baa1 TO Baa3 | Ba1 TO Ba3 | B1 TO B3    | Caa1 and below | Unrated        |
| Capital Intelligence                          | AAA                                 | AA TO A        | BBB           | BB           | B          | C and below | Unrated        |                |
| <b>On and Off-balance-sheet Exposures</b>     |                                     |                |               |              |            |             |                |                |
| Governments and Central Banks                 |                                     | --             | --            | --           | --         | --          | --             | --             |
| Authorised Persons and Banks (including cash) |                                     | 449,373        | 69,636        | 3,337        | --         | --          | --             | 117            |
| Corporates                                    |                                     | --             | --            | --           | --         | --          | --             | -              |
| Retail  |                                     | --             | --            | --           | --         | --          | --             | -              |
| Investments                                   |                                     | --             | --            | --           | --         | --          | --             | 166,914        |
| Securitisation                                |                                     | --             | --            | --           | --         | --          | --             | -              |
| Margin Financing                              |                                     | --             | --            | --           | --         | --          | --             | -              |
| Other Assets (excluding Cash)                 |                                     | --             | --            | --           | --         | --          | --             | 118,564        |
| Off-balance sheet commitments                 |                                     |                |               |              |            |             |                | 11,909         |
| <b>Total</b>                                  |                                     | <b>449,373</b> | <b>69,636</b> | <b>3,337</b> | --         | --          | --             | <b>297,504</b> |

## 5.5 Appendix 5 - Disclosure on Credit Risk Mitigation (CRM)

(All Amounts in SAR '000, as of 31<sup>st</sup> Dec, 2016)

| Exposure Class (All amounts in SAR'000)         | Exposures before CRM | Exposures covered by Guarantees/ Credit derivatives | Exposures covered by Financial Collateral | Exposures covered by Netting Agreement | Exposures covered by other eligible collaterals | Exposures after CRM |
|---|----------------------|---|---|--|---|---------------------|
| <b><i>Credit Risk</i></b>                       |                      |   |   |  |   |                     |
| <b><i>On-balance Sheet Exposures</i></b>        |                      |   |   |  |   |                     |
| Governments and Central Banks                   | --                   | --  | --  | --                                     | --  | --                  |
| Authorized Persons and Banks (including cash)   | 165,750              | --  | --  | --                                     | --  | 165,750             |
| Corporates                                      | 20,044               | --  | --  | --                                     | --  | 20,044              |
| Retail  | --                   | --  | --  | --                                     | --  | --                  |
| Investments                                     | 164,464              | --  | --  | --                                     | --  | 164,464             |
| Securitization                                  | --                   | --  | --  | --                                     | --  | --                  |
| Margin Financing*                               | --                   | --  | --  | --                                     | --  | --                  |
| Other Assets                                    | 129,300              | --  | --  | --                                     | --  | 129,300             |
| <b>Total On-Balance sheet Exposures</b>         | <b>479,558</b>       | <b>--</b>   | <b>--</b>                                 | <b>--</b>                              | <b>--</b>                                       | <b>479,558</b>      |
| <b><i>Off-balance Sheet Exposures</i></b>       |                      |   |   |  |   | <b>0</b>            |
| OTC/Credit Derivatives                          | --                   | --  | --  | --                                     | --  | --                  |
| Exposure in the form of repurchase agreements   | --                   | --  | --  | --                                     | --  | --                  |
| Exposure in the form of securities lending      | --                   | --  | --  | --                                     | --  | --                  |
| Exposure in the form of commitments             | --                   | --  | --  | --                                     | --  | --                  |
| *Other Off-Balance sheet Exposures              | 11,175               | --  | --  | --                                     | --  | 11,175              |
| <b>Total Off-Balance sheet Exposures</b>        | <b>11,175</b>        | <b>--</b>   | <b>--</b>                                 | <b>--</b>                              | <b>--</b>                                       | <b>11,175</b>       |
| <b>Total On and Off-Balance sheet Exposures</b> | <b>490,733</b>       | <b>--</b>   | <b>--</b>                                 | <b>--</b>                              | <b>--</b>                                       | <b>490,733</b>      |

## 5.5 Appendix 5 - Disclosure on Credit Risk Mitigation (CRM) – (Continued)

(All Amounts in SAR '000, as of 31<sup>st</sup> Dec, 2015)

| Exposure Class (All amounts in SAR'000)         | Exposures before CRM | Exposures covered by Guarantees/ Credit derivatives | Exposures covered by Financial Collateral | Exposures covered by Netting Agreement | Exposures covered by other eligible collaterals | Exposures after CRM |
|---|----------------------|---|---|--|---|---------------------|
| <b><i>Credit Risk</i></b>                       |                      |   |   |  |   |                     |
| <b><i>On-balance Sheet Exposures</i></b>        |                      |   |   |  |   |                     |
| Governments and Central Banks                   | --                   | --  | --  | --                                     | --  | --                  |
| Authorized Persons and Banks (including cash)   | 522,463              | --  | --  | --                                     | --  | 522,463             |
| Corporates                                      | --                   | --  | --  | --                                     | --  | --                  |
| Retail  | --                   | --  | --  | --                                     | --  | --                  |
| Investments                                     | 166,914              | --  | --  | --                                     | --  | 166,914             |
| Securitization                                  | --                   | --  | --  | --                                     | --  | --                  |
| Margin Financing*                               | --                   | --  | --  | --                                     | --  | --                  |
| Other Assets                                    | 118,564              | --  | --  | --                                     | --  | 118,564             |
| <b>Total On-Balance sheet Exposures</b>         | <b>807,941</b>       | --  | --  | --                                     | --  | <b>807,941</b>      |
| <b><i>Off-balance Sheet Exposures</i></b>       |                      |   |   |  |   | <b>0</b>            |
| OTC/Credit Derivatives                          | --                   | --  | --  | --                                     | --  | --                  |
| Exposure in the form of repurchase agreements   | --                   | --  | --  | --                                     | --  | --                  |
| Exposure in the form of securities lending      | --                   | --  | --  | --                                     | --  | --                  |
| Exposure in the form of commitments             | --                   | --  | --  | --                                     | --  | --                  |
| *Other Off-Balance sheet Exposures              | 11,909               | --  | --  | --                                     | --  | 11,909              |
| <b>Total Off-Balance sheet Exposures</b>        | <b>11,909</b>        | --  | --  | --                                     | --  | <b>11,909</b>       |
| <b>Total On and Off-Balance sheet Exposures</b> | <b>819,850</b>       | --  | --  | --                                     | --  | <b>819,850</b>      |