Basel III Pillar 3
Qualitative & Quantitative Disclosures

31 December 2016

Qualitative Disclosure

Part I: Overview of Risk Management and RWA

B.1 - Table OVA: Bank risk management approach

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

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

Further to its principal business segments as outlined above, the Bank's business structure also includes a number of subsidiaries and affiliates. The two material subsidiaries of the Group include – (i) Turkey Finans Katilim Bankasi A.S. (TFKB), which is one of the leading "participation" (Shariah-compliant) banks in Turkey, and (ii) NCB Capital (NCBC), which conducts wealth management, asset management, brokerage and investment banking activities. The details of all the subsidiaries and affiliates are described in note 1.2 in the published financial statements for the year ended 31 December 2016.

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

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

1. Risk governance organization: defines roles and responsibilities with respect to interaction among different stakeholders in the organization;

2. Risk policies: include a range of policies encompassing all risk-taking businesses, which are updated and reviewed regularly. These policies ensure institutionalization of rules and conduct, delegation of authorities and decision rights, risk appetite, and internal capital adequacy assessment and plan; and

3. Risk practices: maintain an up to date risk register, carry regular portfolio reviews and ensure various Board and senior management level risk reporting.

b. The risk governance structure

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

The Board delegates some of its risk supervisory responsibilities to certain Board level committees, namely the Executive Committee, the Audit Committee and the Risk Committee. At the management level, Risk Group is an independent control group, headed by the CRO. The CRO reports directly to the CEO in addition to direct engagement and interaction with the Board and its committees throughout the year. In addition, the CRO is a member of the management committees, viz. Higher Management committee (HMC), Asset and liability committee (ALCO), Operational Risk Committee (ORC), Credit and Remedial Management

Committee (CRMC) and Information Security Committee. Risk management practice at NCB is further supported by the control functions such as the Shari'ah Group, the Legal Division, the Compliance Division and the Internal Audit Division.

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

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

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

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

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

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

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

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

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

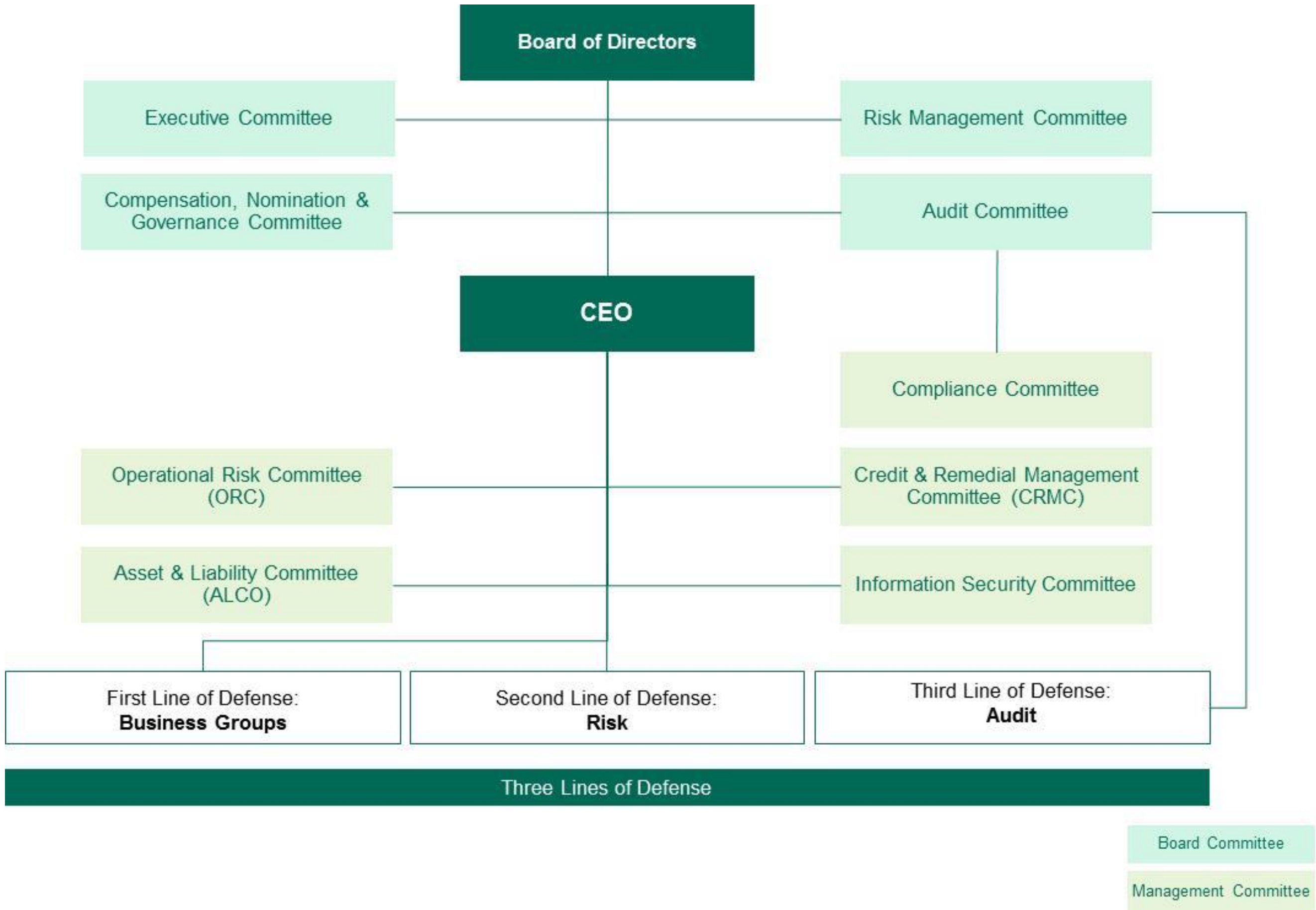
As per Basel guidance, effective risk management involves the strategic implementation of three lines of defense as the first principle of the risk management framework. In this regard, NCB has increasingly adopted the practice, which promotes risk culture and facilitates risk communication channels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

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

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

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

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



d. The scope and main features of risk measurement systems

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

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

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

Risk Capital

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

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

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

Risk Rating and Scoring Models

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

Value at Risk (VaR)

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

System and Loss Data Collection

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

Risk and Controls Self-Assessment (RCSA)

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

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

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

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

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

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

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

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

f. Qualitative information on stress testing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B.2 - Template OV1: Overview of RWA

SAR '000

		a	b	c
		RWA		Minimum capital requirements
		T (Dec-16)	T-1 (Sep-16)	T (Dec-16)
1	Credit risk (excluding counterparty credit risk) (CCR)	297,820,117	302,669,172	23,825,609
2	Of which standardized approach (SA)	297,820,117	302,669,172	23,825,609
3	Of which internal rating-based (IRB) approach			
4	Counterparty credit risk	12,842,080	13,172,249	1,027,366
5	Of which standardized approach for counterparty credit risk (SA-CCR)*	12,842,080	13,172,249	1,027,366
6	Of which internal model method (IMM)			
7	Equity positions in banking book under market-based approach			
8	Equity investments in funds – look-through approach			
9	Equity investments in funds – mandate-based approach			
10	Equity investments in funds – fallback approach			
11	Settlement risk			
12	Securitization exposures in banking book	1,033,022	1,480,410	82,642
13	Of which IRB ratings-based approach (RBA)			
14	Of which IRB Supervisory Formula Approach (SFA)			
15	Of which SA/simplified supervisory formula approach (SSFA)	1,033,022	1,480,410	82,642
16	Market risk	8,048,978	7,093,942	643,918
17	Of which standardized approach (SA)	8,048,978	7,093,942	643,918
18	Of which internal model approaches (IMM)			
19	Operational risk	32,802,763	32,030,085	2,624,221
20	Of which Basic Indicator Approach			
21	Of which Standardized Approach	32,802,763	32,030,085	2,624,221
22	Of which Advanced Measurement Approach			
23	Amounts below the thresholds for deduction (subject to 250% risk weight)			
24	Floor adjustment			
25	**Total (1+4+7+8+9+10+11+12+16+19+23+24)**	**352,546,960**	**356,445,858**	**28,203,757**

** SA-CCR became effective from January 2017. However, the first reporting will take place based on Q1 2017 Prudential's. CCR as at 31 December 2016 is based on CEM approach.*

The major variations were in the market risk and securitization exposures in banking book. For the market risk, was mainly due to the increase in the IRS book and the Securitization was due to offloading some of the positions in the investment book.

Part II: Linkages between financial statements and regulatory exposures

B.3 - Template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

SAR '000

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with SAMA	43,441,291	43,441,291	43,441,291				
Due from banks and other financial institutions	19,213,063	19,213,063	19,213,063				
Investments, net	111,508,971	111,508,971	107,110,965		4,398,006		
Financing and advances, net	253,592,141	253,592,141	253,592,141				
Positive fair value of derivatives, net	2,666,249	2,666,249		2,666,249			
Investments in associates, net	431,156	431,156	431,156				
Other real estate, net	849,180	849,180	849,180				
Property and equipment, net	4,363,076	4,363,076	4,363,076				
Goodwill and other intangible assets, net	325,733	325,733					325,733
Other assets	5,100,460	5,100,460	5,100,460				
Total assets	**441,491,320**	**441,491,320**	**434,101,332**	**2,666,249**	**4,398,006**		**325,733**
Liabilities							
Due to banks and other financial institutions	45,474,171						45,474,171
Customers' deposits	315,617,907						315,617,907
Debt securities issued	9,917,765						9,917,765
Negative fair value of derivatives, net	1,469,280						1,469,280
Other liabilities	9,086,479						9,086,479
Total liabilities	**381,565,602**						**381,565,602**

B.4 - Template LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

SAR '000

		a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	441,491,320	434,101,332	4,398,006	2,666,249	
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)					
3	Total net amount under regulatory scope of consolidation	441,491,320	436,767,581	4,398,006	2,666,249	
4	Off-balance sheet amounts	77,232,607	44,626,204			
5	Differences in valuations	(2,769,141)				
6	Differences due to different netting rules, other than those already included in row 2					
7	Differences due to consideration of provisions	5,928,358	3,025,155			
8	Differences due to Goodwill and other intangible assets	(325,733)				
9	Differences due to prudential filters	295,650				
10	Derivatives	224,110,070			3,695,008	1,061,989
11	**Exposure amounts considered for regulatory purposes**	**745,963,131**	**484,418,940**	**4,398,006**	**6,361,257**	**1,061,989**

B.5 - Table LIA: Explanations of differences between accounting and regulatory exposure amounts

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

For valuation methodologies please refer to notes 2.5, 38, and 39 of the Audited Financial Statements for the year ended 31 December 2016.

Part III: Credit Risk

B.6 - Table CRA: General qualitative information about credit risk

a. Business model and credit risk profile

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

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

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

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

- **Credit Program** is used to approve a series of credit proposals where the facility type and associated risks are homogenous in character or for transaction types that require a specific set of TM & RAC such as real estate financing, and project finance.

- **Credit Procedures** are mainly addressed through Credit Bulletins and appendices approved by the Head of Corporate Risk Management (HCRM) when the processes are substantially controlled by Corporate Risk Management. Procedures that are substantially controlled by other business or support units will be written by those units and reviewed by other stakeholders including Corporate Risk Management.

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

- **Consumer Finance Islamic Credit Policy** provides the definition of policy content, organizational structure, broad process description and responsibilities.

- **Business Credit Policy** defines detailed credit policies at the product level, authorities at operational level, product level portfolio management & processes, and scoring methodologies & mechanisms.

- **Credit Operational Procedures** defines Know Your Customers (KYC) processes, implementation processes, credit related authorities at operational level, and collection strategy.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B.7 - Template CR1: Credit quality of assets

SAR '000

		a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	3,925,482	255,595,066	5,928,407	253,592,141
2	Debt Securities		106,333,417	22,115	106,311,302
3	Off-balance sheet exposures		77,232,607	347,273	76,885,334
4	**Total**	**3,925,482**	**439,161,090**	**6,297,795**	**436,788,777**

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

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

B.8 - Template CR2: Changes in stock of defaulted loans and debt securities

SAR '000

		a
1	**Defaulted loans and debt securities at end of the previous reporting period**	3,681,949
2	Loans and debt securities that have defaulted since the last reporting period	3,346,432
3	Returned to non-defaulted status	270,391
4	Amounts written off	2,048,309
5	Other changes	(784,199)
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**3,925,482**

B.9 - Table CRB: Additional disclosure related to the credit quality of assets

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

Definition of "**Past due**": When a payment obligation on a credit account is not fulfilled in a timely fashion, the account should be considered 'past due'.
In case of loan accounts where there is a clear date of payment, each day the account is past due should be counted until the obligation is met. The number of days that the obligor is past due at a given point in time should be referred to as 'days past due'.

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

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

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

c. Description of methods used for determining impairments.

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

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

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

A restructuring is defined as an extension of repayment for a tenor greater than 180 days from the end of the maximum period approved for that facility and / or

- The underlying assumptions for approving the original facility such as the purpose, sources of repayment and the Bank's assessment of the obligor's capacity have now changed materially

- Changes to the facility structure are made that are substantially material (e.g., from short term loan to medium or long term loan).

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

(e)

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

Geographic Breakdown (SAR '000)								
Portfolios	Geographic area							
	Saudi Arabia	Other GCC & Middle East	Europe	Turkey	North America	South East Asia	Others countries	Total
Sovereigns and central banks:	65,272,232	10,140,146		9,334,257	7,299,039	1,354,057	2,102,781	**95,502,512**
SAMA and Saudi Government	65,272,232							**65,272,232**
Others		10,140,146		9,334,257	7,299,039	1,354,057	2,102,781	**30,230,280**
Multilateral Development Banks (MDBs)	2,392,048		781,574		770,651	54,251		**3,998,524**
Public Sector Entities (PSEs)				32,641				**32,641**
Banks and securities firms	7,997,508	6,539,855	7,162,424	2,244,752	4,869,224	394,796	8,132,966	**37,341,526**
Corporates	156,624,765	21,003,076	1,242,608	17,154,273	6,453,823	1,958,766	4,371,588	**208,808,899**
Retail non-mortgages	71,478,711			9,955,570				**81,434,280**
Small Business Facilities Enterprises (SBFE's)	1,545,075			7,761,311				**9,306,386**
Mortgages	21,383,393			9,709,876				**31,093,269**
Residential	16,922,357			3,861,000				**20,783,357**
Commercial	4,461,036			5,848,876				**10,309,912**
Securitized assets					2,607,559		1,799,556	**4,407,116**
Equity	851,148	95,687	1,220	5,236				**953,291**
Others	17,529,968	817,730	3,277,869	2,966,628	2,798,091			**27,390,287**
Total	**343,529,772**	**38,596,494**	**12,465,696**	**51,403,234**	**24,798,387**	**3,761,869**	**16,406,891**	**490,962,344**

Industry Sector Breakdown (SAR '000)													
Portfolios	Industry sector												
	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 & credit cards	Others	Total
Sovereigns and central banks:	95,502,512												**95,502,512**
SAMA and Saudi Government	65,272,232												**65,272,232**
Others	30,230,280												**30,230,280**
Multilateral Development Banks (MDBs)		3,998,524											**3,998,524**
Public Sector Entities (PSEs)					27,641					4,773		227	**32,641**
Banks and securities firms		37,311,192										30,333	**37,341,526**
Corporates	11,218,186	64,797	1,000,949	34,453,484	8,301,190	24,727,015	29,894,473	50,721,280	16,274,507	19,536,618		12,616,400	**208,808,899**
Retail non-mortgages		36,520	151,198	2,595,239	66,816	155,955	1,558,877	3,620,088	382,594	802,013	72,064,269	712	**81,434,280**
Small Business Facilities Enterprises (SBFE's)		13,723	151,194	2,557,801	66,798	155,955	1,558,150	3,619,654	382,574	799,824		712	**9,306,386**
Mortgages:		13,284	116,040	1,972,050	73,239	246,943	3,163,578	4,019,407	202,451	1,594,149	19,692,129		**31,093,269**
Residential		5,459	18,002	249,334	13,409	21,450	509,601	487,634	61,666	134,900	19,281,901		**20,783,357**
Commercial		7,825	98,038	1,722,716	59,830	225,493	2,653,978	3,531,773	140,784	1,459,249	410,227		**10,309,912**
Securitized assets	2,588,797	1,818,318											**4,407,116**
Equity		568,419		11,050				367,802		1,000		5,019	**953,291**
Others		10,354,064	10,590	138,471	6,970	9,506	102,851	181,394	28,256	865,357		15,692,830	**27,390,287**
Total	**109,309,495**	**54,165,118**	**1,278,776**	**39,170,293**	**8,475,856**	**25,139,418**	**34,719,780**	**58,909,972**	**16,887,808**	**22,803,909**	**91,756,398**	**28,345,521**	**490,962,344**

Residual Contractual Maturity Breakdown (SAR '000)									
Portfolios	**Maturity breakdown**								
	Less than 8 days	**8-30 days**	**30-90 days**	**90-180 days**	**180-360 days**	**1-3 years**	**3-5 years**	**Over 5 years***	**Total**
Sovereigns and central banks:	5,433,696	15,367,460	648,774	242,306	750,366	4,519,085	10,033,813	58,507,011	**95,502,512**
SAMA and Saudi Government	2,162	15,160,794	8,509	35,031	60,843	12,239	909,910	49,082,744	**65,272,232**
Others	5,431,534	206,667	640,265	207,276	689,523	4,506,846	9,123,903	9,424,266	**30,230,280**
Multilateral Development Banks (MDBs)			191,406	415,910	375,307	266,010	1,885,455	864,435	**3,998,524**
Public Sector Entities (PSEs)	589			12,452	1,116	16,194	100	2,189	**32,641**
Banks and securities firms	7,735,789	4,496,619	4,882,426	5,076,578	2,735,368	7,224,344	2,348,937	2,841,465	**37,341,526**
Corporates	7,940,245	14,900,548	30,657,126	30,854,396	23,426,980	36,275,449	23,302,252	41,451,903	**208,808,899**
Retail non-mortgages	6,428,729	1,912,983	4,355,229	6,290,283	10,797,878	33,821,994	15,675,366	2,151,818	**81,434,280**
Small Business Facilities Enterprises (SBFE's)	439,388	442,029	1,225,476	1,736,416	1,884,657	2,460,483	575,962	541,975	**9,306,386**
Mortgages	461,653	201,512	959,448	1,430,077	1,955,864	6,917,618	5,119,775	14,047,322	**31,093,269**
Residential	143,954	111,666	248,437	437,000	844,421	3,325,130	3,043,776	12,628,975	**20,783,357**
Commercial	317,699	89,846	711,012	993,077	1,111,444	3,592,489	2,075,999	1,418,347	**10,309,912**
Securitized assets								4,407,116	**4,407,116**
Equity	5,236							948,055	**953,291**
Others	11,013,270	795,064	597,672	888,514	410,463	283,491	122,525	13,279,289	**27,390,287**
Total	**39,019,208**	**37,674,185**	**42,292,081**	**45,210,517**	**40,453,342**	**89,324,188**	**58,488,224**	**138,500,600**	**490,962,344**

**Under over 5 years, there are items such as statutory legal reserve with SAMA of SAR 18,330,826 and fixed assets of SAR 4,363,076 which have no fixed maturities*

(f)

Impaired Loans, Past Due Loans and Allowances (SAR '000)										
Industry sector	Impaired loans	Defaulted	Aging of Past Due Loans (days)				Specific allowances			General allowances
			Less than 90	90-180	180-360	Over 360	Charges during the period	Charge-offs during the period	Balance at the end of the period	
Government and quasi government										
Banks and other financial institutions	130	130	1,430	43	12	74	(31)	(7)	93	
Agriculture and fishing	38,331	38,331	23,480	2,623	8,819	26,889	8,929	(7,274)	25,660	
Manufacturing	685,742	685,742	670,334	46,059	250,734	388,947	107,758	(125,422)	507,898	
Mining and quarrying	18,230	18,230	12,385	504	4,013	13,713	(18,503)	(12,887)	11,341	
Electricity, water, gas and health services	23,572	23,572	151,622	4,757	2,138	16,678	8,741	(4,751)	13,821	
Building and construction	573,343	573,343	636,917	62,604	62,247	448,492	111,297	(115,997)	492,421	
Commerce	1,583,981	1,583,981	982,096	163,435	379,686	1,040,860	462,567	(359,126)	1,206,826	
Transportation and communication	122,055	122,055	134,170	29,697	14,083	78,275	48,226	(17,644)	110,197	
Services	212,878	212,878	296,412	44,165	62,555	106,158	78,183	(10,100)	171,015	
Consumer loans and credit cards	589,303	589,303	4,097,931	457,595	66,284	65,424	1,286,161	(1,395,100)	301,557	
Others	77,917	77,917	21,681	4,142	15,267	58,509	1,804		62,423	
Total	**3,925,482**	**3,925,482**	**7,028,457**	**815,625**	**865,838**	**2,244,019**	**2,095,132**	**(2,048,309)**	**2,903,251**	**3,025,155**

Impaired Loans, Past Due Loans And Allowances (SAR '000)							
Geographic area	Impaired loans	Aging of Past Due Loans (days)				Specific allowances	General allowances
		Less than 90	90-100	180-360	Over 360		
Saudi Arabia	2,442,618	5,160,284	605,988	431,114	1,405,516	1,929,575	2,735,409
Other GCC & Middle East							
Turkey	1,482,864	1,868,173	209,637	434,724	838,503	973,676	289,747
Others countries							
Total	**3,925,482**	**7,028,457**	**815,625**	**865,838**	**2,244,019**	**2,903,251**	**3,025,155**

Reconciliation Of Changes In The Allowances For Loan Impairment (SAR '000)		
Particulars	Specific allowances	General allowances
Balance, beginning of the year	2,856,428	2,707,197
Charge-offs taken against the allowances during the period	(2,048,309)	
Amounts set aside (or reversed) during the period	2,382,816	334,926
Other adjustments:		
- exchange rate differences	(287,684)	(51,978)
- business combinations		
- acquisitions and disposals of subsidiaries		
- etc.		35,010
Transfers between allowances		
Balance, end of the year	**2,903,251**	**3,025,155**

(g) SAR '000

Portfolios	Less than 30 days	30-59 days	60-89 days	Total
Consumer loans and credit cards	2,908,792	873,738	315,401	4,097,931
Corporate	935,377	332,267	160,691	1,428,335
Others	778,318	315,824	408,049	1,502,191
Total	**4,622,487**	**1,521,829**	**884,141**	**7,028,457**

(h) SAR '000

Restructured exposures	Impaired	Not Impaired
5,003,889	**-**	**5,003,889**

B.10 - Table CRC: Qualitative disclosure requirements related to credit risk mitigation techniques

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

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

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

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

NCB accepts following types of collaterals as below.

Liquid Collateral:

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

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

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

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

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

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

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

B.11 - Template CR3: Credit risk mitigation techniques – overview

SAR ‘000

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	224,350,502	29,241,639	18,192,587	17,709,262	17,682,666		
2	Debt securities	102,889,402	3,421,900	3,421,900	3,421,900	3,421,900		
3	Total	327,239,904	32,663,539	21,614,487	21,131,162	21,104,566		
4	Of which defaulted	3,488,435	437,047	514				

B.12 - Table CRD: Qualitative disclosures on banks’ use of external credit ratings under the standardized approach for credit risk

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

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

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

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

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

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

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

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

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

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

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

B.13 - Template CR4: Standardized approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

SAR '000

		a	b	c	d	e	f
		Exposures before CCF & CRM		Exposures post-CCF & CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	94,174,166	675,816	110,854,127	600,717	5,074,341	5%
2	Non-central government public sector entities	29,256	8,574	29,256	3,381	32,528	100%
3	Multilateral development banks	3,978,005		3,998,524			0%
4	Banks	24,900,627	14,752,089	24,553,558	9,660,040	17,507,679	51%
5	Securities firms						
6	Corporates	177,620,655	48,914,788	162,593,471	26,578,221	167,058,491	88%
7	Regulatory retail portfolios	77,543,819	11,568,610	77,470,797	3,434,968	60,399,196	75%
8	Secured by residential property	20,593,248	456,415	20,593,248	184,206	20,777,454	100%
9	Secured by commercial real estate	9,798,449	856,315	9,798,449	509,413	10,307,862	100%
10	Equity	1,352,712		953,291		1,074,523	113%
11	Past-due loans	3,925,448		1,083,655		1,159,231	107%
12	Higher-risk categories						
13	Other assets	23,630,706		23,639,394	3,655,259	14,428,812	53%
14	**Total**	**437,547,090**	**77,232,607**	**435,567,767**	**44,626,204**	**297,820,116**	**62%**

B.14 - Template CR5: Standardized approach – exposures by asset classes and risk weights

SAR '000

		a	b	c	d	e	f	g	h	i	j
	Asset classes/ Risk weight*	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	101,808,271		412,804		8,483,978		749,791			111,454,844
2	Non-central government public sector entities (PSEs)	166				28		32,442			32,636
3	Multilateral development banks (MDBs)	3,998,524									3,998,524
4	Banks			8,395,613		21,239,766		5,268,323	60,296		34,213,533
5	Securities firms										
6	Corporates	366,588		13,171,306		22,424,323		153,212,009	40		189,174,266
7	Regulatory retail portfolios	287,492		113,867			80,501,897				80,903,255
8	Secured by residential property							20,777,454			20,777,454
9	Secured by commercial real estate							10,307,862			10,307,862
10	Equity							872,470		80,821	953,291
11	Past-due loans							932,503	151,152		1,083,655
12	Higher-risk categories										
13	Other assets	9,291,172		4,466,937		2,092		13,534,452			27,294,653
14	**Total**	**115,752,213**		**25,810,062**		**52,150,186**	**80,501,897**	**205,687,305**	**211,487**	**80,821**	**480,193,972**

Part IV: Counterparty credit risk

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

B.21 - Table CCRA: Qualitative disclosure related to counterparty credit risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B.22 - Template CCR1: Analysis of counterparty credit risk (CCR)[1] exposure by approach

SAR '000

		a	b	c	d	e	f
		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)*	2,666,249	3,695,008		1.4	6,361,257	4,720,452
2	Internal Model Method (for derivatives and SFTs)						
3	Simple Approach for credit risk mitigation (for SFTs)						
4	Comprehensive Approach for credit risk mitigation (for SFTs)						
5	VaR for SFTs						
6	**Total**						4,720,452

**Under CEM Approach*

B.23 - Template CCR2: Credit valuation adjustment (CVA) capital charge

SAR '000

		a	b
		EAD post-CRM	RWA
	Total portfolios subject to the Advanced CVA capital charge		
1	(i) VaR component (including the 3× multiplier)		
2	(ii) Stressed VaR component (including the 3× multiplier)		
3	All portfolios subject to the Standardized CVA capital charge	5,965,962	8,121,628
4	Total subject to the CVA capital charge	5,965,962	8,121,628

B.24 - Template CCR3: Standardized approach – CCR exposures by regulatory portfolio and risk weights

SAR '000

	a	b	c	d	e	f	g	h	i
Regulatory portfolio*/ Risk weight**	0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposures
Sovereigns and their central banks									
Non-central government public sector entities (PSEs)									
Multilateral development banks (MDBs)									
Banks			750,464	2,062,245		125			2,812,834
Securities firms									
Corporates			4,285			859,764			864,049
Regulatory retail portfolios			6,075		4,097				10,171
Other assets						7,954			7,954
Total			**760,824**	**2,062,245**	**4,097**	**867,843**			**3,695,008**

The breakdown by risk weight and regulatory portfolio included in the template is for illustrative purposes. Banks may complete the template with the breakdown of asset classes according to the local implementation of the Basel framework.

***Banks subject to the simplified standardized approach should indicate risk weights determined by the supervisory authority in the columns.*

B.26 - Template CCR5: Composition of collateral for CCR exposure

SAR '000

	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency		246				
Cash – other currencies	884,480	10,114	(1,596,464)			
Domestic sovereign debt						581,942
Other sovereign debt						1,008,647
Government agency debt						
Corporate bonds						
Equity securities						
Other collateral		8,200				
Total	**884,480**	**18,560**	**(1,596,464)**			**1,590,589**

Part V: Securitization

B.30 - Table SECA: Qualitative disclosure requirements related to securitization exposures

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

B.31 - Template SEC1: Securitization exposures in the banking book

SAR '000

		a	b	c	d	e	f	g	h	i
		Bank acts as originator			Bank acts as sponsor			Banks acts as investor		
		Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
1	Retail (total) – of which							2,588,797		2,588,797
2	residential mortgage									
3	credit card									
4	other retail exposures (student loans)							2,588,797		2,588,797
5	re-securitization									
6	Wholesale (total) – of which							1,818,318		1,818,318
7	loans to corporates (CLOs)							1,818,318		1,818,318
8	commercial mortgage									
9	lease and receivables									
10	other wholesale									
11	re-securitization									

B.34 - Template SEC4: Securitization exposures in the banking book and associated capital requirements – bank acting as investor

SAR '000

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
		Exposure values (by RW bands)					Exposure values (by regulatory approach)				RWA (by regulatory approach)				Capital charge after cap			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250 % RW	IRB RBA (including IAA)	IRB SFA	SA/SSFA	1250 %	IRB RBA (including IAA)	IRB SFA	SA/SSFA	1250 %	IRB RBA (including IAA)	IRB SFA	SA/SSFA	1250 %
1	**Total exposures**		**4,224,649**	**182,467**					**4,407,116**				**1,033,022**				**82,642**	
2	Traditional securitization		4,224,649	182,467					4,407,116				1,033,022				82,642	
3	Of which securitization		4,224,649	182,467					4,407,116				1,033,022				82,642	
4	Of which retail underlying (student loans)		1,818,318						1,818,318				363,664				29,093	
5	Of which wholesale																	
6	Loans to corporate (CLO)		2,406,331	182,467					2,588,797				669,359				53,549	
7	Of which re-securitization																	
8	Of which senior																	
9	Of which non-senior																	
10	Synthetic securitization																	
11	Of which securitization																	
12	Of which retail underlying																	
13	Of which wholesale																	
14	Of which re-securitization																	
15	Of which senior																	
16	Of which non-senior																	

Part VI: Market risk

The market risk section includes the market risk capital requirements calculated for trading book and banking book exposures that are subject to a market risk charge, it also includes capital requirements for securitization positions held in the trading book. However, it excludes the counterparty credit risk capital charges that apply to the same exposures, which are reported in Part 4 – Counterparty credit risk.

B.35 - Table MRA: Qualitative disclosure requirements related to market risk

a. Strategies and processes of the bank

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

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

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

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

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

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

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

Hedge effectiveness is the measure in the extent to which the change in the fair value or cash flows of the hedging instruments offset the change in the fair value or cash flows of the hedged item, equally hedge ineffectiveness is the measure of the of the extent to which the change in the fair value or cash flows of the hedging instruments doesn't offset change in the fair value or cash flows of the hedged item.
For prospective and retrospective hedge effectiveness testing we are using the regressing analysis the dollar offset for the accounting.

b. Structure and organization of the market risk management function

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

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

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

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

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

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

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

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

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon. This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

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

B.37 - Template MR1: Market risk under standardized approach

SAR '000

		a
		RWA
	Outright products	**8,048,978**
1	Interest rate risk (general and specific)	5,359,119
2	Equity risk (general and specific)	
3	Foreign exchange risk	2,613,753
4	Commodity risk	76,106
	Options	
5	Simplified approach	
6	Delta-plus method	
7	Scenario approach	
8	Securitization	
9	**Total**	**8,048,978**

Part VII: Operational risk

B.41 - Operational risk

Strategies and Processes

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

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

The main elements comprising the operational risk framework are:

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

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

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

Structure and Organization of Operational Risk Management

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

Operational Risk Assessment

Governance

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

System and Loss Data Collection

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

Risk and Controls Self-Assessment (RCSA)

A qualitative and quantitative risk assessment is conducted within NCB using an identified universe of operational risks contained in the Risk & Control Self-Assessment Framework (RCSA). The assessment of risks and controls is conducted at the business unit level and is subject to treatment and escalation to Group Heads, which set out the operational risk exposure that NCB is willing to tolerate. In 2016, the Operational

Risk department continued conducting the RCSA exercise across NCB covering core and support function divisions in order to ensure active comprehensive operational risk register for NCB is being held.

High Level of Awareness Culture Across NCB

One of SAMA & Basel requirements is to ensure that an appropriate level of operational risk training is available at all levels throughout the organization, Operational risk management continues the training and awareness programs (Internal and External). In 2016, Operational Risk Department in collaboration with the Training Centre has launched the e-course where 90% of employees have completed the e-course.

Key risk indicators

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

Application of the standardized approach for Operational Risk

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

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

Part VIII: Interest Rate in the Banking Book

B.42 - Interest rate risk in the banking book (IRRBB)

a. The general qualitative disclosure requirement of IRRBB

Interest Rate Risk Governance

The Board directs and oversees the ALM activities with the Board Risk Committee providing oversight to the ALCO, which has overall responsibility for interest rate risk monitoring and management in order to optimize NCB's earnings and net asset values and sets the Interest Rate Gap Limit. Treasury is responsible for the day-to-day execution of interest rate strategy. Treasury's task is to protect the Bank's earnings from adverse movements in interest rates and to enhance net interest income through appropriate action and anticipation of the extent of directional shifts in interest rates.

Treasury manages interest rate risk in the following manner.

- Clear definition of authorized investments, permissible hedging and position taking strategies with Treasury appointed as the execution body.
- Identification of the frequency and methodology for measuring interest rate risk.
- Setting of quantitative limits in line with the risk appetite.
- Funds Transfer Pricing (FTP) maintenance that includes determining the base rate and the liquidity premium for different maturities.

NCB is in the process of implementing the new rules for computing IRRBB, hence methodology for computing key assumptions is underway. These rules come into force from January 2018.

The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).

SAR '000

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) – December 2016	
200bp Interest Rate Shocks for currencies with more than 5% of Assets or Liabilities	
Rate Shocks	Change in earnings
Upward rate shocks:	
SAR	2,133,560
USD	284,800
Downward rate shocks:	
SAR	(2,133,560)
USD	(284,800)

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

	Tables and templates	ref. #
Part III – Credit risk	CRE – Qualitative disclosures related to IRB models	B.15
	CR6 – IRB - Credit risk exposures by portfolio and PD range	B.16
	CR7 – IRB – Effect on RWA of credit derivatives used as CRM techniques	B.17
	CR8 – RWA flow statements of credit risk exposures under IRB	B.18
	CR9 – IRB – Back testing of probability of default (PD) per portfolio	B.19
	CR10 – IRB (specialized lending and equities under the simple risk weight method)	B.20
Part IV – Counterparty credit risk	CCR4 – IRB – CCR exposures by portfolio and PD scale	B.25
	CCR6 – Credit derivatives exposures	B.27
	CCR7 – RWA flow statements of CCR exposures under the Internal Model Method (IMM)	B.28
	CCR8 – Exposures to central counterparties	B.29
Part V – Securitization	SEC2 – Securitization exposures in the trading book	B.32
	SEC3 – Securitization exposures in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor	B.33
Part VI – Market risk	MRB – Qualitative disclosures for banks using the Internal Models Approach (IMA)	B.36
	MR2 – RWA flow statements of market risk exposures under an IMA	B.38
	MR3 – IMA values for trading portfolios	B.39
	MR4 – Comparison of VaR estimates with gains/losses	B.40

Basel III Qualitative and Quantitative Pillar 3 Disclosures Policy:

To assure compliance with the requirements of the guidance issued by SAMA dated 9 July 2015, NCB has created Basel III Pillar 3 Disclosures Policy which approved by the board.
The policy document governs the implementation, process and reporting of Basel III Pillar 3 Disclosures. It describes the scope, guiding principles, required standards and regulations, roles and responsibilities and internal controls for these disclosures.