

2017 Board of Director's Report



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1. Economic Update

Global review


2017 was very positive for global equity markets, with the MSCI World and MSCI G7 indices both gaining +20%. Emerging and Frontier markets saw even stronger gains (MSCI EM +34%, MSCI FM +24%). Global GDP growth was 3.7% in 2017, higher than the 3.4% forecast at the beginning of the year and higher than the 3.1% seen in 2016. The first year of the Trump presidency, resulted in a lot of news flow and rhetoric but limited political action. The US economy continues to perform well, and this was reflected in strong equity market performance in 2017. This performance has resulted in rich asset valuations in some markets, driven in part by cheap funding. Valuation levels and Fed interest rate hikes are expected to result in the return of volatility, not only in the US but also globally, which was particularly benign in 2017. US tax cuts, in part mitigating higher financing costs, should be positive for US domestic growth through to 2020, with higher domestic consumption leading to increased imports, and hence positive for US trading partners.

Euro area growth accelerated to 2.4% in 2017, but is expected to witness moderate growth 2.3% and 2.0% in 2018 and 2019. Politics, in the form of Brexit negotiations, a shaky German coalition and elections in Italy, are areas of concern in Europe. Yet Europe PMIs indicate healthy order books and sentiment. Chinese GDP growth is estimated at 6.8% for 2017 and is expected to remain strong at 6.6% in 2018. Excessive credit in China remains a concern. Indian GDP growth was similar to that of China in 2017 at 6.7%, but is expected to accelerate at a faster pace in 2018 and 2019 with growth of 7.4% and 7.8%. MENAP GDP growth decelerated to 2.5% in 2017 against 4.9% in 2016, but is expected to pick up again to 3.6% in 2018 and 3.5% in 2019, although still below the rates of emerging Asia of 6.6% and 6.4% over the same time period. Global GDP growth has been accelerating since mid-2016, and is expected to further accelerate in 2018 and 2019 to 3.9%, based on the IMF's latest forecasts. This, together with increasing trade flows, could in turn lead to an upward earnings revision, mitigating some of the valuation concerns. The risk to this scenario is a more aggressive US trade policy, which could lead to a rise in protectionism. The US stance may be tempered by Senate and Congress elections towards the end of the year.

Saudi Macro

After eight consecutive years of real GDP growth, the Saudi economy contracted by -0.5% in 2017 (+1.4% in 2016) impacted by low oil prices, fiscal consolidation and reforms. For 2018 and beyond Saudi will continue to pursue an economic reform agenda, driven by Vision 2030, the National Transformation Plan and Fiscal Balance Plan. These have resulted in subsidy reforms, introduction of excise duties and VAT, as well as Expat and Dependent levies to boost government revenues. The fiscal impact will be mitigated by the launch of the Citizens Account, Private Sector Stimulus Program, together with additional allowance programs that will benefit an estimated 5mn Saudi citizens. The government has also launched several mega projects, which will support Vision 2030 objectives, namely diversifying the economy, increasing Hajj and Umrah pilgrims, growing domestic and international tourism and enhancing domestic entertainment options.

Saudi's fiscal revenue increased +33.8% YoY in 2017 to SR696bn, slightly above the budgeted amount of SR692bn. The growth in fiscal revenue was mainly driven by strong growth of +32% YoY in oil revenue. Oil prices increased +20% YoY to US\$54/bbl supported by the agreement between OPEC and leading non-OPEC countries to cut production. Non-oil revenues reported their highest level on record, growing +34% YoY to SR256bn. This is driven by the introduction of expat levy, excise tax and the upward revision of other government fees. Fiscal expenditure reached SR926bn in 2017, an increase of +11.6% YoY and +4% higher than the budgeted amount. The difference is mainly due to higher than expected spending on military and education by +17.4% and +13.8%, respectively. Spending on education represented 25% of the total expenditure, followed by military and healthcare with 24% and 14% respectively. The total deficit stood at SR230bn in 2017, 8.9% of GDP. This is compared to 2016 fiscal deficit of SR311bn or 12.8% of GDP. Nevertheless, 2017 actual deficit was higher than the forecasted deficit of SR198bn due to higher than expected expenditure.



The government continued to issue sukuk/ bonds to finance the fiscal deficit. According to Ministry of Finance, the government raised SR134bn from local and international bond issuances, taking the total public debt to SR438bn in 2017 or 17% of GDP, compared to SR317bn in 2016 (13% of GDP). The Ministry of Finance expects GDP to grow by 2.7% in 2018 vs -0.5% in 2017, while the unemployment rate is expected to decline to 12.0% in 2018 vs 12.3% in 2017.

Oil

OPEC and non-OPEC countries in May 2017 agreed to extend the oil supply cut agreement through to 1Q18 and followed it up, in November 2017, with further extension till year end 2018. The oil market is tightening, with a drawdown in global crude oil inventories. OECD oil inventories declined to 1,486mn barrels in November 2017, from a high of 1,563mn barrels in May 2016. At the same time, US crude oil inventories are also declining and reached 418mn barrels by January 2018 from a high of 536mn barrels in March 2017, despite rising US production and exports, as OPEC members reduced export to the US. In total, global inventories declined by 0.52mn b/d in 2017 and are expected to grow at a modest pace by 0.2mn b/d in 2018 and 0.22mn b/d in 2019, factoring in OPEC cut extension until end of 2018. EIA estimates that OPEC crude oil production will decline by 0.1% to 32.4mn b/d in 2018 and increase at a modest pace by 0.8% to 32.7mn b/d in 2019. With more synchronized global growth outlook demand is expected to increase in 2018 to 100mn b/d. PMIs are excellent leading proxies for oil prices and are sending positive signals, with the January 2018 US ISM at a robust level of 59.1, close to its 13-year high, and January 2018 Eurozone Manufacturing PMI at 59.6, close to previous month's record high of 60.6. Strong demand from emerging markets is positive for demand and also help in reducing the inventory overhang. The high level of compliance by OPEC and non-OPEC producers, along with declining inventories, has supported oil prices with Brent moving above US\$60/bbl. At the last OPEC meeting In November 2017 the cuts were extended to year end 2018, which should turn a potential inventory buildup in 2018 into a further drawdown.

Saudi Banks

Net income of Saudi banks grew 8.2% in 2017 to SR43.7bn (based on SAMA's January 2018 monthly report). The growth is largely driven by an increase in net special commission income (NSCI), as banks held asset yields steady, even as cost of funds eased following improvement in domestic liquidity. Net income growth in 2018 is expected to be driven by Net Interest Margin (NIM) expansion. SAMA is expected to follow US Fed rate hikes (Fed guidance for at least 3 hikes in 2018) as part of its monetary policy, thereby exerting upward pressure on SAIBOR, which in turn feeds into NIM expansion. Loans and advances declined -1.1% YoY to SR1,378bn in FY17, reflecting slowdown in government expenditure and sluggish demand for corporate credit. Despite improved domestic liquidity, customer deposits declined -0.7% YoY to SR1,664bn in FY17, attributable to significant drop in time deposits, -6.5% YoY. This resulted in loan/deposit ratio dropping to 82.8% in FY17 from 83.2% in FY16. We expect loan growth to pick up in 2018 and rise further thereafter, driven by higher government spending, oil price recovery and improvement in GDP growth. Balance sheet metrics remain strong despite slowdown in the domestic economy. As of FY17, sector NPL and provision coverage ratios stood at 1.4% and 162% respectively, while Tier I and Capital adequacy ratios stood at 18.4% and 20.4% respectively. We expect provisions to rise in the near-term due to the transition to IFRS 9, however, this should be manageable with the rise in NSCI.

Saudi and Regional Markets

Despite the strong performance of the global markets, the Saudi market traded within a narrow range in 2017, ending the year unchanged at 7,226. TASI reached a high of 7,493 points in July 2017, driven by the inclusion in the MSCI Emerging Markets watch-list, while the lowest point was recorded in November 2017 reaching 6,778 points. This performance is due to the transitional phase that the Saudi economy is in and is a continuation of muted performance since 2014. TASI increased +4.3% in 2016, following on from declines of -17.1% in 2015 and -2.4% in 2014. Potential inclusion of Saudi in the Emerging Market indices of MSCI and FTSE is likely to increase trading volumes. In addition Tadawul and the Capital Markets Authority (CMA) have taken an active approach in listening to foreign investors' concerns and proactively addressing those concerns.



To this end, Saudi has revised QFI regulations, reducing the AUMs required to qualify as a QFI to US\$500mn from an original USD5bn, as well as streamlining the overall application process. Saudi recently moved from same day settlement to a T+2 settlement cycle on stock trades, to bring it in line with international markets. In addition Tadawul has moved to an independent custody model. We believe these actions will help in increasing the number of qualified foreign investors (QFIs) currently registered. In January 2017, Tadawul also adopted the Global Industry Classification standard (GICS) to reclassify its sectors to closely align a company's business and source of revenues to its sector classification, making cross market comparisons easier. However, the decline in market liquidity was a concern. The average daily trading value stood at SR3.3bn, down -27% YoY, and the lowest level since 2010. Only five sectors showed gains in 2017, with Media being the best performer (+51.1%). The Retailing sector also performed strongly (+14.7%), whilst the Pharmaceuticals and Consumer Services sectors were the worst performers, declining -26.2% and -23.7% respectively. The top performing stocks were Dar Al Arkan (+134%), SRMG (+75%) and AlJazira REIT (+60%), whilst the worst performing stocks were MedGulf (-59%), Southern Cement (-41%) and Mobily (-38%). Regionally, Kuwait was the top performer in the GCC, gaining +11.5%, followed by Bahrain (+9.1%), while Qatar, Dubai and Abu Dhabi recorded declines of -18.3%, -4.6% and -3.3%, respectively.

2. Financial Results

NCB Capital's consolidated operating income, for the year ended 31 December 2017 increased by 11% from SR 582mn in 2016 to SR 648mn, mainly due to higher Asset Management Revenue. Overall expenses were in line with budgeted SR 357mn. The company ended the year with a net income after zakat of SR 270mn against a net income of SR 220mn in 2016. Total equity decreased slightly from SR 1,019mn in 2016 to SR 1,006mn in the year 2017.

Total assets for the year 2017 stood at SR 1,301mn (SR 1,264mn in 2016) with investments decreasing to SR 769mn (SR 858mn in 2016) and balances at banks of SR 150mn (SR 113mn in 2016).

3. Business Highlights

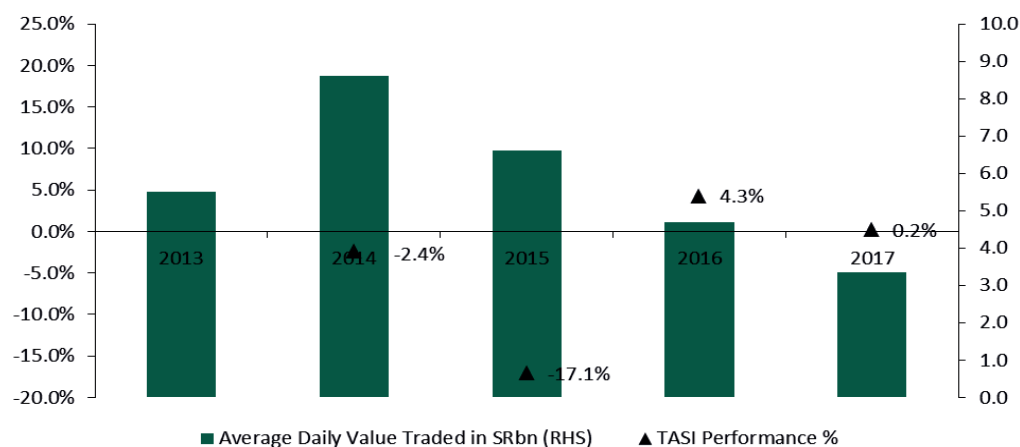
A. Securities

The Saudi market traded in a narrow range in 2017, ending the year unchanged at 7,226. This is due to the transitional phase that the Saudi economy is in and is a continuation of muted performance since 2014. TASI increased +4.3% in 2016, following declines of -17.1% in 2015 and -2.4% in 2014

In 2017, the total traded value in the market was SR1,676 bn, down -27.56% YOY. The average daily value traded was SR 3.35bn, significantly lower than SR4.64bn in 2016. As a result, net operating revenue stood at SR150 mn, down -26% YOY. NCB Capital Securities market share decreased in 2017 to 11.83% from 12.21% in 2016.

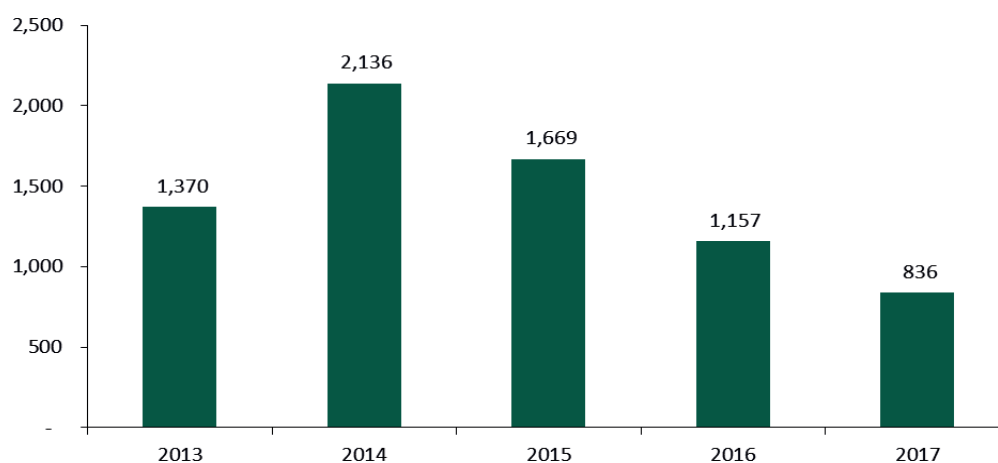
NCB Capital executed approximately 6.7mn trades, which is the second largest number of trades in the market.

TASI Performance & Average Daily Value Traded*



*Source: Tadawul

Annual Total Value Traded – 5 Year*



*Source: Tadawul

B. Asset Management

Thanks to the multi years transformation plan launched in 2014, an improved performance sustained across all classes of Assets under Management. Two of our equity funds, AIAhli GCC Growth & Income Fund and AIAhli Saudi Mid & Small Cap Fund returned first quartile. Our Fixed Income & Money Market portfolios further improved their performance with AIAhli USD Sukuk Fund and AIAhli Diversified USD Fund achieving first quartile standings. The international equity platform has further consolidated its offerings by launching the largest group of Shariah-compliant index funds globally and the first Shariah-complaint Global REITs fund. The Multi-Asset platform has improved its performance significantly where three of its funds, AIAhli Multi-Asset Conservative Fund, AIAhli Multi-Asset Moderate Fund and AIAhli Multi-Asset Growth Fund stood first quartile at year end.

New Funds

NCB Capital launched one new public fund in 2017, the AIAhli Fund of REITs Fund. This was the first of its kind offerings in the local market and is likely to offer the first mover advantage to the firm in future.

Assets Under Management (AUMs)

As of December 2017 NCB Capital was managing AUM/AUA amounting to SR 123.3bn as compared to SR 114.6bn as of 31 December 2016.

D. Investment Banking

Investment banking had one of its best years in 2017 with a string of exceptional mandates, once again highlighting how an unrelenting focus on our client's needs while operating efficiently to nimbly pursue potential opportunities always pays rich dividends. Despite the challenging operating environment, our consistent commitment to being a diversified and dependable provider of services has further reinforced NCBC as the leading 'go-to' franchise for any investment banking business in the Kingdom and the wider GCC market.

4. Directors' and top six executives' remuneration

Item	Executive Members (SR)	Non-Executive / Independent Mebers (SR)	Top 5 Executives (including the CEO and the Head of Finance) (SR)
Salaries and compensations	336,000	1,602,000	5,152,128
Allowances	-	-	3,136,068
Regular and annual bonus	-	-	17,581,000
Incentive Scheme	-	-	9,883,540
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	<ul style="list-style-type: none"> Chairman Non-Executive Member 	<ul style="list-style-type: none"> The National Commercial Bank (Saudi Arabia). Saudi Sanabil (Saudi Arabia).
Sarah J. Al Suhaimi	<ul style="list-style-type: none"> CEO Executive Member 	<ul style="list-style-type: none"> Saudi Stock Exchanges (Tadawul). NCB Capital DIFC Limited (Dubai). BACO W.L.L (Bahrain).
Talal A. Al Khareiji	<ul style="list-style-type: none"> Non-Executive Member 	<ul style="list-style-type: none"> None.
Hamed M. Fayez	<ul style="list-style-type: none"> Non-Executive Member 	<ul style="list-style-type: none"> Saudi Arabia's Real Estate Development Fund. Inmaa Al Ruaya Saudi Arabia's Falcon Club
Faisal M. Charara	<ul style="list-style-type: none"> Independent member 	<ul style="list-style-type: none"> Carrier Saudi Service Company (Saudi Arabia) Saudi National Insurance Company (Bahrain) Wataniya Insurance Company (Saudi Arabia).
Marwan F. Al Fadl	<ul style="list-style-type: none"> Independent member 	<ul style="list-style-type: none"> Wared Logistics (Saudi Arabia).

MEETING ATTENDANCE

Name	14 Feb	04 June	02 Aug	03 Oct	25 Dec	Total
Mansour S. Al Maiman	✓	✓	✓	✓	✓	5
Sarah J. Al Suhaimi	✓	✓	✓	✓	✓	5
Talal A. Al Khareiji	✓	✓	✓	✓	✓	5
Hamed M. Fayez	✓	✓	✓	✓	✓	5
Faisal M. Charara	✓	✓	✓	✓	-	4
Marwan F. Al Fadl	✓	✓	✓	✓	✓	5

The Board of directors has the widest Authority in managing the affairs and business of the company within and outside of the kingdom and their responsibilities include:

- Establish, monitor, review and guide the strategy and policies of NCB Capital Group including approving the vision, mission, and 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 5 members, all non-executives including three independent members. The Committee meets on a quarterly basis or more as it may deem necessary.

Name	Members
Lama A. Ghazzaoui	Chairperson
Siba Khafaji	Member
Marwan F. Al Fadl	Independent Member
Abdullah S. Al Anizi	Independent Member
Abdulaziz AlBabtain*	Independent Member

*Mr. Abdulaziz Albabtain was appointed on Feb 14, 2017

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	18 Jan	21 Mar	07 May	03 Aug	09 Nov	Total
Lama A. Ghazzaoui	✓	✓	✓	✓	✓	5
Siba Khafaji	✓	✓	✓	✓	✓	5
Marwan F. Al Fadl	-	✓	-	✓	✓	3
Abdullah S. Al Anizi	✓	✓	✓	✓	✓	5
Abdulaziz AlBabtain	-	✓	✓	✓	✓	4

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	05 Jan	23 Aug	Total
Abdulaziz A. Al Zaid	✓	✓	2
Blaiheid N. Al Blaiheid	✓	✓	2
Faisal M. Charara	✓	✓	2
Sarah J. Al Suhaimi	✓	✓	2

C. Risk Committee

The Board Risk Committee consists of 3 members who meet four times a year or more as 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

Name	07 Feb	22 March	25 May	06 Aug	14 Nov	Total
Hamed M. Fayez	✓	✓	✓	✓	✓	5
Majed Hamdan Alghamdi	✓	✓	✓	✓	✓	5
Sarah J. Al Suhaimi	✓	✓	✓	✓	✓	5

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

The Board confirms that none of the directors own any contractual interest, securities and warrants in any of the company's stocks or debt instruments.

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 NCB Capital 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 SR	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.

** NCBC Investment Management Umbrella Company plc is currently under liquidation.

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.

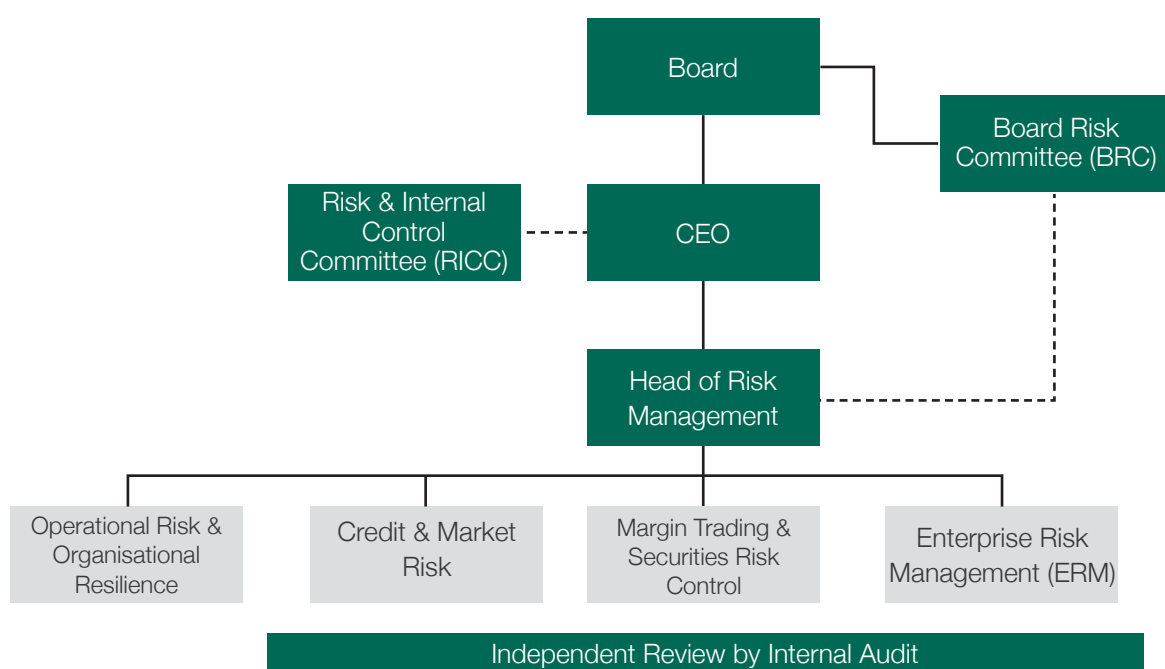
Internal Audit is mandated through Board Audit Committee's Annual Audit plan. It encompasses annual audit reviews, regulatory reviews, advisory engagements and constant follow-ups on issues highlighted during the audits to ensure satisfactory closure throughout the year. Internal Audit during 2017 completed and finalized the audits that were planned for 2017, 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 processes, 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 under the oversight of the Board Risk Committee.

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. The 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

The Board Risk Committee assists the Board in discharging its responsibility for risk management oversight. The Committee ensures 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. In 2017, management established a new Fiduciary Committee, to provide oversight on delivery of the client fiduciary obligations on a firm-wide basis. In terms of membership, the Committee is composed of the Heads of Legal, Finance, Risk, and Compliance. 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 discretionary portfolios and funds managed by the Company, 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;

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.

Enterprise Risk Management (ERM)

In 2017, the BRC made a decision to strengthen the risk framework by establishing an ERM function within Risk Management. Resourcing for this function is still on-going.

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 2017, the company made some restructuring by merging the former Operational Excellence unit, with the Operational Risk unit resulting in a combined Operational Risk and Organizational Resilience unit that functionally supports Operational Risk, Business Continuity Management (BCM), Policies and Procures and Service Level Agreements monitoring.

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.

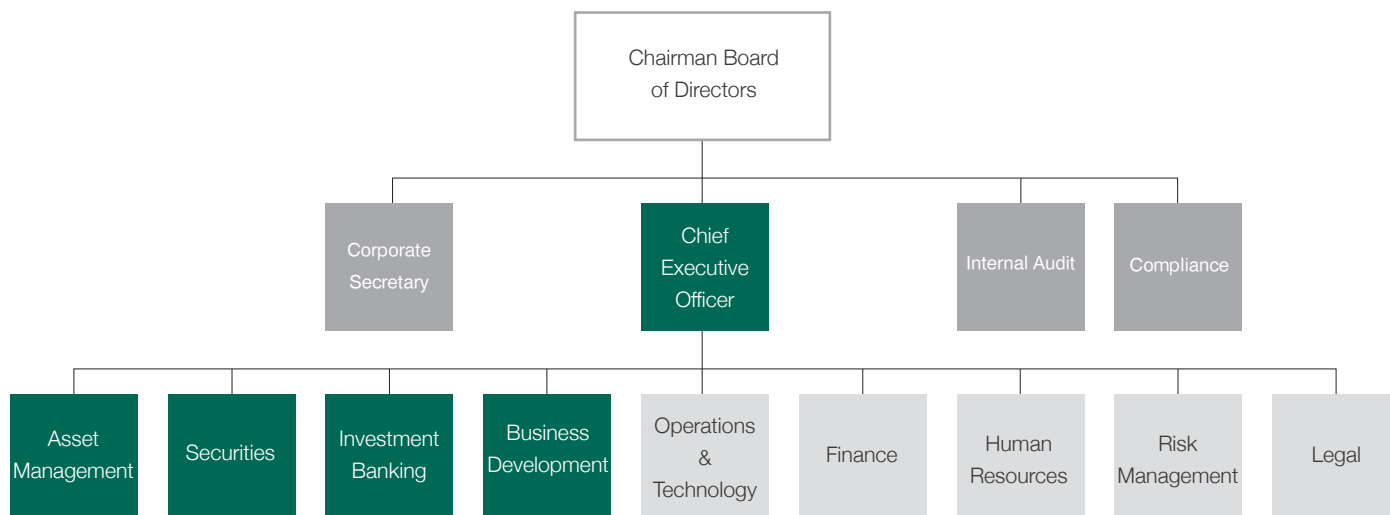
Business Continuity Management

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.

13. Staff

The Company and its subsidiaries' staffing by the end of December 2017 stood at 297 employees with a Saudization rate of 88%.

With the goal of further improving efficiency, accountability and increasing capacity to achieve the organization's strategic and business goals, we made structural changes in Operations & Technology Division.



14. Fines and Penalties

The Company was subjected to a penalty by the Capital Market Authority amounting to SR 10,000 in 2017.

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 2017. 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 and His Royal Highness the Crown Prince.

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

Board of Directors