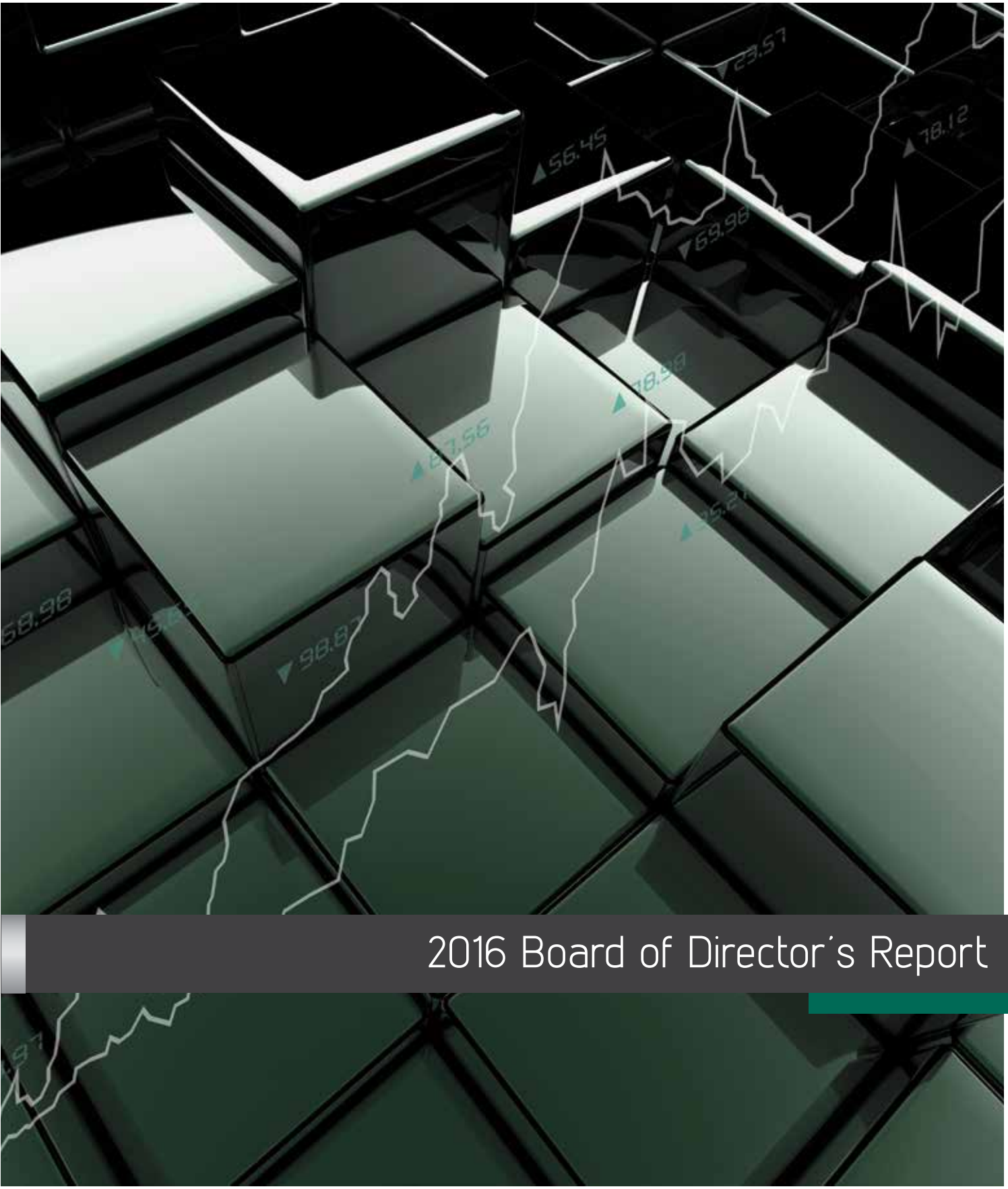
الأهلي كابيتال
NCB Capital



2016 Board of Director´s Report

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1. Economic Update

Global review

2016 was mostly positive for global equity markets, with the MSCI World index increasing +5.4%. Emerging markets (MSCI EM+8.5%) fared better than G7 markets (MSCI G7 +6.7%), whilst Frontier markets languished (MSCI FM -3.9%). Global GDP growth was 3.1%, lower than forecast at the beginning of 2016 and marginally lower than 2015 growth of 3.2%, and much lower than even post crisis growth of 4.2% seen in 2011, despite ongoing government support. However, so many years after the financial crisis, this has resulted in ineffective monetary easing in Europe, with GDP growth of 1.5%, and Japan (GDP growth of 0.5%), and constraints on ability to undertake fiscal stimulus, whilst at the same time inflation remains stubbornly low. The unexpected results of the referendum on the UK's membership of the Eurozone and the US Presidential elections rattled markets, with the election of President Trump creating continued uncertainty in terms of foreign and trade policy, especially with China and Mexico. US domestic economic policy is expected to be expansionary leading to US equity markets moving higher. GDP growth remains resilient in China with growth of 6.6% and even stronger in India (+7.6%). The Middle East grew at 3.3%, despite the head winds of lower oil prices that the region faced for most of the year, but nonetheless much lower than other emerging /frontier market regions such as South Asia which grew at 7.2%.

Saudi Macro

The Saudi economy grew moderately by +1.4% in 2016 (vs +3.4% in 2015), on the back of lower oil prices, lower government spending and tightened liquidity. This is in spite of higher oil production of 10.4mn b/d (vs 10.2mn b/d in 2015). Despite record output, lower oil prices (2016 average US$45/bbl vs 2015 US$54/bbl) led overall government revenues to decline by -14% to SR528bn. Oil revenue contributed 62% to total income compared to 90% in 2013. Non-oil income grew significantly by +19% YoY to reach SR199bn, contributing 38% to total revenues, with growth coming from higher investment income. This compares to non-oil revenue of 8% (SR103bn) of revenues in 2012. Despite high relative growth, it was insufficient in absolute terms to offset the decline in oil revenues of -26%. Expenses came in at SR825bn, resulting in a budget deficit of SR297bn (-18% YoY). The deficit was primarily financed from net foreign assets as well as international and local debt issuance. Inflation jumped to 4.0% in 2016 from 2.2% in 2015, on the back of increases in utility and fuel prices. Despite the drawdown on net foreign assets, they remain high at US$544bn, with Saudi's debt to GDP ratio increasing to 12.3% in 2016 (vs 7% in 2015), which remains one of the lowest globally.

Saudi Arabia introduced Vision 2030 a transformative plan aiming for socio-economic change in Saudi by utilizing the country's capabilities. Vision 2030 is based on three themes 1) a vibrant society 2) a thriving economy, and 3) an ambitious nation. National Transformation Program 2020 (NTP 2020) was launched, as the first road map to achieving Vision 2030 objectives. In December 2016, Council of Ministers announced the Fiscal Balance Program (FBP), which is an extension of NTP 2020, with the aim of achieving a balanced budget by 2020. The government has already implemented a number of measures in 2016 that are in line with FBP objectives, such as utility subsidies cut and upward revision of MOMRA's fees. It will continue to pursue additional reforms in the coming years. FBP initiatives will impact most sectors and the degree of the impact will depend mainly on the sectors' reliance on 1) subsidized energy, fuel and feedstock, 2) expatriates and 3) government capital spending. With the initiatives that are being undertaken Saudi's finances are on the road to recovery, with both the budget and trade deficits set to narrow in 2017.

Oil

Oil price had a volatile year with Brent in a trading range of 114%, with a low of US$ 27.10 and high 57.89, with the lows being driven by gloom over oversupply and high inventory levels. OECD inventories were 3.1bn barrels at the end of 2016, which is 19.3% higher than the 2010-15 average of 2.7bn barrels and equivalent to c.66 days of consumption. In November and December 2016, OPEC and non-OPEC countries (including Russia, Mexico, Oman, Kazakhstan) agreed to cut production by 1.8mn b/d, with the aim of reducing abnormally high inventories, resulting in oil (Brent) gaining 20%, reaching the year's high of 57.89. However the increase in oil prices has encouraged shale oil companies to restart production, with rig count

increasing by 57% to 498 rigs in January 2017 from May 2016 lows of 316 rigs, whilst at the same time efficiency gains by shale producers meant production did not decline at the same rate as rig count. According to Wood Mackenzie, the average North American shale breakeven price is now less than US$ 50/bbl. The level of compliance with production cuts agreed between OPEC and other producers, and the rate at which US shale output ramp ups are expected to determine the direction of oil prices in the short term.

Saudi Banks

In 2016, total deposits of the sector grew marginally and this was primarily driven by +13.1% YoY growth in time and savings deposits, offsetting -0.2% YoY decline in demand deposits. Loans and advances grew slightly by +1.5% YoY in 2016 compared to +8.5% YoY in 2015. Loan/deposit ratio expanded slightly to 83.2% in 2016 vs. 82.5% in 2015 against the new regulatory threshold of 90%. The Banking sector's total net income declined -5.4% YoY to SR41.3bn in 2016 compared to a growth of +5.4% in 2015. The decline is primarily driven by the growth in total impairment charges for credit losses and investments. In 2016, SAIBOR increased from 1.6% to 2.4% due to a liquidity squeeze driven by 1) the issuance of local bonds, which increased to SR178.4bn from SR86.2bn in 2015, creating a crowding out effect for the private sector and 2) the delay in the payment of government receivables, increasing working capital and loan requirements for companies. Liquidity and sentiment have improved, following the successful US$17.5bn international bond issue and the payment of receivables by the government. M3 supply improved +1.8% QoQ in 4Q16 compared to -0.5% decline in 9M16. As these factors are set to be resolved, we have seen SAIBOR decline to below 1.8% and going forward expect SAIBOR to be mainly impacted by the change in the US Fed rate. We believe the successful issuance of new international debt will continue to improve market sentiment with respect to the liquidity situation.

Construction, Real Estate and others

Under the NTP 2020, capital expenditure on construction activities is significantly lower than in previous years. We believe this will negatively impact contractors and cement companies. The cement sector performance was weak in 2016, with sales down -9.5% YoY. Moreover clinker inventory continues to increase to all-time high levels, reaching 28mn tons in 2016. As a result of all these changes, we believe the real estate sector was also negatively impacted. The slowdown in business activities is expected to impact the office segment, meanwhile lower discretionary spending is expected to impact the hospitality segment. Despite white land fees negatively impacting the residential segment activities, we believe the Ministry of Housing projects may support residential segment activities going forward. Real Estate Investment Traded Funds (REITs) were introduced in 4Q16 as a new asset class traded on Tadawul. REITs are closed-end funds that invest exclusively in real estate, offering stable dividends with high pay-out ratios. The concept of REITs currently exists in more than 36 countries. Globally, the market capitalization of REITs expanded to USD1,700bn as of July 2016 from USD300bn in 2003. Currently there are only 2 listed REITs in Saudi, namely Riyad REIT and Al Jazira REIT, with a combined value of SR616mn. We expect the number of REITs in Saudi to increase significantly in the next two years mainly due to high supply from large land owners and strong demand for stable income generating investments. With the introduction white land fees in Saudi, the REIT structure will allow large real estate investors with property and land to create liquidity through the formation of REITs. The funds released through the listing of the REITs can be used to develop white land and thus mitigate the payment of white land fees. This could potentially create a virtuous circle with the developed buildings being sold to REITs and the proceeds used to develop further white land, thus turning unproductive white land into income generating assets. We expect the strong demand for REITs to be supported by investors seeking sustainable dividends. In addition, the slowdown in the economy has negatively impacted certain companies and sectors that traditionally paid out high dividends such as the Cement sector. Therefore, we expect investors seeking income generating assets to diversify from such historically high dividend yield sectors toward REITs.

Significant IPOs

There were 3 IPOs during 2016 (Middle East Healthcare, Al Yamamah Steel Industries and Lazurde Company for Jewellery) raising a total of SR 2.7bn, substantially lower than the SR 4.2bn and SR 25.2bn raised in 2015 and 2014 respectively. The number of IPOs also declined in 2016 from four in 2015 and six in 2014. IPO activity has already picked up in 2017 driven by the launch of the NOMU Parallel market, with the number of IPOs more than double those launched in 2016.

Saudi, GCC and Global Markets

TASI performance was highly volatile in 2016. It declined sharply in January 2016 by 20.1% as oil prices collapsed, touching 12 year lows, with Brent trading at a US$27.10. As oil prices rebounded so did the index. The correlation between oil and the TASI increased to 0.9 since OPEC decided to maintain oil production levels, compared to 0.2 over the past 3 years. Recently, the correlation declined to 0.6.The announcement of allowance cuts in October 2016 saw the TASI decline again by 21.0% YTD, dipping in and out of bear market territory, and at times making it one of the worst 10 markets in the world. However, the index rebounded on the successful completion of the US$17.5bn international bond issue. It continued to build on those gains, following the announcement that the government would pay outstanding receivables and the agreement between OPEC and non-OPEC oil producers to cut production. The announcement of the 2017 budget proved to be supportive and the TASI ended the year with a gain of +4.3% it's first positive year of performance in three years. By way of comparison with regional markets, the ADX increased +5.6%, DFM +12.1%, KWSE +2.4% and Qatar was flat, +0.1%.

TASI Sector performance was mixed in 2016 with Energy being the best performing sector, +41.0%, driven by higher utility prices. The Petrochemical sector also performed strongly gaining +25.0%, driven by the increase in petrochemical prices and spreads. The hotels and media sectors were laggards, declining -44.0% and -23.5% respectively. Total net income for the Saudi stock market declined 5.3% YoY to SR94bn in 2016. The introduction of the QFI regime saw the market open up to foreign institutional investors in June 2015. Yet international investors represent a small proportion of Saudi trading values, through direct trading or swap agreements, given Saudi is not part of a bench mark index. The November 2016 MSCI review added 14 companies to the MSCI Saudi index and 7 companies to the MSCI Small Cap index taking the total number to 33 and 43 respectively. The 76 companies have a total market cap of SR 1,384bn, representing 84% of total market cap and this together with a relaxation in rules regarding QFI requirements is expected to lead to greater foreign investor interest in the TASI going forward. The TASI TTM P/E and P/B stands at 17.3x and 1.6x, respectively. This is a premium P/E to the historical 5-year average of 16.2x.

2. Financial Results

NCB Capital's consolidated operating income, for the year ended 31 December 2016 decreased by 16% from SAR 680 million in 2015 to SAR 573 million, mainly due to lower brokerage volumes. Overall expenses decreased by 4% from SAR 371 million in 2015 to SAR 355 million in 2016. The company ended the year with a net income before zakat attributable to parent of SAR 240 million against a net income of SAR 326 million in 2015. Total equity decreased from SAR 1,099 million in 2015 to SAR 1,019 million in the year 2016. The decrease in equity is mainly attributable to dividend of SAR 300 million which was approved by General Assembly in their meeting held on December 13, 2016.

Total assets for the year 2016 stood at SAR 1,267 million (SAR 1,731 million in 2015) with investments decreasing to SAR 760 million (SAR 847 million in 2015) and balances at banks of SAR 113 million (SAR 517 million in 2015).

3. Business Highlights

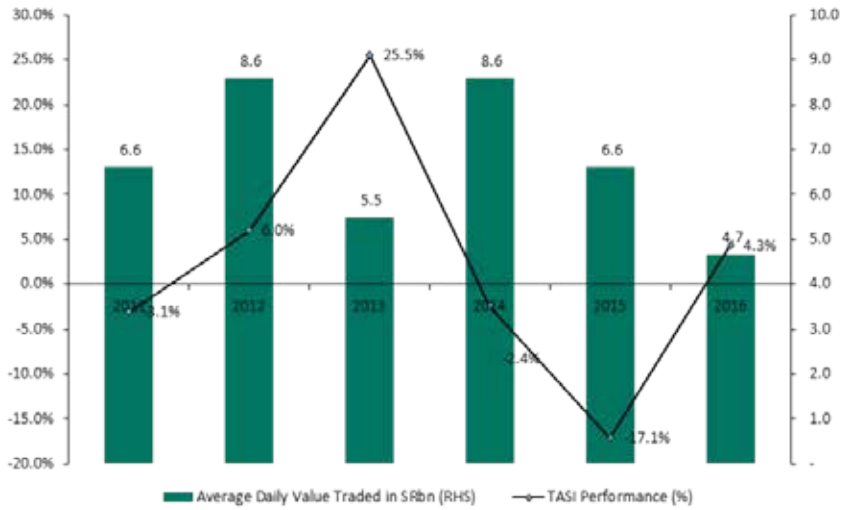
A. Securities

The Saudi stock market rose +4.3% in 2016, closing at 7,210 points. This is the first year of annual gains in three years, following declines of -17.1% in 2015 and -2.4% in 2014. The economy was impacted by several factors, which impacted the profitability of companies. These factors include the volatility of oil prices, the domestic liquidity situation, lowering of subsidies and cut in allowances for government employees.

In 2016, the total traded value in the market was SAR1,157 bn, down -31% YOY. The average daily value traded was SAR 4.7bn, significantly lower than SAR6.6bn in 2015. As a result, net operating revenue stood at SAR205mn, down -25% YOY. NCB Capital Securities increased its market share in 2016 to 12.21% from 11.31% in 2015.

NCB Capital executed approximately 8.3 million trades, which is the second largest number of trades in the market.

TASI Performance & Average Daily Value Traded*



* Tadawul

Annual Total Value Traded – 5 Year*

* Tadawul

B. Asset Management

Despite the arduous market environment of 2016, the Asset Management Division was buoyed by the positive momentum of 2015. On the back of the multi years transformation plan launched in 2014, a significant improvement in the performance across all classes of Asset Under Management have been witnessed. Subsequently, our Free Style Fund was ranked No.1 for 2016. Our Fixed Income & Money Market portfolios improved its performance, while maintaining its market share. The Multi-Asset platform has evolved into the largest Shariah-compliant index fund platform globally as a result of a 2-year restructuring process.

New Funds

NCB Capital launched two new public equity funds in 2016, the AlAhli Global Equity Fund and the AlAhli Multi Asset Income Plus Fund, and one new private fund, the AlAhli Makkah Hospitality Fund. These new funds further enhance our product offering to clients.

Assets Under Management (AUMs)

As of December 2016 NCB Capital was managing AUM/AUA amounting to SAR 114.6 billion as compared to SR 77.8 billion as of 31 December 2015.

D. Investment Banking

2016 has been another growth year for investment banking, with a highlight being the Joint Lead Manager role on the USD 17.5bn debut international bond issue by the Kingdom – then the largest emerging market bond sale in history. Moreover, in spite of significant head winds during the year, our sound investment in intellectual capital combined with our emphasis on long-term relationships and 'customer-first' philosophy has reinforced investment banking's leading position across product-lines.

4. Directors' and top six executives' remuneration

Item	Executive Members	Non-Executive / Independent Mebers (SAR Thousands)	Top 6 Executives (including the CEO and the Head of Finance) (SAR Million)
Salaries and compensations	200,000	1,200,000	5,955
Allowances	15,000	66,000	3,657
Regular and annual bonus	-	-	14,700
Incentive Scheme	-	-	7,77
Any compensation or other benefits in-kind paid monthly or annually	-	-	

5. Board of Directors and Board's Committees

A. Board of Directors:

The Board of NCB Capital consists of 6 members including two independent members appointed by the ordinary general assembly. The Board meets on a quarterly basis or more as it may deem necessary.

Name	Position / Classification	Other Board Memberships
Mansour S. Al Maiman	• Chairman • Non-Executive Member	• The National Commercial Bank (Saudi Arabia). • Saudi Sanabil (Saudi Arabia).
Sarah J. Al Suhaimi	• CEO • Executive Member	• Saudi Stock Exchanges (Tadawul). • NCB Capital DIFC Limited (Dubai). • BACO W.L.L (Bahrain).
Talal A. Al Khereiji	• Non-Executive Member	• None.
Hamed M. Fayez	• Non-Executive Member	• Saudi Arabia's Real Estate Development Fund.
Faisal M. Charara	• Independent member	• Carrier Saudi Service Company (Saudi Arabia) • Saudi National Insurance Company (Bahrain) • Wataniya Insurance Company (Saudi Arabia).
Marwan F. Al Fadl	• Independent member	• Wared Logistics (Saudi Arabia).

MEETING ATTENDANCE

Name	9 Feb	01 May	24 Jul	01 Nov	21 Dec	Total
Mansour S. Al Maiman	✔	✔	✔	✔	✔	5
Sarah J. Al Suhaimi	✔	✔	✔	✔	✔	5
Talal A. Al Khereiji	✔	✔	✔	✔	✔	5
Hamed M. Fayez	✔	✔	✔	✔	✔	5
Faisal M. Charara	-	✔	-	✔	-	2
Marwan F. Al Fadl	✔	✔	✔	✔	✔	5

Responsibilities:

- Establish, monitor, review and guide the strategy and policies of NCB Capital Group including approving the vision, mission, philosophy and guiding principles of NCB Capital Group.
- Approve the annual business plan and the budget as submitted by the CEO and monitor the performance including interim and annual results.
- Approve the overall performance objectives for NCB Capital Group and review progress against these objectives.
- Authorise major investments, capital expenditure, acquisitions and disposals that have not been included as a part of the annual budget.
- Monitor and manage potential conflicts of interest of management, Board members and shareholders, including misuse of corporate assets and abuse in related party transactions. The Board must take all reasonable steps to avoid actual, potential or perceived conflicts of interests within the NCB Capital Group

B. Audit Committee

The Audit Committee consists of 4 members, all non-executives including two independent members. The Committee meets on a quarterly basis or more as it may deem necessary.

Name	Members
Lama A. Ghazzaoui	Chairperson
Ahmed A. Jaber	Member
Marwan F. Al Fadl	Independent Member
Abdullah S. Al Anizi	Independent Member
Siba Khfaji*	Member

Responsibilities and Audit Committee Report:

- Oversee the work of the external auditor and approve all auditing and permitted non-audit services performed by external auditors.
- Evaluate the internal audit and compliance functions. The Head of Internal Audit and Compliance functions will functionally report to the Chairperson of the Audit Committee
- Have access to NCB Capital Group officers, Board members or officers of NCBC and its subsidiary companies, external auditors or outside counsel, including access to all relevant information, as necessary to carry out its activities.
- Ensure the adequacy of the resources available to carry out its activities.
- Establish procedures for dealing with concerns of employees regarding accounting, internal control and auditing.
- Financial Statements.
- Compliance and Anti Money Laundering (AML).
- Reporting responsibilities (to the Board of Directors).

The Management is responsible for establishing and maintaining an adequate and effective system of internal controls for implementing strategies and policies as approved by board of Directors. The system of internal controls is based on what management considers to be appropriate for the bank's activities, to the materiality of the financials and other risks inherent in those activities and to the relative costs and benefits of implementing specific controls. It is designed to manage rather than eliminate the risk of failure to achieve business objectives and, as such, provides reasonable, but not absolute, assurance against the material misstatement and loss. In addition, the board of directors has formed an audit committee, which periodically reviews the reports submitted by the Internal Audit (Audit reports)/external auditors (ML). Such reports also include the evaluation of the effectiveness or otherwise of the internal controls on the stipulated scope of work. In view of the above, we believe that the company has reasonably sound and effective system of internal controls in force, both in design and implementation. During the year, there have been no material observations in respect of effectiveness of internal control system and procedures of the company.

MEETING ATTENDANCE

Name	12 Jan	01 Mar	12 Apr	24 Apr	10 Aug	11 Oct	Total
Lama A. Ghazzaoui		✔	✔	✔	✔	✔	6
Ahmed A. Jaber		✔	✔	✔	✔	-	5
Marwan F. Al Fadl		-	✔	✔	✔	-	4
Abdullah S. Al Anizi		✔	✔	✔	✔	✔	6

C. Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of 4 members who meet twice a year or more as the case may be deemed necessary.

Name	Members
Abdulaziz A. Al Zaid	Chairman
Blaiheid N. Al Blaiheid	Member
Faisal M. Charara	Independent Member
Sarah J. Al Suhaimi	Member

Responsibilities:

- Develop NCB Capital's general compensation policy, after due discussion with the management and refer it to the Board for approval.
- Oversee the development and implementation of the compensation framework within the Company and its subsidiaries to ensure it is in line with various jurisdictional regulations.
- Approve the Board of Directors' remuneration and Board committees. If the Board is compensated as part of the dividends, the NRCOM to recommend to the Board and then to the General Assembly for approval in accordance with the Companies Regulations.
- Review and approve award recommendations for the NCB Capital Executive Trust.
- Approve NCB Capital representatives on the boards of directors of companies and establishments, both local and overseas, that are owned fully or partially by the Company.

MEETING ATTENDANCE

Name	07 Jan	07 Aug	03 Nov	Total
Abdulaziz A. Al Zaid	✔	✔	✔	3
Blaiheid N. Al Blaiheid	✔	✔	✔	3
Faisal M. Charara	✔	-	-	1
Sarah J. Al Suhaimi	✔	✔	✔	3

C. Risk Committee

In 2016, the Board established the Board Risk Committee ("BRC") which consists of 3 members who meet four times a year or more as the case may be deemed necessary.

Name	Members
Hamed M. Fayez	Chairman
Majed Hamdan Al Ghamdi	Member
Sarah J. Al Suhaimi	Member

Responsibilities:

- Annually review and recommend for Board approval risk management strategy, risk management policies, risk appetite and limits;
- Review and recommend for Board approval the implementation of the enterprise risk management framework and periodic updates as and when required;
- Annually review risk management structures and annual operating plans;
- Quarterly review of risk management reports incorporating operational risk, liquidity risk, credit risk, capital adequacy, margin trading reports, fiduciary risk and reputational risk and margin trading;
- Annually review and recommend for Board approval the ICAAP and quarterly review of capital adequacy monitoring;
- Review and recommend for Board approval risk framework and oversight of prop book management;
- Review and recommend for Board approval the margin trading program including funding, product programs and margin risk control framework

MEETING ATTENDANCE

As the Committee was established in November 2016, the Committee only met once in 2016.

Name	15 Nov	Total
Hamed M. Fayez	✔	1
Majed Hamdan Alghamdi	✔	1
Sarah J. Al Suhaimi	✔	1

6. Any contractual interest, securities and warrants that are beneficially owned by the directors in any of the Company's stocks or debt instruments

Mr. Hamed Fayez sold 35,000 shares in the Long Term Share Plan of NCB Capital.

7. Any business or contracts in which the Authorized Person is a party thereto and a director, the chief executive officer, or Head of Finance, or any related person has an interest therein

The board confirms that none of the members including the Chief Executive Officer and it's Head of Finance has any business or contracts to which NCB Capital is party.

8. Bank Borrowings

The board confirms that the company does not have any financing facilities from banks and other financial institutions.

9. Related Party Transactions and Balances

The Company has mainly related party transactions with The National Commercial Bank, Key management personnel and funds managed by the Company and for details please refer to note 17 of the financial statements.

10. Subsidiaries

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

*Some of the Subsidiaries are created by NCB Capital as Special Purpose Vehicles (SPVs) which don't have real commercial activities. Further details can be found in the Audited Financial Statements.
**Formerly known as Eastgate Capital Group Limited. The name has been changed to NCB Capital DIFC Limited on 29th of April, 2016.

11. Results of the Annual Audit for the effectiveness of the Internal Control Procedures of the Company

NCB Capital's Internal Audit is an independent function that assesses the Company's internal control structure, advises management on developing control solutions, and monitors the implementation of these measures.

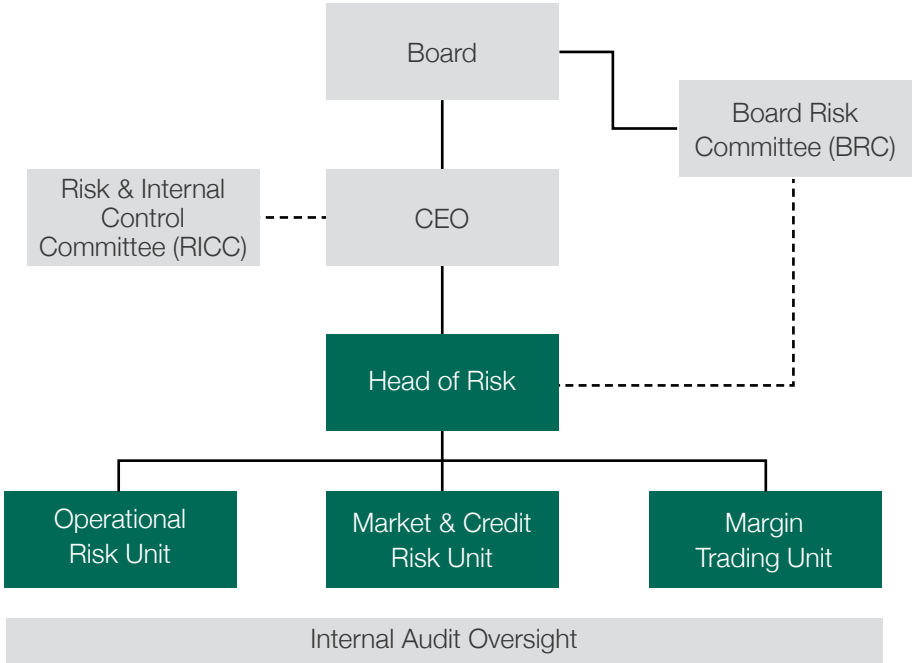
Internal Audit is mandated through Board Audit Committee's Annual Audit plan. It encompasses annual audit reviews, regulatory reviews, advisory engagements and constant follow-ups on issues highlighted during the audits to ensure satisfactory closure throughout the year. Internal Audit during 2016 completed and finalized the audits that were planned for 2016, with couple of exceptions that were highlighted to the Audit Committee. It was also successful in closing various long outstanding findings during the year. It also performed special reviews as directed by the CEO and/or senior management.

12. NCB Capital Risk Management

Risk Management is an integral function within NCB Capital and is responsible for the design, development and implementation of risk management process, policies and framework that caters for the identification, assessment, monitoring and control of market, credit, liquidity, fiduciary and operational risks arising from the business activities of NCBC across all its business lines and support functions. Risk management helps ensure that risk exposures do not become excessive relative to the Company's capital position and its financial position. In recognition of the importance of the risk management role, the company has a fully established Risk Management Department (RMD) headed by the Head of Risk Management who reports to the CEO.

Risk Management & Governance

NCB Capital management believes in robust risk governance and hence has instituted various management committees to manage not just risk, but various business and strategy issues affecting the overall risk profile of the company. RMD is a key part of the governance process, with the Head of Risk sitting in critical senior management committees. The Company's risk management structures are shown below:



Board Risk Committee

In 2016, NCBC Board approved the formation of a Board Risk committee ("the Board Risk Committee" or "BRC") to assist the Board in discharging its risk management oversight. The Board established the committee in recognition of its obligations to ensure proper Board risk management oversight and alignment of risk governance, risk appetite, and overall capital management. Members of the Board Risk Committee are appointed by the Board. The Head of Risk is not a member of the Board Risk Committee, but an invitee. The committee meets at a minimum four times in a year.

Risk Policies and Limits

NCBC has established risk policies and limits to monitor risks across various businesses and at the Company level as a whole. Risk limits are thresholds to monitor that actual risk exposure does not deviate from the Company's risk appetite. Exceeding risk limits typically acts as a trigger for management action. In addition to the above, all NCBC business and support functions operate on the basis of approved Standard Operating Procedures (SOPs) which are reviewed periodically.

Counterparty Credit Risk Management

To manage counterparty credit risk, NCB Capital operates within the framework of approved counterparty limits for all lines of business. This includes periodic review of counterparties, brokers and investment guidelines. Credit guidelines at NCBC ensure that limits are approved for only those counterparties that meet the appropriate credit criteria and credit review. Any credit risk mitigation related transaction comes under purview of Risk Management Department. The limit framework is supported by active daily limit monitoring by the Risk Management Department with periodic reporting to the Risk Committees and Fund Boards.

Market Risk Management

NCB Capital is exposed to market risk on its proprietary investment portfolio in the form of interest rate risk, foreign exchange risk and equity price risk. On proprietary investments, the company has an approved proprietary investment framework including board approved exposure limits to various asset classes, which limits risk exposure to the level of approved risk appetite. These exposure limits are monitored independently by the Risk Management Department. Further to the above, the company has detailed risk policies on the management of market risk.

Fiduciary Risk – Mutual Funds

NCB Capital manages significant volumes of client assets on both mutual funds and on a discretionary basis. All NCBC funds are managed according to approved investment guidelines and risk exposure limits. From an investment perspective, the money market mutual funds carry a relatively low level of market risk due to their liquid nature as they consist mainly of liquid Murabaha deposits placed with highly rated financial institutions. These are short term in nature which makes them mostly immune to changes in interest rates and therefore they are neither subject to significant market price risk nor to commodity risk. The Sukuk allocation of these funds remains relatively moderate and is driven by yield and duration management purposes. Among available measures, Risk Management reviews and monitors a set of indicators such as the weighted average maturity of the funds, maturity distributions, exposure and concentration to issuers, groups of issuers and economic sectors.

On the other hand, equity funds, when compared to money market and fixed income funds, are exposed to market volatility through equity price risk. This risk is managed through having defined asset allocation strategies and investment guidelines for the funds. From a governance perspective, NCB Capital has two Fund Boards with a mandate of providing oversight on Equity Funds and Fixed Income funds separately.

Fiduciary Risk – Discretionary Portfolios (DPMs)

All discretionary portfolios are managed according to the approved investment mandates and investment policy statement. Limits and restrictions on discretionary portfolios are monitored daily, independently by the Risk Management Department using automated software.

Liquidity Risk

Effective liquidity risk management helps to ensure the Company's ability to meet its cash flow obligations and in maintaining diverse funding sources to support the business. Often, liquidity risk arises due to structural mismatches in the maturity pattern of assets and liabilities. NCBC's liquidity management strategy is characterized by the following elements:

i. Board approved exposure guidelines requiring a significant portion of the proprietary investments to be in liquid form;
ii. On client fiduciary portfolios and funds, liquidity risk managed through approved liquidity guidelines, limits, instruments, restrictions on remaining maturity and weighted maturity for money market and fixed income funds;
iii. Preserving the liquidity and security of cash by investing in NCBC's own money market funds or, alternatively, only with approved counterparties using short-term deposits or murabahas;
iv. Investment of cash in highly rated counterparties, whose credit rating and condition are actively monitored independently by the Risk Management Department;
v. The company relies on internal operating cash flows and capital as the key sources of funds on a going-concern basis. Should severe liquidity scenarios materialize, reserves or intra-group facilities are available.

Operational Risk

The Company considers breakdowns in internal controls and corporate governance as the most important aspect of Operational risk as such breakdowns can lead to financial losses through error, fraud, or failure to perform in a timely manner. The Company recognizes that good management information systems (MIS), a strong internal control culture, and contingency planning are all crucial elements of effective operational risk management and takes measures to continually develop procedures and systems to support such requirements. Operational risks are reviewed continuously to update risk profiles and ensure that internal controls are proactively realigned to mitigate emerging risks. Individual line managers are responsible for identifying and assessing the operational risks of their area; this process is supported by the Head of Risk.

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

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

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

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

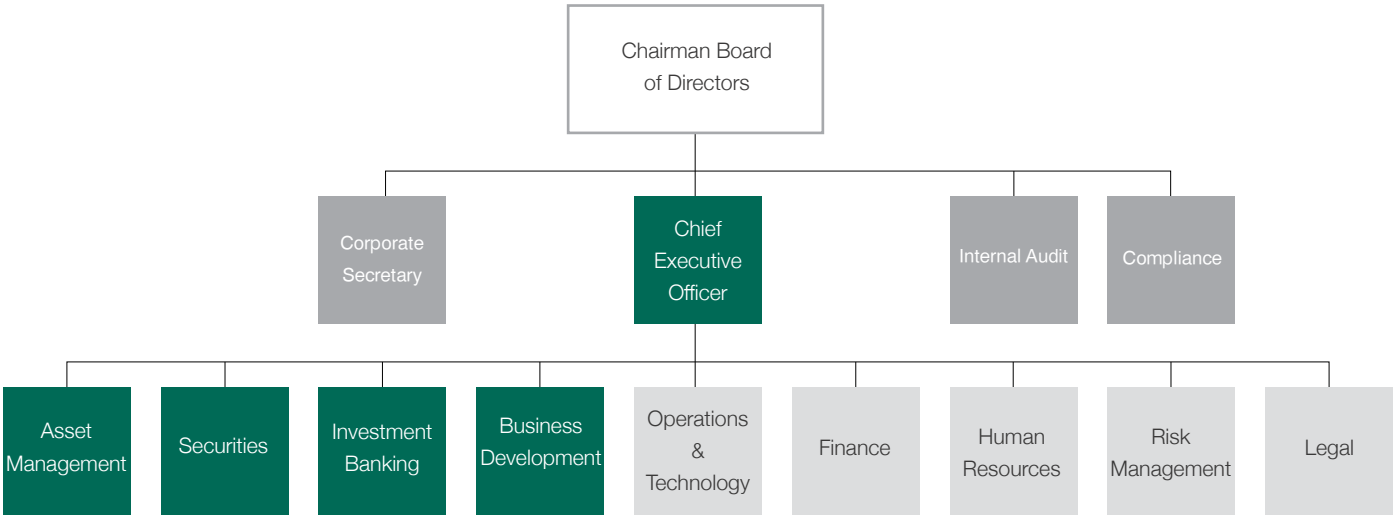
Business Continuity Management

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

13. Staff

The Company's staffing by the end of December 2016 stood at 273 employees with a Saudization rate of 82.5%.

With the goal of focusing our commercial efforts and resources, and becoming a leaner and more efficient company, we made changes to Wealth & Asset Management division, Securities Division, and Operations & Technology Division.



14. Fines and Penalties

The Company was subjected to penalty amounting to SAR 10,000 in 2016.

The Board of Directors takes this opportunity to express its appreciation and gratitude to NCBC's customers, correspondents, shareholders and staff for their support during 2016. The Board also extends its thanks to the Capital Market Authority for their support of all that contributes to the development of the investment banking sector. The results are reflected in the economic growth of the Kingdom of Saudi Arabia, under the guidance and direction of the Custodian of the Two Holy Mosques, His Royal Highness the Crown Prince and the Second Deputy Premier.

May the peace, mercy and blessings of Allah be upon you.

Board of Directors