NCB الأهلي

BOARD OF DIRECTORS' REPORT 2019

Contents

THE BOARD OF DIRECTORS OF THE NATIONAL COMMERCIAL BANK IS PLEASED TO PRESENT ITS ANNUAL REPORT FOR 2019. THE REPORT COVERS THE YEAR'S PERFORMANCE, ACHIEVEMENTS, AND CONSOLIDATED FINANCIAL STATEMENTS, AS WELL AS THE BUSINESS ACTIVITIES OF THE BANK, ITS SUBSIDIARIES, AND AFFILIATED COMPANIES.

1. MAIN ACTIVITIES

The Bank's activities cover five operating segments that constitute its strategic businesses. These provide diverse banking products and services, as well as Shariah-compliant products, not related to special commissions, approved and supervised by an independent Shariah Board. The activities are independently managed through an effective organizational structure and internal reporting.

Retail Banking: Provides banking services to individuals and private banking customers, including financing and current accounts, as well as products in compliance with Islamic Shariah. These products are supervised by NCB's independent Shariah Board.

Corporate Banking: Provides banking services to corporates and small and medium-sized businesses, and Shariah-compliant financing products, including cash management and trading services, as well as conventional credit products.

Treasury: Provides all treasury and correspondent banking products and services, including money market and foreign exchange, to the Group's customers. Treasury also conducts investment and trading activities (locally and internationally).

Capital Market: Provides wealth management, asset management, investment banking, and share brokerage services (local, regional, and international).

International Banking: Comprises banking services provided outside Saudi Arabia, including Türkiye Finans Katılım Bankası.

2. KEY EVENTS AND ACHIEVEMENTS

2019 was another very successful year for NCB, during which it grew its leadership in the Saudi banking sector. The Bank achieved record annual profits for the seventh consecutive year, up 19% to SAR 11.4 billion after Zakat and income tax, while safeguarding NCB's strong credit ratings, and – above all – continuing to deliver for its customers. This was the result of meeting targets in all business lines, supported by ongoing enhancements in the digital technology and physical network of the Bank while extending cost saving productivity gains, focusing on customer care, and continuing to attract and develop top talent. In 2019, NCB made very tangible progress against its strategic priorities.

Retail Banking recorded 57% growth in its residential finance portfolio, along with solid growth rates across other financing portfolios and services. Cost efficiencies and improvements in customer experience were achieved through automation of productivity initiatives, digital migration of services and sales channels, and ongoing expansion of the distribution network. Retail Banking added 33 'lean' branches, equipped with the latest technology, along with increased migration to digital sales. Combined, these efforts increased Retail profitability by 32%, while reducing operating costs and increasing customer convenience and satisfaction.

Corporate Banking continued to support Saudi Arabia's Vision 2030 by delivering robust origination, particularly in the Vision's sectors of focus including healthcare, education, infrastructure, recreation and tourism. NCB remained the market leader in MSME banking, and also leveraged its distinct capabilities in specialized finance solutions to grow in the large corporate segment. Productivity and digitization initiatives expanded the customer offering while reducing costs, with digital penetration rising from 54% in 2018 to more than 64% in 2019. Cross-selling initiatives and diligent cost-of-risk management within Corporate Banking contributed to a 21% increase in net income.

NCB's Treasury Group carefully managed its high-quality, liquid portfolio while leveraging market opportunities to grow investment returns 175% year on year. Treasury Group also expanded NCB's role as a primary dealer in Saudi Government local Sukuk issuances with a SAR 69 billion SGB portfolio. On the Bank's continental hubs strategy, Treasury secured a wholesale banking license in Singapore and executed its first transaction there in October.

NCB Capital, Saudi Arabia's largest investment bank and asset manager, grew its net income 22% in 2019 on higher revenues and improved operating efficiency. The firm's most notable achievements for the year include: NCB Capital's appointment as a joint global coordinator, book runner, and underwriter for the world's largest initial public offering, the SAR 110.4 billion sale of shares in Saudi Aramco; the successful launch of NCB Capital Real Estate Trust LP and expansion of the AlAhli REIT Fund 1; and being ranked second in the Kingdom's evolving brokerage sector – up from third place in 2018.

Shariah-compliant Türkiye Finans Katılım Bankası (TFKB) remained a well-positioned Turkish participation bank offering Shariah-compliant banking services in a large regional market. The Turkish operating environment in 2019 was marked by foreign currency volatility, ongoing inflationary pressures, and elevated cost of risk from regulatory action. Despite the challenging operating environment, TFKB delivered strong deposit growth to effectively manage funding costs and maintained robust capitalization and liquidity.

Digitization and technology continued to be a primary focus for the entire NCB Group, expanding banking services to be faster and more convenient. Expanded functionalities drove digital sales penetration, increasing from 28% to 51% year on year. Retail digital account opening reached 71%, and only 2.2% of financial transactions took place in branches in 2019. Ongoing investment in IT infrastructure and data analytics improved cost-efficiency and helped reduce turn-around times.

The 33 smart branches added in 2019 brought the total to 434 without a corresponding increase in headcount. Under the Bank's 'lean branch' strategy this was executed with the introduction of more technology and self-service options, thereby increasing speed, availability, and convenience of banking services, while reducing operating costs. These new branches complement NCB's leading digital and mobile banking options, while increasing coverage in the areas of highest growth and demand.

Productivity gains were made in many of the Bank's back office processes. Through the use of 55 bots across operations, customer account management and payments operations, the Bank has leveraged robotics process automation to deepen efficiency gains by increasing speed, accuracy, and cost savings of processes. Increased focus on customer care, with a significant overhaul within the related governance and processes, improved service and the customer experience. These combined efforts led to a significant improvement in service quality and resolution turn-around time, while also improving the cost to income ratio to 30.7%.

Investing in human capital to harness the hard work, leadership, creativity and cooperative spirit of NCB's deep talent pool of professionals remained a key area of focus. The Bank continued to invest in the recruitment, development, and retention of the young Saudi talents and further strengthened its programs specially designed to train the leaders of tomorrow. Saudization reached 97.6% and 20.5% of new hires were female, increasing their participation in the workforce to 13.5%. In line with the aspiration to be the Employer of Choice, NCB continued to invest in the positive engagement and wellbeing of staff.

Building on a long history of profound social impact, NCB's Corporate Responsibility continued its achievements through Ahalina programs to empower different segments of the community. In 2019, 866 women in various cities were trained in a set of crafts and handicrafts under the Productive Families and Craft Training Program; financing totaling SAR 13,825,500 million was provided to more than 3,509 productive family recipients; and extensive support was provided to male and female entrepreneurs through Fintech and Social Leadership accelerators, with 10 teams graduating from each. NCB employees took part in a range of volunteer programs, including providing pro bono professional services, for a total of 3,600 volunteering hours from 942 participants. NCB sponsorship and donation allocations totaled SAR 67.75 million across various social activities.

3. FINANCIAL RESULTS

The Bank continued to increase annual profits, successfully implementing a range of initiatives to meet its strategic aspirations, satisfy shareholders' expectations, and fulfill the needs of customers and employees. At the same time, NCB has maintained its leadership of the Saudi banking sector and its ability to manage risks effectively. NCB achieved net profits of SAR 11.40 billion for shareholders in 2019, after Zakat and income tax, compared to SAR 9.59 billion in 2018 – an increase of SAR 1.81 billion and a growth rate of 19%. Earnings per share after Zakat and income tax reached SAR 3.68, up from SAR 3.08 the previous year.

Net special commission income increased by 4.5% to SAR 15.81 billion, up from the previous year's SAR 15.12 billion. Total operating income rose by 8.9% to SAR 20.61 billion from SAR 18.93 billion, while total operating expenses dropped by 4.1% from SAR 8,082 million to SAR 7,751 million.

The Bank's assets increased by 12.2% from SAR 452 billion to SAR 507 billion. The financing and advances portfolio increased by 6.5% from SAR 265 billion to SAR 282 billion. Investments increased by 13.5% from SAR 118 billion to SAR 134 billion, and customers' deposits by 10.9% from SAR 319 billion to SAR 353 billion.

NCB's financial results over the past five years:

	2019 SAR Million	2018 SAR Million	2017 SAR Million	2016 SAR Million	2015 SAR Million
Total assets	**507,264**	452,177	444,792	442,657	448,642
Net financing and advances	**282,289**	265,062	249,234	253,592	252,940
Net investments	**134,077**	118,090	114,578	111,509	134,102
Total liabilities	**437,476**	386,508	380,516	382,731	393,096
Customers' deposits	**353,389**	318,701	308,942	315,618	323,866
Total equity attributable to equity holders of the Bank	**61,888**	57,737	56,041	53,038	48,462
Total operating income	**20,607**	18,927	18,345	18,647	17,486
Total operating expenses	**7,751**	8,082	8,392	9,175	8,256
Net income attributable to equity holders of the Bank	**11,401**	9,594	8,377	8,062	7,824

Financial results of the Bank's operational segments in 2018 and 2019:

	Retail Banking		Corporate Banking		Treasury		Capital Market		International		Total	
	2019 SAR Million	2018 SAR Million	**2019 SAR Million**	2018 SAR Million	**2019 SAR Million**	2018 SAR Million	**2019 SAR Million**	2018 SAR Million	**2019 SAR Million**	2018 SAR Million	**2019 SAR Million**	2018 SAR Million
Total income	**10,052**	8,672	**4,385**	4,061	**3,922**	3,947	**787**	720	**1,461**	1,527	**20,607**	18,927
Total expenses	**4,356**	4,279	**1,464**	1,646	**402**	510	**328**	344	**1,202**	1,303	**7,751**	8,082
Net income	**5,765**	4,375	**2,905**	2,399	**3,497**	3,418	**459**	376	**293**	263	**12,919**	10,830
Total assets	**153,735**	134,021	**133,425**	134,128	**185,235**	149,511	**2,091**	1,602	**32,777**	32,915	**507,264**	452,177
Total liabilities	**239,668**	254,925	**88,493**	49,505	**80,101**	53,160	**365**	317	**28,848**	28,601	**437,476**	386,508

Net income distributed between the Bank and its main subsidiaries:

	Net income attributable to equity holders SAR Million	% of total income SAR Million
National Commercial Bank (NCB)	10,815	94.86
NCB Capital and its subsidiaries	419	3.68
Türkiye Finans Katılım Bankası and its subsidiaries	167	1.46
Total	11,401	100

4. GEOGRAPHIC ANALYSIS OF REVENUES

Bank revenues are generated from its activities inside and outside Saudi Arabia and classified geographically:

	Kingdom of Saudi Arabia SAR Million	Turkey SAR Million	Kingdom of Bahrain SAR Million	Others SAR Million	Total SAR Million
2019	**18,692**	**1,483**	**428**	**4**	**20,607**

5. CREDIT RATING

International credit rating agencies underscored the fact that NCB maintained a stable rating over 2019, reflecting the Bank's aspirations to increase profitability and liquidity. Credit agencies' detailed evaluations for the year were:

	2019		
Rating agency	Short term	Long term	Expectations
Moody's	P-1	A1	Stable
Standard & Poor's	A-2	BBB+	Stable
Fitch	F1	A-	Stable
Capital Intelligence	A1	A+	Stable

6. DIVIDEND DISTRIBUTION

In accordance with Article 42 of the Bank's Articles of Association, and based on the proposal of the Board of Directors, and after the approval of the General Assembly, the Bank's net profits shall be distributed after deduction of all general expenses and the amounts set aside for potential losses, Zakat, tax and any other burdens in the following manner:

(1) 25% of net profits shall be set aside to build up a statutory reserve. The General Assembly may stop or reduce the rate of this deduction for reserve if the statutory reserve has reached an amount equal to the full capital.

(2) The Ordinary General Assembly may, upon the Board's proposal, set aside a certain percentage of the net profits to build up a consensual reserve, which may not be used without approval by an Extraordinary General Assembly. If such reserve is not assigned for specific purpose, the Ordinary General Assembly may, upon the Board's proposal, decide to dispose of it to bring benefits to the Company or the shareholders.

(3) Assignment of purification amounts.

(4) From the remainder, an initial percentage not less than 5% of the capital shall be distributed to shareholders. If such remainder of net profits is insufficient to pay the referred percentage, the shareholders have no right to request distribution from the following year's profits.

(5) A percentage of the remainder, after having satisfied the above-mentioned deductions referred to in Paragraph (5), shall be set aside as a bonus for the Board of Directors in accordance with the instructions issued in this regard by the Saudi Arabian Monetary Authority SAMA).

(6) The remainder thereafter shall be used according to the recommendation of the Board of Directors, either to build additional reserve, to be distributed as extra share of profits, or for any other purpose the General Assembly may decide. However, the General Assembly may not resolve to distribute any share of the profits which exceeds the recommendation by the Board of Directors.

(7) By a resolution from the Board of Directors and subject to the non-objection of SAMA, interim profits may be distributed quarterly or half-yearly to be deducted from the annual profits in accordance with the regulations issued by the CMA.

On authorization by the Extraordinary General Assembly in its meeting dated 10 April 2019, and in its decision dated 25/11/1440H (corresponding to 28/07/2019), the Board of Directors approved the payment and distribution of a dividend of SAR 1.10 per share in respect of the first half of 2019, totaling SAR 3,300,000,000 for 3,000,000,000 shares payable for the shares, representing 11% of the nominal value of shares held by the Bank's shareholders on the maturity date: Thursday 29/11/1440H (corresponding to 01/08/2019) entered in the Bank's registers at Security Depository Center Company by the end of the second trading day following the maturity date. Such dividend was paid on Wednesday 20/12/1440H (corresponding to 21/08/2019).

The Board of Directors recommended that the shareholders' General Assembly distribute profits in respect of the second half of 2019 of SAR 1.20 per share for a total of SAR 3,600,000,000 in respect of 3,000,000,000 shares representing 12% of the nominal value per share payable for the shares held by the Bank's shareholders on the date of the Bank's General Assembly and entered in the Bank's registers at Security Depository Center Company by the end of the second trading day following the General Assembly meeting date. Such dividend will be deposited after the General Assembly approves the recommendation.

The total dividend distributed to the Bank's shareholders in 2019 will be SAR 2.30 for a total of SAR 6,900,000,000 representing 23% of the nominal value of shares.

The Bank deducted 5% of 2019 first-half dividend as a withholding tax, pursuant to the provisions of Article 68 of the Tax Law and Article 63 of the Bank's Executive Regulations, from foreign non-resident investors whose profits are transferred through the resident financial intermediary. The same percentage will be deducted for all dividends unless the Bank receives documents to the contrary.

7. INCOME DISTRIBUTION

	SAR Million
Net income for 2019 before Zakat and income tax	12,919
Zakat	1,435
Transfer to statutory reserve	2,755
Interim paid dividend	3,300
Final proposed dividend	3,600
Minority rights	82
Transfer to retained earnings	1,747

8. DISCLOSURE OF STATEMENTS OF MICRO, SMALL, AND MEDIUM ENTERPRISES

(1) Qualitative Disclosure:

(a) Approved definition of micro, small, and medium enterprises and initiatives adopted by the Bank to support them:

Micro, small, and medium enterprises are the enterprises that achieve annual sales of less than SAR 200 million, and these enterprises are divided into three categories:

- Micro enterprises with annual sales of less than SAR 3 million
- Small enterprises of annual sales of more than SAR 3 million and less than SAR 40 million
- Medium enterprises of annual sales of more than SAR 40 million and less than SAR 200 million

NCB supports the micro, small, and medium enterprises (MSME) sector through a number of financing initiatives and programs. The Bank has acquired a large share of the financing facilities provided to this segment, amounting to about SAR 23 billion within several programs, including the Government's Kafalah program. NCB has been ranked as the largest Saudi bank in terms of the value of Kafalah guarantees provided to MSME customers. The volume of funds granted by the Saudi banks, combined, through Kafalah guarantees, exceeded SAR 33 billion by the end of 2019. NCB's share amounted to SAR 10.3 billion, with 2,386 enterprises benefiting from NCB financing since the start of the program. During the SME Finance Conference of 2019 in Riyadh, NCB was honored as the best bank in SME financing for 2018 by the Minister of Commerce and Investment, Dr. Majid Al Qasabi.

(b) NCB initiatives to support micro, small, and medium enterprises

To enhance partnerships with related parties, the Bank is the first to sign the updated Kafalah agreement to support all micro, small, and medium enterprises by increasing the coverage and granting additional benefits to sectors that are in line with Saudi Vision 2030. This updated agreement facilitates the procedures for obtaining the guarantee and the realization procedures, and gives NCB a competitive advantage in terms of obtaining the portfolio guarantee and reducing the number of days required to obtain the approval of the program.

NCB is a strategic partner supporting the Nusaned initiative launched by the Saudi Basic Industries Corporation (SABIC) in furtherance of the national role of this initiative as the first integrated driver for industry Saudization. NCB signed a cooperation agreement with SABIC to fund graduates of the program to transform their ideas into reality.

As part of its contribution to achieving the Saudi Vision 2030 in line with its vision to support the vital activities of the Saudi economy and supporting and empowering the SME sector and entrepreneurs, NCB and the General Authority for Small and Medium Enterprises (Monshaat) have signed four memoranda of understanding and joint cooperation agreements. These agreements included developing financing products that support the SME sector and are in line with the regulations of the Ministry of Commerce that supports commercial anti-concealment initiatives. Pursuant to these agreements, NCB will be listed on Monshaat's financing platform to offer its financing products so that SME beneficiaries can have access to NCB financing services and submit applications more easily. SME owners will also be trained to develop their financial capabilities and awareness. This will contribute to supporting the educational and awareness content industry, the joint development of e-learning and training programs and the Franchise Program, recently launched by the Ministry of Commerce to support emerging businesses and brands in the Kingdom. This, in turn, contributes to the growth of the Bank's SME activities. Given its pioneering role and long experience, NCB has participated as a key member of the Financial Awareness Committee and the Grant Initiative Committee. These two committees support SMEs under the current economic conditions.

NCB launched a digital campaign to support SMEs with a view to increasing awareness of the various support services provided by NCB, including financing and electronic banking solutions. This campaign targets commercial establishments operating in sectors in line with Saudi Vision 2030, such as Hajj Umrah, education, healthcare, industry, and entertainment sectors.

In view of the extreme importance of this segment, NCB developed an MSME Portfolio Monitoring Committee that convenes monthly and is headed by the CEO. Furthermore, the Bank reorganized the MSME team and established two specialized departments to focus on servicing this segment effectively:

- Business Group: Serves enterprises with an annual turnover between SAR 3 million and SAR 40 million
- Commercial Business Group: Serves enterprises with an annual turnover between SAR 40 million and SAR 200 million

Given the promising future of this sector, and in line with the Saudi Vision 2030 to increase funding to these enterprises from the current 5% to 20% of the total Saudi banks' financing by 2030, NCB continues to strengthen its strategy for growing the credit portfolio to serve MSMEs by choosing distinct locations for the 12 service centers in various regions of the Kingdom, staffed by specialized teams that are experienced and highly qualified in this field.

(c) **Training and workshops initiatives provided to customers and staff in 2019**

- NCB increased the number of specialized professionals who serve this segment to 164 by the end of 2019.
- NCB designed a special training program for MSME staff for 5 days (8 working hours a day)
- The number of NCB workshops for MSME clients in the main and promising regions reached 10 days in 2019 (8 working hours a day). The workshops helped in developing the client's banking experience, and tackled the challenges and opportunities for MSME growth in line with Saudi Vision 2030;
- NCB participated in the Chamber of Commerce's six MSME workshops across the Kingdom, with a greater focus on the promising regions.
- NCB sponsored Namaa (meaning development) event in the Northern Region to support the promising regions and raise banking awareness among the Bank's clients.

Quantitative disclosures for 2019

Particulars	Micro SAR '000	Small SAR '000	Medium SAR '000	Total SAR '000
Financing of small, medium, and micro enterprises – on-balance items	**235,934**	**3,510,539**	**10,719,773**	**14,466,246**
Financing of small, medium, and micro enterprises – off-balance items	**404,076**	**2,463,403**	**5,295,711**	**8,163,190**
On-balance financing of micro, small and medium enterprises as a percentage of total on-balance financing	**0.09%**	**1.34%**	**4.09%**	**5.51%**
Off-balance financing of small, medium, and micro enterprises as a percentage of total off-balance financing	**1.02%**	**6.20%**	**13.32%**	**20.53%**
Number of financings (on-balance and off-balance)	**2,363**	**6,449**	**6,636**	**15,448**
Number of financed customers (on-balance and off-balance)	**1,954**	**3,214**	**1,354**	**6,522**
Number of financings guaranteed by Kafalah Program (on-balance and off-balance) – in aggregate	**38**	**375**	**78**	**491**
Total financings guaranteed by Kafalah Program (on-balance and off-balance)	**32,226**	**692,581**	**526,511**	**1,251,318**

Quantitative disclosures for 2018

Statement	Micro SAR '000	Small SAR '000	Medium SAR '000	Total SAR '000
Financing of small, medium, and micro enterprises – on-balance items	265,856	3,567,770	10,631,641	14,465,267
Financing of small, medium, and micro enterprises – off-balance items	732,499	2,257,396	4,983,887	7,973,781
On-balance financing of small, medium, and micro enterprises as a percentage of total on-balance financing	0.11%	1.46%	4.36%	5.93%
Off-balance financing of small, medium, and micro enterprises as a percentage of total off-balance financing	1.78%	5.48%	12.10%	19.36%
Number of financings (on-balance and off-balance)	2,473	5,897	6,987	15,357
Number of financed customers (on-balance and off-balance)	2,036	2,631	1,316	5,983
Number of financings guaranteed by Kafalah Program (on-balance and off-balance) – in aggregate	66	320	5	391
Total financings guaranteed by Kafalah Program (on-balance and off-balance)	45,077	482,116	28,332	*555,525*

9. REMUNERATION TO BOARD MEMBERS, BOARD COMMITTEES, AND SENIOR EXECUTIVES

(a) Remuneration to Board Members

The Bank's Board has prepared NCB's policy of annual remuneration of Board Members and Board Committees. The policy was approved by the Shareholders' General Assembly on 31 December 2017, and aimed to set the approved criteria for the remuneration of Board Members and Board Committees, as well as entitlement conditions.

Remuneration paid to Board members and Board Committees is set in line with the instructions issued by the supervisory bodies, and is governed by key governance principles of the banks operating in Saudi Arabia and the compensation regulations issued by the Saudi Arabian Monetary Authority (SAMA), company governance regulations issued by the Capital Market Authority (CMA), Companies' Law issued by the Ministry of Commerce and Investment, and NCB's Articles of Association.

To guarantee effective governance, this policy requires that remuneration should be based on the recommendation of the NCB Nomination, Remuneration, and Governance Committee. The policy also considered that remuneration should be sufficient to attract Board Members and Board Committees who have the capability and expertise appropriate to the Bank's activities. Remuneration and compensation paid to the Board members were as follows without any substantial deviation from applicable laws and regulations:

	SAR															
	Fixed Remuneration							Variable Remuneration								
	Fixed amount	Board meeting attendance allowance	Total allowance for attendance of committee meetings	In-kind Benefits	Remuneration of technical, administrative and consultative works	Remuneration of Board Chairman, Managing Director or Secretary if they are members	Total	Profit share	Periodic bonus	Short term motivational plans	Long term motivational plans	Bonus shares	Total	End of service benefit	Total aggregate	Expense allowance
I. Independent members																
Zaid Abdul Rahman Al-Gwaiz	415,000	35,000	50,000	–	–	–	500,000	–	–	–	–	–	–	–	500,000	10,471
Ziyad Mohamed Mekki Al-Tunsi	415,000	35,000	45,000	–	–	–	495,000	–	–	–	–	–	–	–	495,000	11,530
Mohammed Ali Al-Hokal*	765,000	35,000	40,000	–	–	–	840,000	–	–	–	–	–	–	–	840,000	11,571
Total	1,595,000	105,000	135,000	–	–	–	1,835,000	–	–	–	–	–	–	–	1,835,000	33,572
II. Non-executive directors																
Saeed M. Al-Ghamdi	435,000	30,000	35,000	–	–	–	500,000	–	–	–	–	–	–	–	500,000	6,000
Rashid Ibrahim Sharif	435,000	30,000	30,000	–	–	–	495,000	–	–	–	–	–	–	–	495,000	11,571
Marshall Bailey	450,000	30,000	20,000	–	–	–	500,000	–	–	–	–	–	–	–	500,000	181,850
David Meek	435,000	30,000	45,000	–	–	–	500,000	–	–	–	–	–	–	–	500,000	169,827
Anees A. Moumina	445,000	35,000	20,000	–	–	–	500,000	–	–	–	–	–	–	–	500,000	22,489
Saud S. Aljuhani	445,000	30,000	20,000	–	–	–	495,000	–	–	–	–	–	–	–	495,000	14,174
Total	2,645,000	185,000	170,000	–	–	–	2,990,000	–	–	–	–	–	–	–	2,990,000	405,911

* Mr. Mohammed Ali Al-Hokal is now the Chairman of the Audit Committee

(b) Remuneration to Audit Committee Members other than Board Members

The Shareholders' Extraordinary General Assembly on 10 April 2019 approved the amended regulations for the Audit Committee, members' selection rules, its duties, bylaws, and remuneration of members, in accordance with the applicable laws and regulations issued by the competent regulatory authorities in Saudi Arabia and NCB's Articles of Association. In setting annual remunerations for 2019, the NCB Nomination, Remuneration, and Governance Committee considered the approved criteria without any significant deviation from laws and regulations. The table below sets out the remuneration and compensation levels paid to non-Board Audit Committee Members:

	SAR		
	Fixed remuneration other than meeting attendance allowance	Meeting attendance allowance	Total
Dr. Khaled M. Al Taweel	200,000	40,000	240,000
Dr. Abdul Rahman M. Al Barrak	200,000	40,000	240,000
Abdul Rahman M. Al-Oudan	200,000	40,000	240,000
Hani Suleiman Al Shadokhi	200,000	35,000	235,000

(c) Senior Executives' Remuneration

The Board of Directors, based on the proposal of the NCB Nomination, Remuneration, and Governance Committee, determines remuneration of senior executives in line with the Bank's strategic aspirations and to provide appropriate motivation for the higher management officers.

The remuneration and compensation paid to six senior executive members, including the CEO and CFO, was:

Value SAR '000											
Fixed remuneration payable in 2019				Variable remuneration – Actual payment in 2019							
Salaries	Allowances	Inkind benefits	Total	Periodic Bonuses	Profits	Short term motivational plans	Long term motivational plans	Bonus shares	Total	End of service benefit	Total
7,140	3,910	93	11,143	0	0	20,354	–	40,795	61,149	915	73,206

10. ARRANGEMENTS OF WAIVER OF REMUNERATION BY BOARD OF DIRECTORS AND SENIOR EXECUTIVES

The Bank does not have any information to disclose regarding the arrangements or agreements regarding the waiver of remuneration, bonus, or compensation by any of the Board of Directors or the senior executives.

11. FINANCING AND DEBT SECURITIES ISSUED

In the course of ordinary business practices, NCB has been engaged in borrowing and financing activities with other banks and the Saudi Arabian Monetary Authority at market rates. Those transactions are recorded in the consolidated financial statements of the Bank. During the year ended 31 December 2019, the Group exercised its option of early recovery of the Tier 2 Sukuk of SAR 5 billion at the nominal value.

In 2019, the Bank, its subsidiaries, and affiliated companies issued and retrieved detailed debt securities as follows:

Issuer	Value SAR '000	Term	Paid amount during the year SAR'000	Remaining amount SAR'000
NCB	–	–	5,069,111	–
Türkiye Finans Katılım Bankası (Public issue)	5,312,980	No more than 9 months	8,175,405	1,016,101

12. WAIVER OF INTERESTS

The Bank does not have any information to disclose regarding any arrangements or agreements related to the waiver of any rights to profits by any of the Bank's shareholders.

13. REGULATORY PAYABLES DUE

Zakat payable in 2019 amounted to SAR 1,435 million and contributions to the General Organization for Social Insurance (GOSI) amounted to SAR 130 million.

14. RELATED PARTY TRANSACTIONS

In its first meeting held on 10/04/2019, and for which results were announced on the website of the Saudi Stock Exchange (Tadawul) on 11/04/2019, NCB's Extraordinary General Assembly issued its approval of the licenses of business and contracts entered into between NCB and related parties for a subsequent year, details of which are:

(1) The business and contracts entered into between the Bank and Saudi Telecom Company, in which the Vice-Chairman of the Board of Directors, Rashid Bin Ibrahim Sharif, has an indirect interest as a member of the Board of Directors of STC. The contract provides managed message portal service for four years from 26/11/2017, with a total amount of SAR 150,000,000. This contract was made through competition without preferential conditions or benefits before Rashid Ibrahim Sharif joined NCB's Board of Directors.

(2) The business and contracts entered into between the Bank and Saudi Telecom Company, in which the Vice-Chairman of the Board of Directors, Rashid Bin Ibrahim Sharif, has an indirect interest as a member of the Board of Directors of STC. The contract provides smart and integrated communications and information technology services and solutions for three years from 01/01/2018, with a total amount of SAR 72,000,000. This contract was made through competition without preferential conditions or benefits before Rashid Ibrahim Sharif joined NCB's Board of Directors.

(3) The business and contracts entered into between the Bank and Kinan International Real Estate Development Company, in which a member of the Board of Directors, Anees A. Moumina, has an indirect interest as a member of the Board of Directors of the company. The contract is to lease an ATM place at Al Jamaa Plaza, Al Jamaa district for five years from 01/10/2018, with an annual rent of SAR 325,000. This contract was made through competition without preferential conditions or benefits.

During the financial year ended 31/12/2019, several recommendations were presented by the Board of Directors to the General Assembly to approve the authorization of transactions and contracts to which the members of the Board of Directors will have a direct or indirect interest. The rules and procedures of the Bank's Internal Conflict of Interest Regulations are in compliance with the instructions issued by the regulatory authorities, noting that all these contracts are made through competition without preferential conditions or benefits. The following details the work and contracts for which the Bank seeks to obtain authorization from the General Assembly:

(1) The business and contracts entered into between the Bank and Bupa Arabia for Cooperative Insurance, in which a member of the Board of Directors, Zaid Abdul Rahman Al-Gwaiz, has a direct interest as he serves as an independent board member at the Company. The contract provides medical insurance services to the staff of the National Commercial Bank for 2020, with a total value of SAR 177,178,866. This contract was made through competition without preferential conditions or benefits.

(2) The business and contracts entered into between the Bank and Saudi Credit Bureau (SIMAH), in which the Chairman of the Board of Directors, Saeed M. Al-Ghamdi, has an indirect interest as the Chairman of the Board of Directors of SIMAH. The contract provides credit inquiry report services for 2019, with a total value of SAR 26,500,000. This contract was entered into without preferential conditions or benefits.

(3) The business and contracts entered into between the Bank and SIMAH, in which the Chairman of the Board of Directors, Saeed M. Al-Ghamdi, has an indirect interest as the Chairman of the Board of Directors of SIMAH. The contract provides credit inquiry report for 2020, with a total value of SAR 30,019,395. This contract was made without preferential conditions or benefits.

(4) The business and contracts entered into between the Bank and SIMAH, in which the Chairman of the Board of Directors, Saeed M. Al-Ghamdi, has an indirect interest as the Chairman of the Board of Directors of SIMAH. The contract provides 360 Risk Management Report service for 2019/2020, with a total value of SAR 5,250,000. This contract was made without preferential conditions or benefits.

(5) The business and contracts concluded between the Bank and SIMAH, in which the Chairman of the Board of Directors, Saeed M. Al-Ghamdi, has an indirect interest as the Chairman of the Board of Directors of SIMAH. The contract provides benchmark report issuance services for 2019, with a total value of SAR 840,000. This contract was made without preferential conditions or benefits.

(6) The business and contracts entered into between the Bank and SIMAH in which the Chairman of the Board of Directors, Saeed M. Al-Ghamdi, has an indirect interest as a member of the Board of Directors of SIMAH. The contract provides the national database services for 2019, with a total value of SAR 455,000. This contract had been made without preferential conditions or benefits; and

(7) The business and contracts entered into between the Bank and Saudi Telecom Company Solutions, in which the Vice-Chairman of the Board of Directors, Rashid Bin Ibrahim Sharif, has an indirect interest as a member of the Board of Directors of STC, the owner of Saudi Telecom Company Solutions. The contract provides implementation of the supply and installation works in the new data center in King Abdullah Economic City (equipment, software, networks and security), with a total amount of SAR 218,500,000. This contract was made without preferential conditions or benefits.

In the ordinary course of activities, the Bank transacts business with related parties. In the opinion of the Management and the Board, the related party transactions are performed at arm's length. The related party transactions are governed by the limits set by the Banking Control Law and the regulations issued by SAMA. Related party balances include the balances resulting from transactions with Governmental shareholders. All other Government transactions are also entered or conducted at market rates.

Balances as of 31 December recorded in the financial statements

	2019 SAR '000	2018 SAR '000
Bank's Board of Directors and Senior Executives		
Financing and advances	**963,373**	37,841
Customers' deposits	**237,188**	80,021
Commitment and contingencies	**12,527**	16,129
Investments (managed assets)	**55,880**	9,014
Other liabilities – end of service benefits	**36,115**	33,016
Shareholding of 5% or more in companies and corporations		
Financing and advances	**6,634,387**	6,234,605
Customers' deposits	**7,339,076**	1,361,964
Commitment and contingencies	**1,433,776**	1,180,657
Investments	**1,083,142**	112,856
Major shareholders*		
Customers' deposits	**26,357,463**	7,924,609
Bank's investment funds:		
Investments	**718,580**	502,174
Subsidiary companies:		
Financing and advances	**937,500**	1,312,500
Customers' deposits	**140,696**	106,523
Investments	**768,433**	1,088,342

* Major shareholders represent shareholdings of more than 5% of the Bank's issued share capital. Related parties are close members of those persons' families and their affiliate entities where they have control, joint control, or significant influence over these entities.

Income and expenses pertaining to transactions with related parties included in the financial statements

	2019 SAR '000	2018 SAR '000
Special commission income	**378,808**	384,070
Special commission expenses	**244,832**	441,265
Fees and commission income and expenses, net	**368,449**	296,887

Details of the Treasury shares retained by the Bank and details of their uses

Number of treasury shares retained by the Bank	Amount	Details of their uses
8.8 million shares	SAR 358 million	Employees' Shares Program Re-serve

15. EMPLOYEE BENEFITS

In 2019, NCB continued its efforts in pursuance, recruitment, and retention of the best Saudi talents. Through employment programs designed for attracting top talents, NCB achieved a steady increase in Saudization, reaching 97.6% by the end of 2019. In striving to achieve one of its key strategic aspirations – to be the employer of choice – NCB offers a savings scheme to employees. This began 44 years ago under a conventional structure and was converted to a Shariah-compliant structure in 2012. The saving scheme provides employees an opportunity to build personal savings and as an attractive benefit that helps to retain qualified talents. In terms of scheme policy, a fixed 5% is deducted from the employee's basic salary to be invested by NCB's Treasury Group in consideration for a bonus contribution by NCB linked to the number of years of subscription. The bonus ranges from 10% to 200% of the saved balance, depending on the number of years of continuous subscription. The cumulative balance in the staff savings scheme amounted to SAR 142 million by the end of 2019. The Bank pays compensation and benefits to employees according to Saudi labor laws and regulations, and the statutory requirements applicable to foreign branches and subsidiaries. The Bank's total reserve for end-of-service award amounted to SAR 1,204 million as at 31 December 2019.

16. SAMA STATUTORY PENALTIES

Subject of the violation	2019 Number of penalties	2019 Total amount of penalties in SAR	2018 Number of penalties	2018 Total amount of penalties in SAR
Violation of the supervisory body's instructions	**25**	**20,795,500**	8	1,010,000
Violation of the instructions on customers' protection	**7**	**55,000**	12	3,420,000
Violation of the supervisory body's instructions on due diligence	**4**	**908,500**	–	–
Violation of the supervisory body's instructions on the level of the ATMs and POS machines			–	–
Violation of the supervisory body's instructions on due diligence in combating money laundering and terrorism financing	**3**	**90,505,000**	2	1,167,400
Total	**39**	**112,264,000**	22	5,597,400

17. EFFECTIVENESS OF INTERNAL CONTROL PROCEDURES

Internal controls

Executive management is responsible for establishing and maintaining an adequate and effective internal control system. This includes processes and procedures that the executive management, under Board supervision, has put in place to achieve its strategic aspirations, protect assets, and ensure that activities are conducted in accordance with its applicable policies and procedures.

NCB Management has adopted an integrated internal controls framework in accordance with SAMA guidelines. The internal controls system begins with corporate governance that defines the roles and responsibilities of the Board of Directors and its sub-committees: Executive Committee, Audit Committee, Risk Committee, and Nomination, Remuneration, and Governance Committee.

The management committees support the Board of Directors in monitoring and addressing key risks associated with strategy, financial performance, technology, asset and liability management, credit, operations, legal and regulatory, and information security. Rigorous and integrated efforts are made by all the Bank's businesses to improve the efficiency and effectiveness of the control environment at process levels, through continuous reviews and consistent and integrated procedures to prevent and rectify control deficiencies. Each business in the Bank, under the supervision of senior executive management, is entrusted with the responsibility to oversee rectification of control deficiencies identified by its own risk and control self-assessment process and by internal and external auditors.

The scope of the Internal Audit Division (IAD) includes the assessment of the adequacy and effectiveness of the internal control system, as well as to ensure the compliance and implementation of all applicable policies and procedures. The Compliance Division ensures adherence to the regulatory requirements through compliance control programs. All significant and material findings from IAD reviews and corrective actions are reported to senior executive management and the Audit Committee. The Audit Committee actively monitors the adequacy and effectiveness of the internal control system to ensure that identified risks are mitigated. The Board of Directors has full access to all internal audit reports, internal control reviews, risk management, and other relevant reports. These are reviewed regularly to provide an ongoing assessment of the effectiveness of the internal control system facilitating identification of any potential deficiency in its practical application and treating any deficiency that may arise as a result of changed circumstances.

Annual review of the effectiveness of internal control procedures

For 2019, audits of the effectiveness of the internal controls conducted during the year confirmed that systems and procedures for the identification, evaluation, and management of the significant risks that may be faced by the Bank were in place and have been applied throughout the year, and that there were generally no material or significant deficiencies in the control environment. After assessing the effectiveness of the internal control procedures and ongoing evaluation of internal controls carried out during the year, management considers that the existing internal control system is operating effectively, and monitored consistently. Management continuously strives to enhance and further strengthen the internal control system.

Based on these findings, the Board of Directors has endorsed the Executive Management's assessment of the internal control system, as prescribed by SAMA.

Opinion of the Audit Committee

Based on the periodic reports presented by the Internal Audit Division, the Compliance Division, the Bank's auditors, and the Compliance Committee to the Audit Committee during the fiscal year ending 31 December 2019, and in view of the previous results of annual audit of the internal control measures, the Audit Committee confirms that the internal control measures did not show any significant gaps in the control environment of the Bank's businesses that may affect the soundness and effectiveness of the efficiency of the financial and operational systems, controls, and procedures, and that the assessment of the control measures adopted by the Executive Management will continue throughout the year.

18. AUDITORS

At the Bank's annual meeting on 10 April 2019, the Shareholders' Extraordinary Assembly approved the appointment of KPMG Al Fowzan and Ernst & Young to act as the Bank's external auditors for the year ending 31 December 2019, including reviewing the quarterly financial statements during the same year. The next meeting of the Assembly will consider reappointing or replacing the current auditors, as well as the fees determined for auditing the Bank's accounts for the financial year ending 31 December 2020.

19. RISK GROUP

In the normal course of business, NCB is exposed to various risks resulting from its banking activities. The Risk Group supports the Bank's different businesses by controlling and minimizing risks, if any, to achieve a performance/risk balance. The Risk Group ensures that all business-related risks fall within the tolerance levels of the Bank as a whole. The main objective of the Risk Group is to maintain the general level of risk in line with the Bank's strategy. To achieve this, the Risk Group employs a number of tools and professional talents to identify, classify, measure, and limit risks.

NCB's Risk Governance Policy identifies risks and determines tolerance levels and methods of their management. The Risk Group optimizes and promotes the risk governance framework with comprehensive policies determining the roles and responsibilities of all relevant parties, while promoting a culture of tackling and managing risks at all the Bank's businesses.

Pursuant to the guidelines of SAMA and the Basel Committee, the governance framework for NCB Risk Management ensures the independence of the Risk Group mandates, as well as implementing three main defense lines across all businesses. The business units collaborate with the Risk Group and Internal Audit Division to effectively manage, monitor, and identify the tolerated risks and ways to minimize them.

The Risk Group's organizational structure handles the levels of management, functions, and mandates to manage different types of risks, including credit, market, liquidity, operational, and information security. To manage risks, the Risk Group has developed specific policies for all the risk types in a holistic manner at the Bank level.

Credit Risks

Credit risks are the risk of financial losses resulting from a borrower's or counterparty's failure to meet their contractual financial obligations. Credit risks represent the highest percentage of total risks to which the Bank is exposed. These risks arise from credit operations of investments and financing and advances. Consequently, to manage credit risks, the Bank has developed policies to ensure all its financing and investment programs are covered. This enables the Bank to protect the quality of its credit and investment portfolios, and minimizes losses generated by financing activities.

Credit Risks Assessment

To assess and manage credit risks to different portfolios of the Bank, the Risk Group has developed a set of instruments to suit different types of customers and beneficiaries, so that it can measure the feasibility of each transaction. Credit risk assessment function assesses risks related to losses that might arise from failure to repay outstanding obligations. Accordingly, corporate clients are analyzed using internally developed credit analysis assessment forms, whereas personal profiling and credit behavior are used to analyze retail customers.

For its investment portfolio, the Bank depends on assessments undertaken by the main external credit rating agencies as well as its own assessment of related risks. At a portfolio level, transaction assessments are combined so a comprehensive assessment for the credit or investment portfolio can be established and checked against the targeted quality level.

Credit Risk Controls, Credit Limits, and Guarantees

The scope of Credit Risk function's responsibility includes monitoring and identifying credit risks based on the creditworthiness of each transaction, before offering or renewing a credit limit for to a client. Credit risk management policies were therefore designed to set credit limits that match the risk level of the exposure, and to monitor risks, as well as define how limits should be implemented. Accordingly, actual credit limits and corresponding risks are monitored daily.

Credit risk policies also require diversity in financing activities to avoid concentration of risks in an individual or a group of clients with specific geographic location, or a specific type of commercial activity. To mitigate risks, the Bank usually obtains collateral for credit facilities. There are several types of collateral, such as securities, cash deposits, financial guarantees provided by other banks, shares, real estate, and other fixed assets.

Market Risks

Market risks are the risks of incurring losses due to changes and fluctuations in market prices, special commission rates, creditworthiness levels, share prices, exchange rates, and any other changes in the fair value of financial instruments and securities held by the Bank.

To manage such risks, the Risk Group classifies market risks into trading and non-trading portfolios. Treasury Group manages the trading portfolio, which includes positions resulting from market making and other trading positions. It also includes managing assets and liabilities recorded at a fair value. Market risk management employs the estimation of value at risk (VaR) tool for all transactions included in the trading portfolios. VaR is estimated for a specific period based on adverse market fluctuations. Calculating VaR depends on market price volatility inputs and the link between different portfolio components using related historical market data.

The risk governance policy requires the Assets and Liabilities Management Committee to manage the risks associated with volatile special commission rates arising from changes in future cash-flows and fair value. The Assets and Liabilities Management Committee is responsible for managing the gap between assets and liabilities and special commission rates, and dealing with hedge strategies to maintain risks within the tolerance levels. The risk governance policy also aims to improve the financial position structure to ensure that banking operations are processed within the scope of the Bank's risk tolerance. The Risk Group has developed an investment policy to control the Treasury Group's operations in money and capital markets, foreign exchange, interest rates, and commodity products. Investment policies and procedures are intended to ensure that all activities of the Bank's Treasury Group adhere to regulations and that supervisory controls are in place to manage the associated risks.

Liquidity Risks

Liquidity risks are the risks associated with the failure to meet all payment obligations at their maturity dates, or having to make payment at excessive costs.

Accordingly, the main function of the Bank's liquidity risk management efforts is to maintain a balance between liquidity and profitability for operations, while maintaining a strong liquidity position to increase customer confidence and improve the cost of financing. To increase liquidity levels, NCB's higher management mandated the Risk Group to monitor all facilities, obligations, and sources of financing along with their cost rates at the targeted tenors. The Bank uses risk tolerance measurement programs to ensure that it can meet its obligations during adverse market conditions, including long periods of asset liquidation at disadvantageous price levels.

Operational Risks

NCB defines operational risks as the risks arising from inadequacy or failure of internal procedures, individuals, or systems or as a result of external circumstances. These risks are inherent in all the Bank's commercial and non-commercial operations and are associated with all activities of institutions operating in banking and finance. Since each business unit is responsible for its operational risks, the main operational risk management function within the Risk Group is mandated to develop, implement, and comply with a comprehensive and integrated framework to reduce risk in all businesses across the Bank.

The operational risk management strategy includes:

- Adopting a proactive approach to reduce operational risks through self-assessment of risks and controls
- Defining and analyzing operational risks events, and losses arising from them
- Implementing programs to raise awareness of operational risks, and promoting a culture of mitigating risks
- Preparing comprehensive periodic reports on operational risk controls and their effectiveness
- Developing operational risk management practices to maintain a stable work environment and contribute to achieving the Bank's strategic aspirations

Information Security Risks

Information security risks refer to risks arising from the failure of regulatory, technical, and procedural measures to protect the Bank's information assets from unauthorized access or use, disclosure, copying, modification and conversion, loss, and theft or abuse, whether deliberately or unintentionally.

Information Security department of Risk Group provides a comprehensive practical framework through which operational procedures are organized, regulatory requirements and rules are implemented, and procedures are facilitated to ensure information assets are protected – together with reducing the various information security risks.

Responsibilities of Risk Group's Information Security department include information security governance, direct follow-up of applying legislation related to information security, and direct and full control over all activities regarding information security. This entails continuous evaluation of risks and follow-up of systems to identify security risks and take immediate action to reduce them.

The Group also designs and implements awareness programs for this type of risk for everyone dealing with the Bank's information assets, whether staff, contractors, or customers. The Management is also concerned with monitoring and controlling the powers of access to the various systems, continuously evaluating the various information assets and applying security controls in line with the importance of those assets.

Notes to the Basel III Framework

The third pillar of the Basel III Framework requires publication of a number of quantitative and qualitative disclosures. Such disclosures are published on the Bank's website: www.AlAhli.com in accordance with SAMA regulations.

(a) Basel III Framework:

The Basel Committee has enhanced capital measurement standards and capital standards by issuing the Basel III Framework in response to the 2007 global financial crisis. This framework focuses on enhancing the quality of required capital along with raising the minimum capital requirements, enhancing risk coverage, and reducing the impact of cyclical economic fluctuations on capital requirements. It also imposes new requirements for leverage ratio, liquidity, and additional capital to enhance capital formation.

The Basel III Framework, as adopted by SAMA, sets out the standards and principles by which Saudi banks are to meet the requirements with a high-quality capital base. The first tier of capital is total shareholders' equity, which has the highest ability to 'bear loss'. To this end, the framework requires compliance with specific standards:

- Improving quality of the first tier of capital and increasing its minimum requirements
- Allocating any regulatory capital deductions to shareholders' equity
- Gradually canceling listing of mixed capital instruments of limited ability to bear the loss of the second tranche level of capital
- Increasing transparency in regulatory capital components through detailed disclosures and comparing them to shareholders' equity

(b) Disclosure periods for Basel III set out by SAMA

- Capital structure – quarterly
- Financial leverage – quarterly
- Financial liquidity – quarterly
- Quantitative disclosure – semi-annual
- Qualitative disclosures – annual

20. CONFIRMATIONS BY THE BOARD OF DIRECTORS

The Bank's Board of Directors confirms to Shareholders and other related parties, according to its best knowledge in all material respects, that:

- The accounting records were prepared properly as per industry standards and rules.
- The Internal Control System was developed and effectively implemented on a proper basis.
- There is no doubt that the Bank is able to proceed with its operations
- There is no contract in which the Bank was a party and NCB's Board Chairman, Board Members, CEO, Finance Group Head or any person who has a direct relationship with them has or had a fundamental interest, except for the disclosed ones under Related Party Transactions.

21. MEASURES THAT BOARD TOOK TO INFORM ITS MEMBERS – ESPECIALLY NON-EXECUTIVES – OF SHAREHOLDER PROPOSALS AND THEIR OBSERVATIONS REGARDING THE COMPANY AND ITS PERFORMANCE.

NCB recognizes the shareholder proposals received during the General Assembly meeting. It informs the Board Chairman of any other proposals concerning NCB to be presented in the nearest Board meeting. In addition, there is an e-mail address to receive ad-hoc shareholder comments and suggestions, which is linked directly to the Board Secretary so that the Board can review them.

22. AUDITOR QUALIFICATIONS ON THE FINANCIAL STATEMENTS:

The audit report did not include qualifications to the annual financial statements.

23. BOARD RECOMMENDATIONS ON CHANGING THE AUDITORS:

The Board of Directors did not recommend a change of auditors before the end of their term of appointment. There was no conflict between the Committee recommendations and the Board decisions.

24. NCB'S STAFF CODE OF CONDUCT

NCB is fully committed to developing policies and procedures that ensure employees' adherence to the Bank's official Code of Conduct that applies to dealing with customers, colleagues, and suppliers – and as representatives of the Bank as a whole.

All NCB employees must strictly adhere to the implementation of the Code of Conduct as well as the Work Ethics in Financial Institutions code, as approved by SAMA.

Compliance with the laws, regulations, instructions, and policies is one of the most important factors for the Bank's success, as well as maintenance of its reputation and credibility. Therefore, Bank staff shall be committed to consistent compliance with these requirements, without any violation or negligence. They may not conduct, on behalf of the Bank, any dealings that may violate the Bank's laws, regulations, instructions or policies.

25. APPROVED INTERNATIONAL ACCOUNTING STANDARDS

The consolidated financial statements for the year ended 31 December 2019 were prepared in accordance with International Financial Reporting Standards approved by the Kingdom of Saudi Arabia and other standards and publications issued by SOCPA and in conformity with the Banking Control Law, the Companies' Law of Saudi Arabia, and the Bank's Articles of Association.

Subsidiary companies

Subsidiary company	Capital (SAR)	Number of issued shares	Ownership (%)	Main activity	Country of incorporation	Country of main activity
NCB Capital Company (NCBC)	1,000,000,000	100,000,000	99.94%	A Saudi shareholding company engaged in the Bank's investment services and asset management activities	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
NCB Capital Dubai Inc. (formerly Eastgate Capital Holdings Inc.)	9,375,000	2,500,000	99.94%	A limited liability company with the objective of attracting and structuring investment in private equity and real estate development opportunities in emerging markets	Cayman Islands	Emerging markets with special focus on the Middle East and North Africa
NCB Capital Real Estate Investment	10,000	1000	99.94%	A Special Private Vehicle Company registered in the Kingdom of Saudi Arabia with the main objective of owning and registering real estate assets on behalf of real estate funds that are managed by NCB Capital Real Estate Investment	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Türkiye Finans Katılım Bankası	1,636,700,000	2,600,000,000	67.03%	A participation bank registered in Turkey that collects funds through current accounts and profit-sharing accounts, and lends funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships.	Turkey	Turkey
Real Estate Development Company	500,000	500	100%	A limited liability company registered in the Kingdom of Saudi Arabia, engaged in keeping and managing title deeds and collateralized real estate properties on behalf of the Bank.	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
AlAhli Insurance Services Marketing Company	500,000	50,000	100%	A limited liability company engaged as an insurance agent for the distribution and marketing of Islamic insurance products in Saudi Arabia	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Saudi NCB Markets Limited	187,500	50,000	100%	A limited liability company with the objective of trading financial derivatives, repurchases, and reverse purchases on behalf of the Bank	Cayman Islands	Cayman Islands
Eastgate MENA Direct Equity L.P.	688,674,270	–	100%	A private equity fund domiciled in the Cayman Islands and managed by NCB Capital-Dubai. The fund's investment objective is to generate returns from investment in Shariah- compliant direct private equity opportunities in high-growth businesses	Cayman Islands	Middle East and North Africa
AlAhli Outsourcing Company	50,000	5	100%	Limited liability company engaged in recruitment services within the Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia

Details of subsidiary companies are as follows:

(a) NCB Capital Company (NCBC)

NCB Capital (AlAhli Capital) was established in accordance with the Capital Market Authority's Resolution 06046-37 dated 3 Dhul Hijja 1427 AH (24/12/2006). The Company trades as a principal, underwriter, manager, arranger, and advisor for securities.

NCB Capital manages SAR 156 billion in local and international assets under management for its clients as of 31 December 2019. NCBC is the largest asset manager in the Kingdom. NCBC is also one of the largest providers of employee savings programs in the region, as well as being Kingdom's largest multi-asset manager.

In line with global best practices, NCB Capital is the region's largest GIPS-compliant asset manager (with regards to measuring investment performance). NCB Capital continued to maintain its MQ1 rating, Moody's highest rating for investment manager quality.

In 2019, NCB Capital's Asset Management business expanded AlAhli REIT Fund 1, launched NCB Capital Real Estate Trust LP, and added four new clients to its employee savings program.

In recognition of these efforts, NCB Capital won Global Business Outlook's 'Best Islamic REIT of the Year Saudi Arabia 2019' award as well as three more asset management awards from International Finance, International Business Magazine and Capital Finance International. NCB Capital also won the 'Best Equity Research Company, Saudi Arabia 2019' award by Global Business Outlook.

(b) Türkiye Finans Katilim Bankasi

NCB owns 67.03% (2018: 67.03%) interest in Türkiye Finans Katılım Bankası, a Turkish participation bank that operates by attracting current accounts and profit/loss sharing investment accounts. It provides those funds to retail and corporate clients in the form of Shariah-compliant finance, lease, and profit/loss sharing partnerships, developing a more varied financing structure, and cutting its financing costs.

In Turkish Lira terms (TRY), the assets of Türkiye Finans grew by 12.0% year on year. The financing portfolio and customer deposits increased by 3.5%, and 49.3%, respectively. Loan-to-deposit rate decreased from 110% to 76%. Net income at the end of 2019 was TRY 377 million, compared to TRY 445 million in 2018.

Total banking operation financing decreased from 26% in 2018 to 9% in 2019 as financing requests decreased from TRY 13.8 billion to TRY 5.7 billion. Accordingly, Türkiye Finans reduced its reliance on this segment financing.

Individual financing grew by 116%, with a nominal value of TRY 511 million. Financial lease increased by 223%, with a nominal value of TRY 272 million, with market share growing from 2% to 6%.

Türkiye Finans expanded its network by opening nine new branches in 2019, bringing the total to 310 at year-end. It has developed its alternative channels, including ATMs, points of sale, telephone banking, and online banking, having launched several initiatives to improve the quality of services and products provided to its customers.

(c) Real Estate Development Company

NCB has 100% direct ownership of the share capital of Real Estate Development Company, a limited liability company registered in Saudi Arabia under Commercial Registration 4030146558 dated 21 Dhu-al Qi'dah 1424H (corresponding to 13 January 2004) with capital of SAR 500,000. The purposes of the Company are to:

(1) Maintaining and managing the assets and real estate transfers to NCB and third-parties as a guarantee and registering these properties in their name for the financing purposes for which the Company was established.
(2) Purchasing, accepting, and transferring properties; buying, selling, and transferring apartments, villas, residential units, land, properties of all kinds and names, and obtaining the best price on behalf of the Company.
(3) Managing properties and real estate assets transferred to NCB and third-parties as a guarantee and registering them in its name for the financing purposes for which the Company was established.
(4) Purchasing land and properties, as well as owning plots of land for the purpose of their development for the purpose of their sale and lease on cash or installment basis for the benefit of the company to establish buildings, investing in their development them by selling and leasing on cash or instalment terms.
(5) Real estate management and development.
(6) Accepting and discharging mortgages on behalf of the Company and effecting and executing mortgages against the property of the Company in favor of the Real Estate Development Fund and applying for discharge and acceptance of the mortgages.
(7) Purchase and sale of off-plan housing units and operating through residential financing.

(d) AlAhli Insurance Services Company (Isnad)

NCB has 100% effective ownership of AlAhli Insurance Services Marketing Company, a limited liability company registered in Saudi Arabia under commercial registration 4030195150 dated 21/12/1430H (8/12/2009) with capital of SAR 500,000. The Company's objectives are to serve as an agent for marketing Islamic insurance products and services in Saudi Arabia and marketing all the insurance products of AlAhli Takaful Company.

(e) The Saudi National Commercial Bank Markets Ltd

The Bank has 100% direct ownership of the Saudi NCB Markets Company Ltd, established in 2016 as a limited liability company and registered in the Cayman Islands, with capital of $50,000 (SAR 187,500.5). The Company specializes in trading of derivatives, purchases, and repurchases on behalf of the Bank.

(f) AlAhli Outsourcing Company (Isnad)

The Bank has 100% direct ownership of AlAhli Outsourcing Company, a limited liability company registered in Saudi Arabia. The Company operates in recruitment services in Saudi Arabia.

Affiliated companies

The company	Capital (SAR)	Number of issued shares	Ownership (%)	Main activity	Country of incorporation	Country of activity
Real Estate Markets Trading Company	1,600,000,000	1,600,000	60%	Owning, managing, maintaining, and cleaning Jamjoom Commercial Center	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
AlAhli Takaful Company	166,666,670	16,666,667	29.99%	Insurance (protection and savings for individuals and groups)	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia

(a) Real Estate Markets Trading Company

NCB has 60% direct ownership of Real Estate Markets Trading Company, a limited liability company established in Saudi Arabia under commercial registration 4030073863 on 5/4/1411H (24/10/1990), with capital of SAR 1,600 million. The Bank adheres to the International Financial Reporting Standards in preparation of its financial statements. Under those standards, the term 'control' entails three requirements: The Group has power of control over the Company; the Group has exposure or rights to the variable returns of the Company; and the Group has the ability to use power to affect returns of the Company. Since these requirements are not fully applicable to Real Estate Markets Trading, NCB includes it under investments as an affiliate, so that its financial statements are not consolidated with those of the Group, but treated as separate from NCB. The Company's Articles of Association expired on 4/4/1431H (corresponding 20/3/2010). It was agreed that the term of the Company would be extended for an additional five years commencing from the expiry date in the commercial register. The additional term also expired on 4/4/1436H (corresponding 24/1/2015). As at 21/8/1436H (corresponding 8/6/2015), NCB accordingly filed a lawsuit to the Jeddah Administrative Court, registered under No 7270/2/J for the year 1436H at the Fifth Commercial Circuit, requesting the liquidation of the Company due to expiry of its term and failure to reach an agreement between the partners on the extension of its term. On 12/07/1437H, the Court issued its judgment to the effect that the Real Estate Markets Trading Company shall be dissolved and liquidated, and Abdulrazzaq & Ahmed Waly Sait Co shall be appointed as a liquidator.

The Administrative Appeal Court in Makkah endorsed the judgment on 13/10/1437H. On 27/11/2017, the appointed liquidator declared the dissolution in Al Medina Gazette, Issue 19941. Work is still ongoing to complete the procedures for receiving the Company's business by the liquidator to begin the liquidation process.

(b) AlAhli Takaful Company

NCB directly owns 29.99% of the capital of AlAhli Takaful Company, a Saudi joint-stock company established under Royal Decree M/70, dated 22/11/1427H (13/12/2006), and ministerial resolution 262 dated 20/11/1427H (10/12/2006). The Company was established in Jeddah under commercial registration 4030171573 on 21/7/1428H (4/8/2007) and holds an insurance business license (TMN/20079/7) dated 29/8/1428H (11/9/2007) issued by SAMA. The Company began insurance activities in accordance with the Cooperative Insurance Companies Control Law and with capital of SAR 100 million. Shareholder approval was obtained on 12 December 2011 to increase the Company's capital to SAR 166,666,670, with a total of 16,666,667 issued shares.

Islamic Banking

(a) Shariah Supervisory Board

NCB Shariah Supervisory Board is an independent body, responsible for the adoption of the Shariah-compliant products and services provided by NCB and ensuring the integrity of their legitimate application through the Shariah Supervisory Unit. NCB's Shariah Board comprises four prominent scholars in Shariah and Islamic economics; His Excellency Sheikh Abdullah Bin Sulaiman Al Manea, Advisor to the Royal Court, and member of the Supreme Council of the Senior Ulama, is the Chairman of the Shariah Supervisory Board. The Shariah Board members include His Excellency Sheikh Dr. Abdullah bin Mohammed Al Mutlaq, Advisor to the Royal Court and member of the Supreme Council of the Senior Ulama, Sheikh Dr. Abdullah bin Abdulaziz Al-Musallah, Head of Commission on Scientific Signs in the Qur'an, and Sheikh Dr. Mohammed bin Ali Al-Qari, former head of the Institute of Islamic Economics.

(b) Shariah-Compliant Banking

NCB achieved a high level of compliance with the Islamic Shariah and application of the Shariah standards set by the Shariah Board to the Bank's different businesses. The Bank took additional procedures to grow the Islamic banking, giving priority to Shariah-compliant products and solutions, as well as building and supporting the Islamic banking systems. NCB also held many conferences and symposia in 2019 to raise awareness among clients on Islamic banking, tackle problems, and propose solutions to overcome obstacles that hinder the growth of Islamic banking.

This progress report on the Islamic banking transformation program covers the financial year ended 31 December 2019:

(1) The Bank's assets reached SAR 507 billion in 2019, 77% of which is Shariah-compliant, compared a similar rate in 2018.

(2) During 2019, liabilities reached SAR 438 billion, 77% of which is from Shariah-compliant sources (2018: 79%).

(3) The ratio of total Shariah-compliant financing in 2019 reached 85% (2018: 84%); the ratio of Shariah-compliant financing to the corporate sector reached 75% (5018: 74%).

(4) Operating income generated from Shariah-compliant transactions reached 82% in 2019 (2018: 81%) of the Bank's total income.

(5) Islamic Sukuk in which the Treasury Group invested in 2019 amounted to 63% (2018: 61%).

All NCB branches have worked since 2007 in complete conformity with Islamic Shariah.

NCB continues to take actions towards further transformation to Islamic banking. This includes the coordination among NCB's Shariah Group and different business groups to find Islamic alternatives to the remaining conventional products and develop new and improved Islamic products to cover a wider segment of customers in response to their needs and wishes.

Shariah Division

The Shariah Division is a key development engine in NCB for its assigned functions. It performs tasks supporting NCB's objectives and plans in expanding and increasing the services and products provided to the Bank's customers. Shariah Division is also entrusted with supervising and controlling NCB's Islamic banking and represents a defense line preventing NCB from being exposed to the risks of non-compliance with Islamic law. During 2019, NCB's Shariah Division continued its efforts in the Bank's objectives of supporting Islamic banking industry and expanding its scope across all its businesses. To achieve this objective, the Shariah Board held 11 meetings with various NCB businesses, associates, and affiliated companies. These meetings answered all queries regarding the Shariah issues related to banking operations. The outcome was the development of new products, support and improvement of other products, and the review, improvement, and approval of contracts and executive documents.

During 2019, Shariah Group held the 12th Annual Symposium on Islamic Banking Business. The symposium was attended by jurists and Islamic banking experts and discussed topics including rent to own, investing by Mudarabah, and other important Shariah topics. As a result, several recommendations were put forward, representing potential practical solutions to the Shariah-oriented challenges faced by the industry. This reflects NCB's keenness to support the Islamic banking industry and expanding the horizons of its future growth and development.

With regard to NCB's efforts to qualify new Shariah scholars, the Bank continued its unique and distinguished program for qualifying new scholars to join Shariah boards. So far, five Islamic banking experts have graduated from the program, with new candidates joining. The Bank also continued its hosting of an International Islamic Finance Program sponsored by King Abdulaziz University in cooperation with the Islamic Development Bank and the Saudi-Spanish Center for Islamic Finance and Economy.

The Shariah-compliance team verifies the implementation of all the resolutions of NCB's Shariah Board and its requirements in all the Bank's policies and procedures, product programs, electronic systems, and training programs.

The Shariah-compliance team issued five Shariah control reports reviewing the Bank's Islamic products and verifying their compliance with the Shariah Board resolutions, and one Shariah report reviewing NCB Capital products and funds.

NCB's Corporate Responsibility

In 2019, NCB continued on its corporate responsibility journey that began in 2004, totaling 15 years of profound achievement that has benefited members of Saudi society in all walks of life. In 2014, NCB developed its corporate responsibility strategy to make its programs more influential and impactful, launching the Ahalina platform that focused on empowering different society groups and converting them into positive and developmental energies in support of the national economy. To this end, NCB uses its expertise and specialized capabilities in various fields to further support community initiatives that are in line with the Bank's strategy.

The new strategy set for 2020 will seek to support the community by empowering individuals and non-profit organizations and providing community support in the various regions of the Kingdom. The strategy has been adopted after an in-depth study of societal needs and consideration of the goals outlined in the national Vision 2030 agenda.

NCB's corporate responsibility achievements in 2019 included:

NCB Productive Families Program

Craft Training Program

This program aims to empower women, develop their skills, raise their efficiency, and invest their energies in line with the Kingdom's vision to increase women's participation in the labor market to 30%. In 2019 alone, 866 women in cities across the Kingdom were trained in various crafts, including traditional and handicrafts. Trainees in this program learn to produce traditional products to the highest quality standards using modern technologies. The products have been developed in cooperation with specialized international consultative bodies. Corporate Responsibility efforts in this area also contributed to improving the efficiency of training, with the number of certified professional female trainers reaching 82. Trainees benefited from learning the skills to produce marketable products and generate a steady income.

NCB further supported the category by holding a series of strategic initiatives and forming partnerships with several entities. This contributed to sales for the year of about SAR 1 million, with 93 women creating gift products for sale at outlets such as King Abdulaziz International Airport in Jeddah, Ahalina Restaurant and Ahalina Bazaar at NCB's headquarters in Jeddah and Riyadh, Ahalina offers for NCB's staff, and the Tagreesha Festival in Hail.

Productive Families Finance Program

This program provides small groups of three to five women with unsecured microfinance, relying on the principle of collective guarantee. NCB provides financing as a soft loan without charge, ranging from SAR 3,000 to SAR 10,200 per program participant.

The program works as an economic and social project that serves the community by establishing a culture of self-reliance and providing self-employment opportunities for women, contributing to reducing poverty and unemployment. Dedicated officials visited the program participants who wanted to obtain financing, an initiative that has itself contributed to creating about 60 jobs, about 85% held by women.

In 2019, more than 3,509 finances to a value of SAR 13,825,500 were provided to productive families, taking the total number of loans since the program began to 14,913 and total value to SAR 52,701,800.

AlAhli Entrepreneurs Program

NCB is focused on development of youth and encouraging them to pursue an entrepreneurial spirit. In support and empowerment of youth, NCB launched a number of business accelerators in partnership with the General Authority for Small and Medium Enterprises (Monshaat). This is intended to support innovation, facilitate business start-ups, and create appropriate employment opportunities for Saudi nationals. The first accelerator specialized in financial technology and was launched in July 2019 to support young people who have projects and creative ideas in fintech that can contribute to transforming the Kingdom into an innovation hub. The Fintech Accelerator is based on three main phases. The first, recruitment, involved 120 participants with creative ideas, and Hackathon camp, which involved intensive training sessions over two consecutive days. The best 25 ideas advanced to the second stage, the training camp. This lasted for five consecutive days of training, including how to target investors and how to pitch ideas. It also provided assistance in idea development and building business plans. At the end, 10 winning ideas advanced to the third stage, the 'accelerator'. This entailed 11 weeks of intensive vocational training to build their fintech startups, along with financial support of SAR 50,000 each.

The Fintech Accelerator concluded with a graduation ceremony during which the 10 projects were presented to potential investors and persons interested in Fintech entrepreneurship.

NCB also launched the Social Entrepreneurship Accelerator to enable projects seeking innovative and sustainable solutions to societal challenges. Again, in partnership with Monshaat, the program aimed to encourage projects that can grow and create a sustainable impact. Social Entrepreneurship also had three main stages: the challenge of raising awareness of social entrepreneurship and collecting the largest number of creative ideas; training camps in three major cities with a view to developing qualified ideas and converting them into a prototype; and the 12-week 'accelerator' of intensive training and guidance to create companies with a social impact and a high potential for success.

AlAhli Volunteer Program

AlAhli Volunteer Program involves NCB employees in activities that meet the needs of the community. The Bank provides general and professional volunteering, being the first private sector company in Saudi Arabia to adopt a 30-hour paid system for employees who volunteer for community work.

General Volunteering

More than 760 NCB employees in 24 cities participated in general volunteering during 2019, contributing 2,508 hours at an economic value of SAR 45,144. For the second successive year, activities included the Ahalina Happiness Campaign, aiming to instill the concept of volunteering by taking part in spreading joy to the largest possible number of societal groups. In 2019, the campaign began in Ramadan and included many initiatives appropriate for the Holy Month, such as distributing about 14,000 Iftar meals to members of the public observing the fasting. Volunteers also provided food baskets to needy families and Suhoor meals to street cleaning personnel, organized a collective Iftar for orphans and the elderly, and cleaned and prepared mosques.

The second phase of Ahalina Happiness was launched in November 2019 and was devoted to orphans with special needs, autistic children, children with cancer, and the elderly. Many other community initiatives included tree-planting at schools, decorating neighborhoods, cleaning gardens, planting seedlings, helping needy families furnish their homes, and providing winter clothing and food baskets for those in need. The campaign covered 14 cities across the Kingdom.

Pro Bono

NCB's support for these voluntary initiatives is a part of its commitment to contribute to Saudi Arabia's economic development by enhancing employee engagement. By activating corporate responsibility roles, they help achieve Vision 2030 through voluntary work that expands the impact of the non-profit sector. NCB is the first private sector organization that harnesses its staff capabilities to benefit non-profit organizations across the Kingdom. The Bank's Pro Bono Program with employees is now in its fourth year.

The Pro Bono Program continued its initiatives with the participation of 182 NCB volunteers in 66 projects. They gave a total of 1,092 hours for 35 charities at an economic value of SAR 405,132. Projects included providing specialist consultations according to the employees' professional capabilities, such as accounting, marketing, information technology, and project management. This enhanced the resources of non-profit organizations' staff and the private sector's transfer of value and benefit to society.

Sponsorship and Donation Activities

NCB supports many activities and initiatives that have a direct social impact as part of its leadership role in society. Sponsorships during 2019 included approving the contribution to the costs of the Autism Center of Excellence, giving SAR 55.3 million in response to SAMA's invitation, as well as SAR 11.25 million towards establishing the Financial and Accounting Center of Excellence. As part of its sponsorship for the 'Gateway' initiative that aims to promote Saudi Arabia's cultural image internationally, NCB hosted 24 university students from around the world to get first-hand knowledge of the Kingdom's history and contemporary status. Hosting the Entrepreneur Complex in strategic partnership with Wajhat AlRiyadh provided entrepreneurs with free workspaces. The Bank was also corporate responsibility partner for the Saudi Media Forum, sponsoring the Ahalina Award for Media Entrepreneurship. NCB also continued its 'No Receipt Print' campaign to preserve the environment by reducing paper consumption and donating the value of the paper saved. The campaign achieved SAR 1.2 million which was given to the Children with Disability Association.

Given NCB's long experience in corporate responsibility, the Bank cooperated with Government Ministries and Agencies to assist them in the development of their corporate responsibility strategies. Workshops took place with the Ministry of Labor and Community Development to build a comprehensive national corporate responsibility strategy for the Kingdom, with SAMA to formulate a national strategy for financial education, with Makkah Region to help achieve development in line with the Saudi Vision 2030, and with the General Authority for Small and Medium Enterprises on the concept of social entrepreneurship.

2020 Strategic Objectives

NCB's new five-year responsibility strategy is based on three pillars and will benefit Saudi society by focusing on empowering individuals and non-profit organizations and supporting community activities across Saudi Arabia.

Empowering Individuals

Micro Finance Program

The program is a socio-economic project that provides women with interest-free financing to establish commercial projects that guarantee them improved income and empowerment, which contributes to reducing poverty and unemployment. In 2020, it aims to finance 5,500 women, build the capacity of funding coordinators, and launch a pilot scheme for individual financing.

Craft Production Program

The program aims to train women in handicrafts, focusing on designs that produce competitive local products, including souvenirs to tourists, and market them through effective channels. In 2020, it aims to finance the training of 400 women and market the products of 100 women.

Business Accelerator Program

The program aims to develop, train and support entrepreneurs with distinct ideas in Saudi Arabia by attracting, embracing, and financing entrepreneurs and providing them with the skills, expertise, and resources necessary to build their projects and establish sustainable, flourishing, and influential companies. In 2020, it aims to launch the Fintech and Social Entrepreneurship accelerators.

Joint Workspace Program

The program provides joint workspaces by attracting start-up entrepreneurs and embracing them in a flexible work environment and a vital community to benefit from the exchange of experiences. It also provides administrative services that help entrepreneurs to develop and grow their businesses and raises the efficiency of joint workspace. In 2020, it aims to support 150 entrepreneurs.

Empowering Organizations

Community Investment Program

The program supports the economic enablement of non-profit organizations to implement community projects. It also intends to build and develop the capabilities of non-profit organizations and raise their capabilities to provide sustainable programs and solutions for community empowerment. In 2020, it aims to implement 12 development projects serving 400 beneficiaries.

Voluntary Work Program

The program aims to invest in NCB's employee capacities by engaging them in various voluntary activities meeting the actual needs of the community. Its target is 600 general and 150 pro bono volunteers, together giving 2,900 hours.

Community Support

NCB intends to extend its reach into activities and events by setting goals to effectively govern and direct those contributions to have a positive impact on the community.

26. BOARD OF DIRECTORS, RELATED COMMITTEES, AND EXECUTIVE MANAGEMENT COMPOSITION OF THE BOARD OF DIRECTORS AND TYPES OF ITS MEMBERS ARE AS FOLLOWS: EXECUTIVE BOARD MEMBER – NON-EXECUTIVE BOARD MEMBER – INDEPENDENT BOARD MEMBER

Member	Position	Membership Type
Saeed M. Al-Ghamdi	Board Chairman	Non-Executive
Rashid Ibrahim Sharif	Board Vice-Chairman	Non-Executive
Marshall Bailey	Board Member	Non-Executive
David Meek	Board Member	Non-Executive
Anees A. Moumina	Board Member	Non-Executive
Saud S. Aljuhani	Board Member	Non-Executive
Zaid Abdul Rahman Al-Gwaiz	Board Member	Independent
Ziyad Mohamed Mekki Al-Tunsi	Board Member	Independent
Mohammed Ali Al-Hokal	Board Member	Independent

Board Members

The Board of Directors consists of nine members, appointed by the General Assembly every three years, and meets at least once every three months (minimum of four times a year) or when required, by invitation from the Chairman, or from two members. The quorum comprises five members attending in person, including the Chairman. The decisions and discussions of the Board must be recorded in minutes of meetings and signed by the Chairman and the Board members. The Board secretary is responsible for recording the proceedings of meetings.

It is worth noting that the Board members were re-elected for a new period of three years, during the sixth Extraordinary General Assembly to increase the Bank's capital (first meeting). Nine board members have been elected for the new session that runs from 15/05/2018 to 14/05/2021. Board members' names, qualifications and experiences are:

Saeed Mohammed Al-Ghamdi, Chairman

Mr. Al-Ghamdi is the Chairman of Board of Directors of the National Commercial Bank and Chairman of the Executive Committee at the Bank. He is a non-executive Board member and representative of the Public Investment Fund. Mr. Al-Ghamdi's academic qualification and professional experience are:

Academic qualifications

Year	Qualification	Major	University
1987	Bachelor Degree	Computer Sciences and Engineering	King Fahd University of Petroleum and Minerals, Dhahran, KSA

Other current positions and memberships

Job title	Name	Legal form	Sector
Chairman of Board of Directors	Türkiye Finans Katılım Bankası	Turkish closed shareholding company – inside KSA	Banking sector
Chairman of Board of Directors	NCB Capital Company (NCBC)	Closed shareholding company – inside KSA	Financial services
Chairman of Board of Directors	Saudi Credit Bureau (SIMAH)	Closed shareholding company – inside KSA	Financial services
Chairman of Board of Directors	Second Health Cluster	Government company – inside KSA	Health sector
Board Member	Real Estate General Authority	Government organization – inside KSA	Real estate
Board Member	Misk Foundation	Charity – inside KSA	Non-profit sector

Professional experience

Job title	Name	Legal form	Sector
Chief Executive Officer	National Commercial Bank	Public shareholding company	Banking sector
Advisor to HE the Governor	Saudi Arabian Monetary Authority	Government organization	Government
Advisor to the Chairman	National Commercial Bank	Public shareholding company	Banking
Board Member	Al Rajhi Takaful	Public shareholding company – inside KSA	Insurance
Board Member	Al Rajhi Capital	Closed shareholding company – inside KSA	Financial services
Deputy CEO	Al Rajhi Bank	Public shareholding company	Banks
Board Member	Al Rajhi Bank Malaysia	Malaysian limited liability company	Banks
Board Member	INJAZ-Saudi Arabia	Saudi non-profit organization – inside KSA	Civil society
Board Member	Advisory Board of MasterCard Middle East & Africa	US public shareholding company	Financial services
Board member	The Institute of International Finance	Global non-profit organization	Education

Rashid bin Ibrahim Sharif, Vice-Chairman

Mr. Sharif is Vice Chairman of the Board and a member of the Bank's Executive Committee. He is a non-executive Board member and representative of the Public Investment Fund. Mr. Sharif is now Head of General Directorate for Investments in Local Companies at the Public Investments Fund (PIF). His academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
2009	Master's Degree	Business Administration	Prince Sultan University, Riyadh, KSA
1998	Bachelor Degree	Finance Department	King Fahd University of Petroleum and Minerals, Dhahran, KSA

Other current positions and memberships

Job title	Name	Legal form	Sector
Head of General Directorate for Investments in Local Companies	Public Investments Fund	Government organization – Inside KSA	–
Board Member	Saudi Electricity Company	Public shareholding company – inside KSA	Investment
Board Member	Saudi Telecom Company	Public shareholding company – inside KSA	Communications
Board Member	Company for Management and Development of King Abdullah Financial District	Government company – inside KSA	Real estate development
Board Member	Saudi Basic Industries Corporation – SABIC	Public shareholding company – inside KSA	Basic materials
Board Member	AccorInvest Company	Shareholding company – outside the Kingdom – inside KSA	Investment

Professional experience

Job title	Name	Legal form	Sector
Chief Executive Officer	Riyadh Capital	Closed shareholding company	Financial services
Manager of Corporate Investment Banking Management	Riyadh Capital	Closed shareholding company	Financial services
Manager of Registration and Inclusion Department	Capital Markets Authority	Government Organization	Capital Market Authority
Customer Finance Relations Manager	Bank Albilad	Public shareholding company	Banks
Credit Section	Saudi Industrial Development Fund	Government fund	Industrial development

David Jeffrey Meek, Board member

Mr. Meek is a Board member, member of the Nomination and Remuneration and Governance Committee, and member of the Risk Committee. He is a non-executive Board member and representative of the Public Investment Fund. Mr. Meek is the CEO of InnoMotion Limited Company. His academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
1984	General Certificate of International Sciences – first degree	Mathematics, Economics and Geography	British Council – United Kingdom
1983	International General Certificate of Secondary Education	Mathematics, English Language, English Literature, Economics	British Council – United Kingdom

Other current positions and memberships

Job title	Name	Legal form	Sector
Deputy Chairman	NCB Capital Company (NCBC)	Closed shareholding company – inside KSA	Financial services
Board Member	This Land Ltd	Limited liability company outside the Kingdom of Saudi Arabia	Real estate development

Professional experience

Job title	Name	Legal form	Sector
Company Director General	JPMorgan, London, UK	Shareholding company outside the Kingdom of Saudi Arabia	Financial services
Company Director General	Mizuho International, London	Shareholding company outside the Kingdom of Saudi Arabia	Financial services
Company Director General	Citigroup, London	Shareholding company outside the Kingdom of Saudi Arabia	Financial services
Signing partner	Alexander Asset Management Ltd	Limited liability company – outside the Kingdom of Saudi Arabia	Financial services
Board Member	IDM Chishant Ltd	Limited liability company outside the Kingdom of Saudi Arabia	Financial services
Founder	Chesslink Ltd	Limited liability company outside the Kingdom of Saudi Arabia	Real estate development
Founder and CEO	Barco Ltd	Limited liability company outside the Kingdom of Saudi Arabia	Business support services
Chairman of the Board	Waves Technology Co Ltd	Limited liability company outside the Kingdom of Saudi Arabia	Technology
Chairman of the Board	Regtics & Partners Ltd	Limited liability company outside the Kingdom of Saudi Arabia	Regulatory technology

Marshall Charles Bailey, Board Member

Mr. Bailey is a Board Member and Chairman of the Risk Committee. He is a non-executive Board member and representative of the Public Investment Fund. Mr. Bailey is also on the Board of the London Stock Exchange Group. Details of his academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
1990	Master Degree	Economy	The University of Winnipeg, Canada
1988	Bachelor Degree	Diplomatic History and International Relations	Graduate Institute of International and Development Studies, Geneva, Switzerland.

Other current positions and memberships

Job title	Name	Legal form	Sector
Board Member	CIBC World Markets, Limited Public Company	International capital market organization – outside KSA	Financial markets
Board Member	LCH Holding Group	Closed shareholding company outside KSA	Financial services
Board Member	Financial Services Compensation Scheme	Closed shareholding company outside KSA	Financial services

Professional experience

Job title	Name	Legal form	Sector
Chairman – Global Chairman	ACI International, Financial Markets Association – UK	Shareholding company outside KSA	Financial services
Operations CEO and Senior Administrative Manager	State Street Bank UK, Europe, the Middle East and Africa (EMEA)	Shareholding company outside KSA	Banks
London Branch Chairman	State Street Bank, Germany	Shareholding company outside KSA	Banks
Chief Executive Officer (CEO)	Smart Markets International Ltd	Limited liability company outside KSA	Financial services

Anees A. Moumina, Board Member

Mr. Moumina is a Board member, a member of NCB's Risk Committee, a non-executive Board member and representative of the General Organization of the Social Insurance (GOSI). Mr. Moumina is the CEO of Savola Group. Details of his academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
2014	Degree	CEO International Program for Global Leadership	Wharton University, USA
2000	Degree	CEO International Program for Global Leadership	Harvard University, USA
1995	Degree	Senior Executive Management Program for Company Management,	Columbia University, USA
1986	Master Degree	Engineering Management Sciences (with honors)	Georgetown University, USA
1985	Bachelor Degree	Civil Engineering (with honors)	Georgetown University, USA

Other current positions and memberships

Job title	Name	Legal form	Sector
Chief Executive Officer (CEO)	Savola Group	Public shareholding company – inside KSA	Food production and retail
Vice Chairman of Board of Directors	Savola Food Company	Closed shareholding company – inside KSA	Food production
Vice Chairman of Board of Directors	Al Kabeer Company	Closed shareholding company – outside KSA	Food production
Vice Chairman of Board of Directors	United Sugar Company	Closed shareholding company – inside KSA	Food production
Vice Chairman of Board of Directors	Panda Retail Company	Closed shareholding company – inside KSA	Retail
Vice Chairman of Board of Directors	Herfy Food Services Co.	Public shareholding company – inside KSA	Consumer services
Board Member	Almarai Company	Public shareholding company – inside KSA	Food production
Board Member	Knowledge Economic City	Public shareholding company – inside KSA	Real estate management and development
Board Member	Kinan International for Real Estate Development Company	Closed shareholding company – inside KSA	Real estate management and development
Board Member	Dr. Soliman Fakeeh Hospital	Closed shareholding company – inside KSA	Healthcare
Board Member	Afia Company	Closed shareholding company – inside KSA	Food production

Professional experience

Job title	Name	Legal form	Sector
Chief Executive Officer (CEO)	SEDCO Holding	Closed shareholding company – inside KSA	Investment
Board Member	Elaf Group	Closed shareholding company – inside KSA	Tourism services
Chairman of the Board	Dunia Alaswaf Trading LLC (ALSHIAKA)	Closed shareholding company – inside KSA	Long-term commodities
Chairman of the Board	Ewaan Global Residential Company	Closed shareholding company – inside KSA	Housing
Regional Director General for the Western Region and Senior Credit Officer	Samba Financial Group	Public shareholding company – inside KSA	Banks
Marketing Manager	P&G	Closed shareholding company – inside KSA	Consumables

Saud bin Sulaiman Awad Aljuhani, Board Member

Mr. Aljuhani is a Member of the Board of Directors and a Member of the Bank's Risk Committee. He is a non-executive Board member representing the General Organization of the Social Insurance (GOSI). Mr. Aljuhani is the Assistant Governor of the Public Pension Agency (PPA). Details of his academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
2008	Master Degree	Actuarial Sciences	University of Kent, UK
2007	High Diploma	Actuarial Sciences	University of Kent, UK
2003	Diploma	Actuarial Sciences	Muhanna Foundation, the Lebanese Republic
2001	Bachelor Degree	Management Information Systems	King Fahd University of Petroleum and Minerals, Dhahran, KSA

Other current positions and memberships

Job title	Name	Legal form	Sector
Chairman of the Board of Directors	Tabuk Cement Company	Public shareholding company – inside KSA	Basic materials
Board Member	National Industrialization Company	Public shareholding company – inside KSA	Basic materials

Professional experience

Job title	Name	Legal form	Sector
Board member	Saudi Industries Development Company	Closed shareholding company – inside KSA	Investment

Zaid Abdul Rahman Al-Gwaiz, Board Member

Mr. Al-Gwaiz is a Board member, Chairman of Nomination, Remuneration and Governance Committee, and a member of the Bank's Executive Committee. He is an independent Board Member and is a Board Member of numerous shareholding companies. Details of his academic qualification and professional experience are:

Academic qualifications

Year	Qualification	Major	University
1987	Bachelor Degree	Financial accounting	King Saud University, Riyadh, KSA

Other current positions and memberships

Job title	Name	Legal form	Sector
Board member and Audit Committee Member	Bupa Arabia for Cooperative Insurance Co	Public shareholding company – inside KSA	Insurance
Chairman of Assets and Liabilities Committee	Mohammed Alsubeaei & Sons Investments Company – MASIC	Closed shareholding company – inside KSA	Multiple investments
Chairman of Audit Committee	Noon Investment Co	Closed shareholding company – inside KSA	Retail
Board Member and Chairman of Audit Committee	GIB Capital	Closed shareholding company – inside KSA	Financial

Professional experience

Job title	Name	Legal form	Sector
Audit Committee Member	Zakher Real Estate Development Company	Limited liability company – inside KSA	Real estate development
Board Member and Chairman of Audit Committee	Mohammad Abdulaziz AlRajhi & Sons Investment Co	Limited liability company – inside KSA	Multiple investments
Board Member and Chairman of Audit Committee	Wilayah Investment Co	Government company – inside KSA	Government company
Board Member	Middle East Specialized Cables (MESC)	Public shareholding company – inside KSA	Capital goods
Board Member	Saudi Hollandi Capital	Closed shareholding company – inside KSA	Financial services
Board Member	Gulf Financing Company	Closed shareholding company – inside KSA	Financing
Board Member	Al Yusr Financing & Leasing Company	Closed shareholding company – inside KSA	Financing
Board Member	Al Rajhi Steel Industries Co	Limited liability company – inside KSA	Steel industry
Deputy Managing Director	HSBC Saudi Arabia Ltd	Closed shareholding company	Financial services
General Manager of Corporate Banking Services	Saudi British Bank (SABB)	Public shareholding company	Banks
Chief Accountant – Financing, Planning, and Budgeting Management	King Faisal Specialist Hospital	Government	Medical services
Chairman of Risk Committee	Mohammed Alsubeaei & Sons Investments Company – MASIC	Closed shareholding company – inside KSA	Multiple investments

Ziyad Mohamed Mekki Al-Tunsi, Board Member

Mr. Al-Tunsi is a Board Member and Member of the Bank's Nomination, Remuneration, and Governance Committee and Executive Committee. He is an independent Board Member and is CEO of Al-Faisaliah Group. Details of his academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
2005	Senior Executives' Course	Corporate Financial Statements	INSEAD Institute, Switzerland
2003	Senior Executives' Course	Private equity rights and venture capital	Harvard Business School
1996	Master Degree	Securities and Investment Services	University of Reading, UK
1991	Bachelor Degree	Business Management	King Saud University, Riyadh, KSA

Other current positions and memberships

Job title	Name	Legal form	Sector
Board Member	Saudi Philips	Closed shareholding company – inside KSA	Medical devices and equipment
Board Member	Al Safi Danone Company	Closed shareholding company – inside KSA	Producing milk and dairy products
Board Member	Accenture Company	Closed shareholding company – inside KSA	Information technology
Board Member	Accentia Company	Shareholding company – outside KSA	Information technology
Board Member	RNC Aflanka	Shareholding company – outside KSA	Investment
Board Member	Knowledge Economic City	Public shareholding company – inside KSA	Real estate management and development

Professional experience

Job title	Name	Legal form	Sector
Board Member	Solidere International	Closed shareholding company	Real estate investment
Board Member	Pharma International	Closed shareholding company	Production of medicines and drugs
Vice Chairman and Operation Manager	Al Faisaliah Holding Group	Closed shareholding company	Multiple investments
Executive Director for Finance	Al Faisaliah Holding Group	Closed shareholding company	Multiple investments
Treasury Manager	Al Faisaliah Holding Group	Closed shareholding company	Multiple Investments
Investment Advisor – Private Banking	Samba Financial Group	Public shareholding company	Banks

Mohammed Ali Al-Hokal, Board Member

Mr. Al-Hokal is a Board Member, Chairman of Audit Committee, and independent Board Member. He is a Board Member and advisor to several listed and unlisted shareholding companies. Details of his academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
1989	Master Degree	Finance and Marketing	University of Wisconsin, USA
1985	Bachelor Degree	Business Management	Concordia, USA

Other current positions and memberships

Job title	Name	Legal form	Sector
Non-Board independent Member of the Executive Committee	Abdullatif Alissa Group	Closed shareholding company	Multiple investments
Chairman of Audit Committee, Assets and Liabilities Committee and Member of Credit Committee	Nayifat Finance Co (Al-Naifat)	Closed shareholding company	Financing
Independent Board Member and Chairman of Audit Committee	Reza Investment Co	Closed shareholding company – inside KSA	Real estate
Board Member, Advisor, and Chairman of Audit and Risk Committee	El Gezera For Cars Rent	Closed shareholding company	Car rent
Senior Advisor	R.J. Fleming & Co (DIFC) Ltd	Limited liability company – outside KSA	Financial Services
Advisory Council Member	Fast Holdings Ltd	Limited liability company – outside KSA	Multiple investments

Professional experience

Job title	Name	Legal form	Sector
Regional Director General for the Central Region – Corporate Business Banking Group	Samba Financial Group	Public shareholding company	Banks
Regional Director for Corporate Central Region	Alawwal Bank (formerly Saudi Hollandi Bank)	Public shareholding company	Banks
Board Member	Al Ra'idah Investment Company	Closed shareholding company – inside KSA	Multiple investments
Board Member	Nayifat Finance Company (Al-Naifat)	Closed shareholding company – inside KSA	Financing
Board Member and Chairman of Credit and Finance Committee	Abdullatif Alissa Group Holding Co.	Public shareholding company – inside KSA	Multiple investments
Advisor to the Chairman for Financial and Treasury Affairs	Abdullatif Alissa Holding Group	Public shareholding company	Multiple investments

Board's Secretary General

Ahmed bin Rabie AlRowaili, Head of Governance and Board of Directors Secretariat

Mr. AlRowaili has been the Head of Governance and Board of Directors Secretariat since 2018. He is Secretary General of the Board of Directors. Details of his academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
2007	MA	International Law and Legal Studies	Seattle University, USA
2005	BA	Law	King Saud University, KSA

Other current positions and memberships

N/A

Professional experience

Mr. AlRowaili joined NCB in 2018 as Head of Governance and Board of Directors Secretariat, after 10 years' experience in governance and legal affairs. He held several Chairmanships, including Director General of Legal Affairs, Secretary of the Board of Directors of Takamul Holding Company and a co-legal advisor in NCB Capital.

Members of the Audit Committee

In its meeting held on 15 May 2018, NCB's Shareholders' Extraordinary General Assembly approved the re-formation of Committee Members, identification of the Committee's duties and responsibilities, and remuneration of Members from 15/05/2018 to 14/05/2021. The Board of Directors also decided on 17/05/2018 to approve the appointment of HE Mohammed Bin Ali Al-Hokal, independent Board Member, as Chairman of Audit Committee. Audit Committee Members are:

Dr. Khalid bin Mohammed Al Taweel, Committee Member and non-Board Member.

Dr. Al Taweel is a Board Member of many listed and unlisted shareholding companies. His academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
2006	Executive Master Degree	Business Management	The University of Edinburgh, Scotland
1994	PHD	Computer Science	Texas A&M University, US
1989	Master Degree	Computer Science	King Fahd University of Petroleum and Minerals, Dhahran, KSA
1986	Bachelor Degree	Computer Sciences and Engineering	King Fahd University of Petroleum and Minerals, Dhahran, KSA

Other current positions and memberships

Job title	Name	Legal form	Sector
Board Member	Saudi Credit Bureau (SIMAH)	Closed shareholding company	Financial services
Board Member	Naqel	Partnership	Transport
Board Member	Tasheel	Limited liability company	Financial services
Chairman of Board of Directors	SIMAH	Limited liability company	Credit rating
Board Member	Saudi Chemical Company	Public shareholding company	Healthcare

Professional experience

Dr. Al Taweel has more than 20 years' experience in many public and private sectors. He has been the founder and Vice-Chairman of Elm Company's Board of Directors and Chairman of Executive Committee for more than five years. He has also been a Member of the Executive Board of Directors of International Saudi Chamber of Commerce; Audit Committee Member at Capital Markets Authority of Saudi Arabia; partner and Board Member of Leoron Professional Development Institute; and Board Member of VFS Tasheel International. He has been a Member of the Board of Trustees at Prince Sultan University since its foundation and is also a private equity investment advisor.

Dr. Al Taweel has for more than eight years been an executive advisor to HRH Prince Muhammad Bin Nayef, Assistant Minister of Interior for Security Affairs and Director General of Saudi National Information Center. He has led very important initiatives in information technology, serving all citizens and residents in the Kingdom of Saudi Arabia. He has also published many research papers on networking, security, distributed systems, and e-government, and has been a keynote speaker at many local and international conferences. He was Head of Computer Engineering Section and Dean of College of Computer Science & Engineering at King Fahd University of Petroleum & Minerals, KSA.

Hani bin Suleiman Al Shadokhi, Committee Member and non-Board Member

Mr. Al Shadokhi is an external Member of the Audit Committee. He is CEO of Dar al Maidaa Financial Consultancies Office. Details of his academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
2011	Advisor	Financial consultancies for non-securities	Department of Consulting Professions, Ministry of Commerce and Investment, KSA
2011	Advisor	Management consultancies	Department of Consulting Professions, Ministry of Commerce and Investment, KSA
1989	Bachelor Degree	Financial Management and Operation Management	King Fahd University of Petroleum and Minerals, Dhahran, KSA

Other current positions and memberships

N/A

Professional experience

Mr. Al Shadokhi has 28 years' experience in credit and risk management with banks and financial institutions operating in Saudi Arabia. He was Chairman of the Risk and Credit department at Nayifat Finance Company until 2013 and held a number of memberships in the audit, finance, credit, and risk committees.

Dr. Abdurrahman bin Mohammed Al Barrak, Committee Member and non-Board Member

Dr. Al Barrak is a Member of Audit Committee at NCB and non-Board Member. He is a founder and executive partner of Thara Administrative Investment Company and committee Chairman and board member of many listed and unlisted companies. His academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
2005	PhD	Financial	Newcastle University, UK
2001	Master Degree	Financial	Colorado University, USA
1997	Bachelor Degree	Accounting	King Faisal University, KSA

Other current positions and memberships

Job title	Name	Legal form	Sector
Chairman of Audit, Compliance and Risk Committee – independent and non-Board Member	Saudi Cargo Company	Closed shareholding company	Cargo
Board Member and Chairman of Audit Committee – independent Member	Alandalus Property Co.	Public shareholding company	Real estate management and development
Audit Committee Chairman – independent and non-Board Member	Al Elem Information Security Co	Closed shareholding company	Information security
Audit Committee Member – independent and non-Board Member	Etihad Etisalat Co (Mobily)	Public shareholding company	Communications
Audit Committee Head – independent and non-Board Member	General Authority of Zakat and Tax	Government authority	Financial
Audit Committee Member – independent and non-Board member	General Entertainment Authority	Government authority	Entertainment
Audit Committee Member – independent and non-Board Member	National Center for Privatization	Government center	Financial
Audit Committee Member – independent and non-Board Member	Center of Spending Efficiency	Government center	Financial
Audit Committee Member – independent and non-Board Member	Non-oil Revenue Development Center	Government center	Financial

Professional experience

Dr. Al-Barrak has more than 20 years' experience in finance and accounting. He has also held a number of memberships in audit, finance, compliance, and risk committees.

Mr. Abdulrahman bin Mohammed Al-Oudan, Committee Member and non-Board Member

Mr. Al-Oudan is a Member of the Bank's Audit Committee and a non-Board Member. His academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
1986	Master Degree	Computer Science	Florida Institute of Technology, USA
1984	Bachelor Degree	Computer Science	Jacksonville University, USA

Other current positions and memberships

Job title	Name	Legal form	Sector
Audit Committee Member	Saudi Stock Exchange (Tadawul)	Closed shareholding company	Capital Market

Professional experience

Mr. Al-Oudan has more than 25 years' experience in information technology and commercial banking consultancy. He held several positions at NCB's Developing and Maintaining Systems Management, Riyadh, and was appointed Vice-Executive Head of Information Technology. He has also held many memberships of audit committees.

Members of Executive Management

Faisal bin Omar Al-Saqqaf, Chief Executive Officer (CEO)

Mr. Al-Saqqaf has been NCB's CEO since May 2018. He is a member of the Executive Committee and Risk Committee, Higher Management Committee, Credit & Remedial Management Committee, Small & Medium Enterprises Committee, and Information Security Committee. Details of his academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
1986	Master Degree	Business Management	Harvard University, USA
1982	Bachelor Degree	Economy	Harvard University, USA

Other current positions and memberships

Job title	Name	Legal form	Sector
Board Member and Member of Audit Committee	Türkiye Finans Katılım Bankası	Turkish closed shareholding company	Banking
Board Member	Advisory Board of MasterCard Middle East & Africa	US public shareholding company	Financial services

Professional experience

Mr. Al-Saqqaf has more than 30 years' banking experience. He joined NCB in 2003 as Head of Strategy and Performance Management. In 2006, he was appointed Group Chief Financial Officer, and in 2013 became Head of Strategy & Business Development Group, holding that position until being appointed Chief Executive Officer.

Lama Ahmed Ghazzaoui, Head of Finance Group

Mrs. Ghazzaoui is the Head of Finance Group and also a Member of the Higher Management Committee, Assets and Liabilities Committee, Procurement Committee, Credit and Remedial Management Committee, Information Security Committee, and other committees. Details of her academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
2000	Member	General Accounting	Association of Certified Public Accountants, Colorado, USA
1996	Bachelor Degree	Accounting	Lebanese American University, Lebanon

Other current positions and memberships

Job title	Name	Legal form	Sector
Chairman of Audit Committee	NCB Capital Company	Closed shareholding company	Financial services

Professional experience

Mrs. Ghazzaoui has more than 22 years' experience in finance, accounting, and banking. She began her professional career as an external auditor at Deloitte & Touche, joining Effat University in 2001 as internal auditor and accounting instructor. She moved to NCB in 2003 as a Senior Financial Analyst, later becoming a Financial Controller of Treasury Division, responsible for general financial affairs, preparation of balance sheets, issuance of reports, and treasury control. In December 2010, she was appointed a Chief Accountant. She has been serving as the Head of Finance Group since 2013.

Khalid bin Malik Al Ghalib AlSharif, Head of Retail Banking Group

Mr. Al Ghalib has held his current position since August 2018. He is also a Member of the Higher Management Committee, Assets and Liabilities Committee, Operational Risk Committee, and Credit and Remedial Management Committee. Details of his academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
1985	Master Degree	Business Management	Notre Dame College, USA
1984	Bachelor Degree	Business Management	Notre Dame College, USA

Other current positions and memberships

Job title	Name	Legal form	Sector
Board Member	Roaa Al Madina Company	Government	Urban development
Member of the Endowment Supervision Board	Endowment of King Abdulaziz, Al Ain, Azizia	Endowment	Government
Member of the Board of Trustees	Ibrahim Al Anqari Charity	Charity organization	Community services
Chairman	AlAhli Takaful Company	Public shareholding company	Insurance
Board Member	Arabian Petroleum Supply company (APSCO)	Saudi shareholding company	Petroleum materials

Professional experience

Mr. Al Ghalib has more than 32 years' banking experience, having begun his career at the Investment and International Affairs Department at Riyadh Bank in 1986. He was appointed Regional Manager for the Western Region in 1996. He assumed several positions until becoming Deputy CEO in 1998. In 2000, he was appointed NCB's Head of Branch Network, later becoming Head of Private Banking Department. In 2007 he became Head of Corporate Banking Group, holding this position until August 2018 when he was appointed Head of Retail Banking Group.

Majid bin Hamdan Al-Ghamdi, Head, Corporate Banking Group

Mr. Al-Ghamdi has been the Head of Corporate Banking Group since 2018. He is also a Member of the Higher Management Committee, Assets and Liabilities Committee, Credit & Remedial Management Committee, Operational Risk Committee, and Small & Medium Enterprises Committee. His academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
2017	-	Leadership Development Program	Harvard University, USA
2015	-	Executive Development Program	Wharton School of Business, USA
2012	Master Degree	Risk Management	New York University, USA
2004	Bachelor Degree	Industrial Engineering	King Abdulaziz University, KSA

Other current positions and memberships

Job title	Name	Legal form	Sector
Board Member	Türkiye Finans Katılım Bankası	Turkish closed shareholding company	Banking
Chairman of Credit Committee	Türkiye Finans Katılım Bankası	Closed shareholding company	Banking

Professional experience

Mr. Al-Ghamdi has more than 14 years' banking experience, having begun his career at NCB's Risk Management. He assumed several positions and tasks in Risk Group and was Head of Comprehensive Risk Management from 2014 until his current appointment as Head of the Corporate Banking Group. Its divisions include specialized finance, institutional banking, corporate banking, commercial banking, business banking, cash and trade, private asset, and performance analysis. He has also been Chairman of Credit Committee at Türkiye Finans Katılım Bankası since March, 2016.

Talal bin Ahmed Al Khereji, Head of Treasury Group

Mr. Al Khereji has held his current position since 2009. He is also a Member of the Higher Management Committee, Assets and Liabilities Committee, Operational Risk Committee, and Credit and Debt Treatment Committee. Details of his academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
1995	Master Degree	International Businesses	Edmund A. Walsh School of Foreign Service, George Town University, USA
1993	Bachelor Degree	International Economy	Georgetown University, USA

Other current positions and memberships

Job title	Name	Legal form	Sector
Board Member	NCB Capital Company (NCBC)	Closed shareholding company	Financial markets
Member of the Risk Committee	NCB Capital Company (NCBC)	Closed shareholding company	Financial markets

Professional experience

Mr. Al Khereji has more than 22 years' banking experience, having begun his career in 1995 at SAMA in investment management. He was a member of the advisory group that designed and implemented SAMA investment policy under which Saudi Arabia's foreign exchange reserves were managed. His role at NCB includes tactical asset allocation, investment research, proprietary fund management, and fund manager selection/supervision. Mr. Al Khereji joined NCB in 2003, heading the Assets and Liabilities Department at the Treasury Group and serving as Secretary of NCB Assets and Liabilities Department. He assumed his current post in 2009. He has also chaired the Treasury Committee in the Kingdom of Saudi Arabia for two consecutive years (an authority that deals with the financial services sector within Saudi Arabia to discuss treasury, regulatory, and liquidity issues as well as other matters related to financial services in the Kingdom). He is Vice-Chairman of the Advisory Board for Saudi Arabian Interbank Offered Rate.

Naif bin Safouk Al Bashir Al Morshed, Head of Risk Group

Mr. Al Morshed has held his current position since 2015 and has been Risk Committee Secretary since 2018. He also chairs the Operational Risk Committee and is a Member of the Higher Management Committee, Assets and Liabilities Committee, Credit and Debt Treatment Committee, and Information Security Committee. Details of his academic qualification and professional experience are:

Academic qualifications

Year	Qualification	Major	University
1988	Bachelor Degree	Business Management	California State University, USA

Other current positions and memberships

Job title	Name	Legal form	Sector
Board Member	Patients' Treatment Charity	Charity organization	Community services
Board Member	Advanced Technologies Company	Limited liability company	Industrial/maintenance and operation/ contracting
Trustee Board Member	Riyadh Economic Forum	Government entity	Social services

Professional experience

Mr. Al Morshed has more than 30 years' experience in banking, having begun his career with NCB after graduation in 1988. From 1996 to 2015, he assumed several executive and leadership positions, including Regional Director for the Central Region at GBC, Head of Commercial Business Group, Head of the Corporate Banking Group, and Head of Institutional Banking until his current appointment as Head of Risk Group in 2015.

Omar M. Hashim, Head of Technology and Digital Banking Group

Mr. Hashim is also a Member of the Higher Management Committee, Procurement Committee, Digital Transformation Committee, and Operational Risk Committee. His academic qualifications and professional experience are:

Academic qualification

Year	Qualification	Major	University
1993	Bachelor Degree	Computer and Information Technology	King Fahd University of Petroleum and Minerals

Mr. Hashim has completed several courses in executive management, notably:

Entity Name	Course Field
University of Pennsylvania	Wharton Advanced Management Program
Columbia University	Digital Business Strategy program

Other current positions and memberships

Job title	Name	Legal form	Sector
Chairman	Saudi Financial Support Services Company (Sanid)	Closed shareholding company	Financial sector
Board of Directors Advisor	Capital Market Website	Limited liability company	Financial sector
Board of Directors Advisor	Vision Ventures	Investment fund	Financial sector

Professional experience

Mr. Hashim has more than 24 years' experience in various fields. Before joining NCB in 2001, he had worked with IBM since 1993. He began his career with NCB as e-Commerce and Business Development Manager. He has since held several positions in relation to products, customer segments, and banking service channels. He was Head of Digital Banking Services before assuming his current position.

Mutlaq Ben Salem Al Enazi, Head of Human Resources Group

Mr. Al Enazi has held his current position since 2018. He is also a Board Member of AlAhli Isnad and Secretary of the Nomination, Remuneration, and Governance Committee. His academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
2001	Master Degree	English Language	Murray State University, Kentucky, USA
1998	Bachelor Degree	Languages and Translation	King Saud University, Riyadh, KSA

Other current positions and memberships

N/A

Professional experience

Mr. Al Enazi joined NCB in 2013 as a Head of Recruitment and Development, with an extensive experience over 20 years in public and private sectors and a proven record in personnel development, human resource strategies, and organizational development. He began his career in the Institute of Public Administration and held several positions, including Head of Training and Leadership Division at Saudi British Bank (SABB). From 2007 to 2013, he was appointed Head of the Training and Development Division at SABB. Mr. Mutlaq launched NCB's Rowad AlAhli and Wessam AlAhli programs, creating employment opportunities for new Saudi graduates, and is an active proponent of NCB's objective of being 'Employer of Choice'.

Firas bin Hani Al Turki, Head of Shared Services Group

Mr. Al Turki has held his current position since 2016. He is also a Member of the Higher Management Committee, Procurement Committee, Business Continuity Management Program Steering Committee, and Operational Risk Committee. His academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
2002	Master Degree	Industrial Engineering	University of Florida (UF), Gainesville, USA
1999	Bachelor Degree	Industrial Engineering	King Abdulaziz University, KSA

Other current positions and memberships

N/A

Professional experience

Mr. Al Turki has more than 17 years' banking experience, having begun his career through NCB's Executive Employee Program. He worked in financial and accounting affairs within the CFO's office, at the corporate service centers, corporate operations, project management, and the operation department, before assuming his current position in 2016.

Walid bin Hassan Abdul Shakur, Head of Legal Department

Mr. Abdul Shakur has held his current position since 2009. He is also a Member of the Procurement Committee, Employee Grievance Committee, and Compliance Committee. Details of his academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
1989	Bachelor Degree	Law	King Abdulaziz University, KSA
2006	License in Law	Law	Ministry of Justice, KSA
2007	Member of the Arab Lawyers Union	Law	Arab Lawyers Union
2013	Certified Arbitrator at the GCC Commercial Arbitration Centre	Law/Arbitration	GCC Commercial Arbitration Centre

Other current positions and memberships

Job title	Name	Legal form	Sector
Board Member	Commercial Real Estate Markets Company Ltd	Limited liability company – inside KSA	Real state
General Manager	Real Estate Development Company for Ownership and Management Ltd	Limited liability company – inside KSA	Real estate
Board Member	Arab Financial Services Company	Closed shareholding company, Kingdom of Bahrain	Financial services
Member of the Audit Committee	Arab Financial Services Company	Closed shareholding company, Kingdom of Bahrain	Financial services

Professional experience

Mr. Abdul Shakur has more than 30 years' experience in advocacy and legal consultancy. He began his career in 1990 as a legal researcher with NCB and held increasingly responsible positions before becoming Head of Legal in 2009. Over his tenure with the Legal Department, he has accumulated extensive experience in legal specialties such as adjudication, contracts, and general consultancy. His key achievements in consultancy and litigation include winning important local cases, leading to awards in favor of NCB totaling more than SAR 15 billion.

Mr. Abdul Shakur defended NCB in a prominent international lawsuit that was worth more than $1 trillion in which he received a final judgment in favor of NCB.

Fouad bin Abdullah Al Harbi, Head of Compliance Department

Mr. Al Harbi has held his current position since 2013. He is also Chairman of the Compliance Committee and in 2018 headed SAMA's Chief Compliance Officers' Committee for banks operating in Saudi Arabia. Mr. Al Harbi is a Fellow of the Arab Academy for Banking and Financial Sciences. His academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
2012	Certified Compliance Officer	Compliance	Saudi Arabian Monetary Authority, Banking Institute, Riyadh, KSA
2012	Compliance and Anti-Money Laundering Certification	Compliance and Anti-Money Laundering	Henley Business School, UK
2007	Certified Compliance Officer	Compliance	American Academy of Financial Management, USA
1993	Bachelor Degree	Accounting	King Saud University, Riyadh, KSA

Professional experience

Mr. Al Harbi has more than 25 years' experience in accounting, control and compliance, and anti-money laundering. He began his career at Thebes Real Estate Investment and Development Company, becoming Head of Accounting. He joined NCB in 1997, holding various positions and co-founding the Compliance Department where he held several roles until his present position.

Hamza bin Khaled Bawazeer, Head of Shariah Department

Mr. Bawazeer has held his current position since 2019. His academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
2010	Master Degree	Business Management	King Saud University, KSA
2006	Bachelor Degree	Business Management	King Saud University, KSA

Other current positions and memberships

Job title	Name	Legal form	Sector
Board Member	International Islamic Financial Market (IIFM)	International organization	Islamic banking
Board Member	The General Council for Islamic Banks and Institution (CIBAFI)	International organization	Islamic banking
Member of the Board of Trustees	Accounting and Audit Board of the Islamic Financial Institutions	International organization	Islamic banking

Professional experience

Mr. Bawazeer joined NCB in 2015 as Head of Shariah Development and Support. He has more than 13 years' experience in Islamic banking, during which he has held various positions in local banks such as SABB. He has contributed to many achievements in Islamic banking through his work on the development of systems and products that have helped the growth of Shariah-compliant banking at NCB. He has been extensively involved in the gradual transformation of Islamic banking at NCB and implementing the decrees of the Shariah Board.

Sharif bin Mohammed Al-Samman, Head of Internal Audit

Mr. Al-Samman has been Head of Internal Audit since August 2019. His academic qualifications and professional experience are:

Academic qualifications

Year	Qualification	Major	University
2017	MA	Law Studies	Northwestern, USA
1993	BA	Public Administration	American University of Beirut, Lebanon

Professional experience

Mr. Al-Samman has more than 26 years' experience in investment and internal auditing of banking and investment services. He joined Samba Financial Group's investment management in 1993, and was promoted in 2002 to Head of International Brokerage and Director of the Financial Markets Program in the Audit and Risk Review Group. He also held several leadership positions in Samba Capital & Investment Management Co, including Chief Operating Officer from 2011. In March 2019, he was appointed as the acting CEO and headed a number of administrative committees.

Mohammed bin Sharaf Jefri, Head of Marketing and Communications

Mr. Jefri has been NCB's Head of Marketing and Communications since 2019.

Academic qualifications

Year	Qualification	Major	University
1995 – 2000	BA	Industrial engineering and systems	King Abdulaziz University

Other current positions and memberships

Job title	Name	Legal form	Sector
Executive Vice President, Head of Marketing and Communications	NCB	Public shareholding company	Banking sector

Professional experience

Mr. Jefri has more than 18 years' experience in many fields in multinational companies inside and outside Saudi Arabia. He worked for Procter & Gamble for 11 years during which he was in charge of brand management in Saudi Arabia and the Gulf region and assumed other tasks in the headquarters in Geneva, Switzerland to manage affairs in the Central and Eastern Europe, Middle East, and Africa markets. He then joined Mars, the American confectionery and food producer, spending four years in its Saudi Arabian Marketing and Sales Department. He also had two years as Marketing Director at Abbott Nutrition and was Director of the Electronics Department at Samsung Electronics in Saudi Arabia.

Key roles and responsibilities of the Board of Directors:

- The Board shall be accountable for setting NCB overall strategy and guiding its strategy and objectives. Therefore, the Board shall be accountable for developing performance objectives, taking resolutions affecting substantial capital expenditure, acquisition, purchase, sale, and liquidation operations.
- The Board shall also be responsible for monitoring the financial objectives of the Bank and verifying corporate performance against previously agreed strategic, operational, and business plans.
- The Board's tasks include aligning and monitoring the organizational structure of all businesses, staffing levels, the Bank's compensation system, and supervising succession plans.

Board of Directors Meetings, 2019

Name	Number of meetings	Attendance	Apologies	Attendance percentage	17 January	1 April	24 June	3 September	15 November	25 November	16 December
Saeed M. Al-Ghamdi	6	6	0	100.00%	Yes	Yes	Yes	Yes	Yes	– *	Yes
Rashid Ibrahim Sharif	6	6	0	100.00%	Yes	Yes	Yes	Yes	Yes	– *	Yes
Marshall Charles Bailey	6	6	0	100.00%	Yes	Yes	Yes	Yes	Yes	– *	Yes
David Jeffrey Meyek	6	6	0	100.00%	Yes	Yes	Yes	Yes	Yes	– *	Yes
Anees A. Moumina	7	7	0	100.00%	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Saud S. Aljuhani	7	6	1	85.71%	Yes	Yes	No	Yes	Yes	Yes	Yes
Mohammed Ali Al-Hokal	7	7	0	100.00%	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ziyad Mohamed Mekki Al-Tunsi	7	7	0	100.00%	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Zaid Abdul Rahman Al-Gwaiz	7	7	0	100.00%	Yes	Yes	Yes	Yes	Yes	Yes	Yes

* The Board of Directors' meeting on 25 November 2019 was dedicated to discussing issues for related parties. The relevant members were not invited to attend and their attendance record is therefore unaffected.

BOARD COMMITTEES

Audit Committee

The Audit Committee consists of five Members to be appointed by the General Assembly every three years. The Committee shall meet at least once every three months – four times every year – or whenever required by invitation from the Chairman or at the request of two Members. The Committee quorum shall be three Members in person, including the Chairman.

The decisions and discussions of the Committee must be recorded in minutes to be signed by the Chairman and the Members. Recording the proceedings of meetings is the responsibility of the Board Secretary.

Key roles and responsibilities:

The Committee shall be accountable to the Board and shall assist the Board in meeting its responsibilities, which include:

- Ensuring the operation of an effective system of internal control and compliance.
- Meeting external financial reporting obligations, including those prescribed under applicable laws and regulations.

The key objective of the Audit Committee is to oversee and supervise:

- The integrity of financial statements.
- The external/internal auditors' qualifications, independence, and performance supervision.
- The Bank's compliance with all applicable legal and regulatory requirements and ethical standards.
- Performing the internal audit, compliance, anti-money laundering, and financial crime functions according to the standards stipulated by laws as required by SAMA.
- Reviewing the contracts and transactions suggested to be conducted by the Bank with related parties based on the assurances, obtaining the necessary guarantees from the Executive Management that they are carried out without preferential benefits or conditions, according to the internal policies and procedures and providing its recommendations to the Board.

Audit Committee Meetings, 2019

Name	Number of meetings	Attendance	Apologies	Attendance percentage	21 January	25 March	21 April	8 July	10 September	11 November	27 November	11 December
Mohammed Ali Al-Hokal	8	8	0	100.00%	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Hani Suleiman Al Shadokhi	8	7	1	87.50%	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Dr. Khaled M. Al Taweel	8	8	0	100.00%	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Dr. Abdul Rahman M. Al Barrak	8	8	0	100.00%	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Abdul Rahman M. Al-Oudan	8	8	0	100.00%	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Executive Committee

The Executive Committee consists of five Members, namely the Chairman, three Board Members, and the CEO. It shall be headed by the Chairman and may be headed by the CEO. The Committee holds six periodic meetings per year or whenever needed and the meeting may be cancelled if no urgent decisions are required. Committee quorum comprises at least three Members, whether in person or by proxy, including the Chairman. Absent Members may vote by proxy. The decisions and discussions of the Committee must be recorded in minutes to be signed by the Chairman and the Members. Recording the proceedings of meetings is the responsibility of the Committee Secretary.

Key roles and responsibilities:

The main objective of the Executive Committee is to manage and oversee the Bank's operations and make quick decisions on urgent issues in the Bank's course of business. Executive Committee shall guarantee that the Bank is sufficiently represented in the affiliated companies. In addition, it shall make decisions on credit and debt settlement, corporate responsibility, purchases, and corrective measures within the authority conferred by the Board.

Executive Committee Meetings, 2019

Name	Number of meetings	Attendance	Apologies	Attendance percentage	14 February	10 April	24 June	29 August	14 October	4 November	10 December
Saeed M. Al-Ghamdi	7	7	0	100.0%	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Rashid Ibrahim Sharif	7	6	1	85.71%	Yes	Yes	Yes	No	Yes	Yes	Yes
Ziyad Mohamed Mekki Al-Tunsi	7	6	1	85.71%	Yes	Yes	Yes	No	Yes	Yes	Yes
Zaid Abdul Rahman Al-Gwaiz	7	7	0	100.0%	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Faisal Omar Al-Saqqaf (CEO)	7	7	0	100.0%	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Nomination, Remuneration, and Governance Committee

In its annual meeting on 31 December 2017, NCB General Assembly approved the Nomination, Remuneration, and Governance Committee's Charter in line with the Corporate Governance Charter issued by the Board of the Capital Market Authority. The Nomination, Remuneration, and Governance, Committee consists of at least three non-Executive Board Members including two independent non-Executive Members other than the Board Members. The Chairman of the Board shall not have the right to be the Chairman of the Committee.

The CEO and head of Human Resources Group may be invited to attend the meetings without exercising voting rights. The Committee shall convene at least twice a year. The meeting quorum shall comprise the presence of the majority of Members. Committee decisions and recommendations shall be made with the majority of present Members' votes. In case of a tie, the Chairman shall have a casting vote. Voting may not be withheld or delegated. The decisions and discussions of the Committee must be minuted and signed by the Chairman and the Members. Recording the proceedings of meetings is the responsibility of the Committee's Secretary.

Key roles and responsibilities:

- Suggest clear policies and standards to the Board of Directors, Board Committees, and the Executive Management.
- Provide recommendations to the Board of Directors and its Committee Members in relation to Board membership, according to the applicable policies and procedures.
- Ensure compliance with the terms and conditions stated in the rules and regulations issued by the regulatory bodies and the requirements decided by the Saudi Arabian Monetary Authority, the Capital Market Authority, and the Ministry of Commerce and Industry as well as the Board membership nomination policy approved by NCB's General Assembly.
- Ensure that the number of candidates for Board membership whose names are placed before the General Assembly is greater than the number of available seats so that the General Assembly has the opportunity to choose from the candidates.
- Set a description of the capabilities and qualifications required for membership of the Board and its Committees and for filling Executive Management positions.
- Conduct an annual review and prepare the description of the required skills and qualifications for membership of the Board and its Committees including specification of the time that shall be allocated by the Member for the activities of the Board and its Committees.
- Ensure that No Objection Certificates are obtained from SAMA for the nominees, after they have been approved by the Board.
- Review the Board's structure and the structure of its committees and provide recommendations on proposed changes.
- Establish a register with the qualifications and skills of the Members of the Board and its Committees to identify the additional skills required to enhance the Board's role and performance of its duties and responsibilities.
- Define the Board and its Committees' strengths and weaknesses, and suggest solutions that serve the Bank's interest.
- Annually ensure the independence of the independent Members and the absence of any conflict of interest in case a Board Member also acts as a member of the board of directors of another company.
- Set a job description for the executive, non-executive, and independent Members and Senior Executives.
- Set the measures for filling vacancies in the membership of the Board and Committees thereof and in senior Executive Management.
- Set clear policies for Board and Committee Members' and Executives' performance-based remuneration standards, disclose such standards, verify their implementation, and consider the provisions issued by the regulatory bodies when preparing and raising them to the Board for approval by NCB's General Assembly.
- Explain the relation between the granted remuneration and the applicable remuneration policy and indicate any material deviation from such policy.
- Periodically review the remuneration policy and assess its effectiveness in the achievement of set goals.
- Make recommendations to the Board on the remuneration of the Board Members, Board Committee Members, and Senior Executives according to the approved policy.
- Ensure that the volume of remuneration conforms to the prevailing local practice and relevant regulations, achieves the depositors' and shareholders' interests, and achieves the Bank's long-term strategic objectives.
- Develop the Bank's succession policy and ensure compliance by Executive Management.
- Ensure that the Bank's incentive program is regularly reviewed and does not encourage the involvement in high-risk transactions to achieve short-term profits and is in line with NCB's approved risk policy.
- Make recommendations to the Board on the candidates for membership of Board Committees taking into account the necessary qualifications required for every Committee.

Nomination, Remuneration, and Governance Committee Meetings, 2019:

Name	Number of meetings	Attendance	Apologies	Attendance percentage%	16 January	14 February	3 September
Zaid Abdul Rahman Al-Gwaiz	3	3	0	100.0%	Yes	Yes	Yes
Ziyad Mohamed Mekki Al-Tunsi	3	3	0	100.0%	Yes	Yes	Yes
David Jeffrey Meyek	3	3	0	100.0%	Yes	Yes	Yes

Risk Committee

The Risk Committee consists of at least four Board Members and the CEO. The majority of Members are non-executive. The Committee meets at least twice yearly or when required. Quorum comprises the majority of Members. The decisions and recommendations of the Committee are passed by the majority of votes of Members present. In case of a tie, the Chairman shall have a casting vote.

Key roles and responsibilities:

The Risk Committee is in charge of the supervision of Management in the Bank, ensuring that the Management understands significant risks to which the Bank is exposed and has comprehensive policies and processes in place to manage these risks, within the limits and areas of authority prescribed by the Board. The Committee shall review the measures adopted to ensure a sound and consistent risk profile.

Risk Committee Meetings, 2019

Name	Number of meetings	Attendance	Apologies	Attendance percentage%	16 January	9 April	3 September	15 December
Anees A. Moumina	4	4	0	100.0%	Yes	Yes	Yes	Yes
Saud S. Aljuhani	4	4	0	100.0%	Yes	Yes	Yes	Yes
Marshall Charles Bailey	4	4	0	100.0%	Yes	Yes	Yes	Yes
David Jeffrey Meyek	4	4	0	100.0%	Yes	Yes	Yes	Yes
Faisal Omar Al-Saqqaf (CEO)	4	4	0	100.0%	Yes	Yes	Yes	Yes

27. ASSESSMENT OF THE EFFECTIVENESS OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THE BOARD COMMITTEES

In line with the provisions of the applicable laws and regulations issued by the competent regulatory bodies in Saudi Arabia that a Board should assess the effectiveness of its Members and the volume of their involvement in its businesses, whether jointly or individually, and that this should apply to the Board Committees, and the Nomination, Remuneration, and Governance Committee, when designing and preparing the assessment forms, considering the volume of the members' involvement and their effectiveness at the level of the Board and its Committees. The Bank began implementation of this assessment in 2016. An external consulting office was engaged for the assessment of Board Members for 2019.

28. TRAINING PROGRAMS FOR THE MEMBERS OF THE BOARD OF DIRECTORS AND THE BOARD COMMITTEES

Given the Bank's commitment to enhance the skills of the Members of the Board of Directors and the Board Committees in banking and governance, a number of training programs inside and outside Saudi Arabia have been designed. NCB will continue the preparation of such programs in the coming year to become more specialized.

29. CHANGES TO KEY SHARE OWNERSHIP

The following table provides a detailed description of the key shareholders' ownership ratio in the Bank at the beginning and end of 2019.

Shareholder's name	Number of shares at the beginning of the year 01/01/2019	Number of shares at the end of the year 31/12/2019	Net Change	Y-o-Y%	Ownership%
Public Investments Fund (PIF)	1,328,839,999	1,328,839,999	0	0	44.29%
General Organization for Social Insurance	300,000,000	155,400,000	(144,600,000)	(48.2%)	5.18%
Public Pension Agency (PPA)	307,826,298	160,826,298	(147,000,000)	(47.75%)	5.36%

30. OWNERSHIP OF NCB'S SHARES BY DIRECTORS AND SENIOR EXECUTIVES, AND THEIR RELATIVES, AND CHANGES DURING 2019

The following tables provide a detailed description of the percentage of ownership distributed among the Board of Directors, their spouses and minor children; and Senior Executives, their spouses and their minor children, taking into account the increase in capital:

(a) Board members, and their relatives

Name of beneficiary	Number of shares at the beginning of the year 01/01/2019	Number of shares at the end of the year 31/12/2019	Net change	Y-o-Y%
Saeed M. Al-Ghamdi (Representative of PIF)	14.623	257.739	243.116	1,662.56%
Rashid Ibrahim Sharif – (Representative of PIF)	0	0	0	0
Marshall Bailey (Representative of the Public Investments Fund)	0	0	0	0
David Meek (Representative of the Public Investments Fund)	0	0	0	0
Anees A. Moumina (Representative of the General Organization for Social Insurance)	42,900	45,900	3,000	6.99%
Saud S. Aljuhani (Representative of the Public Pension Agency)	0	0	0	0
Zaid Abdul Rahman Al-Gwaiz	7,635	16,485	8,850	115.91%
Ziyad Mohamed Mekki Al-Tunsi	75	0	(75)	(100%)
Mohammed Ali Al-Hokal	0	0	0	0

(b) Senior Executives and their relatives

Name of beneficiary	Title	Number of shares at the beginning of the year 01/01/2019	Number of shares at the end of the year 31/12/2019	Net change	Y-o-Y%
Faisal Omar Al-Saqqaf	Chief Executive Officer (CEO)	0	55,000	55,000	0
Lama A. Ghazzaoui	Head of Finance Group	0	0	0	0
Ahmed Rabie AlRowaili	Head of Governance and Board of Directors Secretariat	3,799	3,799	-	-
Khalid Bin Malik Al Ghalib AlSharif	Head of Retail Banking Group	5385	3175	(2210)	(41.04%)
Talal Bin Ahmed Al Khereji	Head of Treasury Group	3150	3150	0	0
Firas Bin Hani Al Turki	Head of Shared Services Group	150	150	0	0
Walid Bin Hassan Abdul Shakur	Head of Legal Division	9639	71050	61411	637.11%
Fouad Bin Abdullah Al Harbi	Head of Compliance Division	0	1061	1061	0

31. SHAREHOLDERS' RIGHTS

NCB's Articles of Association, updated according to the resolution of the Extraordinary General Assembly held on 15 May 2018 and NCB's Governance Regulations updated and approved by the Board of Directors on 29/05/2018, stipulated shareholders' rights to obtain profits, attend assemblies, participate in discussions and voting, and dispose of their shares. Shareholders are also provided with information related to assemblies, balance sheets, the account of profits and losses, and the Board of Directors' annual report. This information is also published in local newspapers and on NCB's official website. Following is a statement with NCB's number of requests for the shareholders' register, the dates of such requests, and their reasons for the fiscal year ended 31 December 2019:

Number of requests	Date of request	Reasons for the request
1	03/02/2019	NCB's internal procedures
2	10/04/2019	NCB Shareholders' 7th Extraordinary General Assembly meeting
3	14/04/2019	Distribution of the cash profits to NCB Shareholders in respect of the second half of the fiscal year ended 31 December 2018.
4	20/05/2019	Corporate's internal procedures
5	10/07/2019	Corporate's internal procedures
6	05/08/2019	Distribution of the cash profits to NCB shareholders in respect of the first half of fiscal year ended 31 December 2019
7	02/01/2020	Corporate's internal procedures

32. NCB SHAREHOLDERS' GENERAL ASSEMBLIES

During the fiscal year ended 31 December 2019, NCB held a general assembly for its shareholders in which a number of topics announced on the website of Tadawul were discussed. The Board also reviewed shareholder resolutions and recommendations issued by the General Assembly. Following statement shows the attendance of the Board members at the General Assembly meeting:

	Attendance Register
Name	NCB Shareholders' 6th Extraordinary General Assembly meeting regarding NCB's capital increase (first meeting) 10/04/2019
Saeed M. Al-Ghamdi (Board Chairman, Chairman of the Executive Committee & Representative of PIF)	Attendance
Rashid Ibrahim Sharif (Vice Chairman of the Board and Representative of PIF)	Attendance
Marshall Bailey (Representative of PIF)	Attendance
David Meek (Representative of PIF)	Attendance
Anees A. Moumina (Representative of the General Organization for Social Insurance)	Attendance
Saud S. Aljuhani (Representative of the Public Pension Agency)	Attendance
Zaid Abdul Rahman Al-Gwaiz	Attendance
Ziyad Mohamed Mekki Al-Tunsi	Attendance
Mohammed Ali Al-Hokal	Attendance

33. CORPORATE GOVERNANCE

In general, NCB operates in compliance with the provisions and guidelines of the Corporate Governance Regulations issued by the CMA, and SAMA's general governance principles for banks operating in Saudi Arabia. NCB is committed to complying with all the governance regulations and updates. It continues to revise its relevant policies and procedures as regulatory updates are issued. In its meeting dated 29 May 2018, the Board of Directors approved the updated governance guide of the Bank, in addition to the creation, update and approval of the policies supplementing the guide by the General Assembly and NCB's Board, each within its powers in line with the provisions of the Corporate Governance Regulations issued by the CMA.

NCB affirms that it continues to audit the general framework of the Bank's governance in accordance with the highest professional standard and best practices to keep abreast of any developments and to ensure the implementation of effective governance in all the Bank's businesses.

Acknowledgment

NCB Board expresses its deep gratitude and appreciation to the Custodian of the Two Holy Mosques, King Salman Bin Abdulaziz Al Saud; HRH Prince Muhammad Bin Salman Bin Abdulaziz Al Saud, Deputy Crown Prince, Deputy Prime Minister, and Minister of Defense; and the Government of the Custodian of the Two Holy Mosques.

The Board also thanks the Council of Economic and Development Affairs, the Ministry of Finance, the Saudi Arabian Monetary Authority, the Capital Market Authority, and the Ministry of Commerce and Investment, who spare no effort to develop the financial services industry in the Kingdom. This has great impact on the progress and prosperity of the national financial sector, in addition to their significant role in achieving economic growth in the Kingdom, despite the considerable challenges facing the world's economies.

The Board expresses its gratitude to all NCB's shareholders for their continuous trust and support for the Bank's business strategies. The Board also thanks its customers, one of the most important assets in the Bank's continued success, and all employees for their dedication and competence, which are vital elements in the Bank's distinguished 2019 results.

May the Peace and Mercy of Allah be upon you

Board of Directors

CONSOLIDATED FINANCIAL STATEMENTS

Ernst & Young & Co. (Public Accountants)
General Partnership
King's Road Tower – 13th Floor
King Abdulaziz Road (Malek Road)
P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia
Head Office – Riyadh
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C.R. No. 4030276644

KPMG Al Fozan & Partners
Certified Public Accountants
9th Floor, Tower A, Zahran Business Centre
Prince Sultan Street
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Jeddah 21534
Kingdom of Saudi Arabia
License No. 46/11/323 issued 11/3/1992

Independent Auditors' Report on the Audit of the Consolidated Financial Statements

To the Shareholders of The National Commercial Bank (A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of The National Commercial Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 46.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS that are endorsed in KSA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics, that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter, a description of how our audit addressed the matter is set out below, provided in that context:

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
Impairment for credit losses of financing and advance	As at 31 December 2019, the Group's gross financing and advances amounted to SR 289,651 million (2018: SR 272,488 million), against which an impairment charge of SR 1,447 million (2018: SR 1,347 million) was recognized during the year and the total allowance for credit losses maintained as at the reporting date amounts to SR 7,362 million (2018: SR 7,426 million). Determination of Expected credit loss ("ECL") require Management estimates and assumptions. These included assumptions for determination of staging criteria stipulated in IFRS 9 – *Financial Instruments* ("IFRS 9") defining conditions of significant increase in credit risk, curing period and assignment of applicable probability of default (PD) and loss given defaults (LGD), especially in the areas of classifying financing and advances into stages as stipulated in IFRS 9. In accordance with the requirements of IFRS 9, the Group measures ECL based on the credit losses expected to arise over the next twelve months ('12 month ECL'), unless there has been a significant increase in credit risk since origination or default, in which case, the allowance is based on the ECL expected to arise over the tenure of the financing and advances ('Lifetime ECL'). Since, financing and advances forms a significant component of the Group's consolidated assets, and on account of the significance of judgments, estimates and assumptions applied by management, we have considered impairment charge for credit losses on financing and advances to be a key audit matter. Refer to notes 2.5(h) to the consolidated financial statements for significant judgments applied in the determination of expected credit losses, note 3.26 for significant accounting policies pertaining to ECL, note 7.2 for movement in ECL during the year ended 31 December 2019 and note 35 for credit risk management strategy and credit quality analysis in respect of financing and advances.	Our audit procedures in response to the significant risk associated with the impairment for credit losses of Group's financing and advances included an assessment of adequacy of the impairment allowances at the date of the Financial Position. Based on our understanding of the process and key controls, we focused on the determination of expected credit loss and the governance controls over the impairment process and determination of staging criteria established by the Group, including continuous re-assessment by management. We have performed walkthroughs and testing of relevant key controls to determine whether they were designed, implemented and operated effectively throughout the year. In addition, we tested the Information Technology (IT) controls related to systems in use for the computation of impairment. Also, we tested the entity and business unit level controls over the impairment model process in relation to model build (with specific focus on quantitative and qualitative attributes), and model monitoring. We obtained an understanding of the Group's credit monitoring process comprising identifying, measuring and recording ECL and tested the operating effectiveness of key controls implemented over this process. We obtained the Group's impairment allowance policy and compared it with the requirements of IFRS 9. We obtained an understanding of the Group's internal rating model for the financing and advances and for a selected sample of customers verified the internal rating determined by the management. We checked the appropriateness of the policy for identifying significant increase in credit risk and the resultant classification of exposures into the stages consistent with the requirements of IFRS 9. For a selected sample of exposures, we checked the appropriateness of the staging. For forward looking assumptions used by the Group in ECL calculations, we had discussed with management and corroborated the assumptions using publicly available information. For data from external sources used by the management, we understood the process of selecting such data, its relevance to the Group and the controls and governance over input of such data. For a sample of exposures: • We checked the appropriateness of determining Exposure at Default (EAD) including the consideration of repayment in the cash flows and the resultant arithmetical calculations. • We checked the appropriateness of Probability of Default (PD) and Loss Given Default (LGD) used by the Group's management in the ECL calculations.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
Impairment for credit losses of financing and advance		For selected sample of financing and advances customers, we checked the: i. computation of PD and LGD ii. reasonableness of cash flows iii. appropriateness of discount rate We checked the completeness of financing and advances and credit related contingent items included in the ECL calculation as of 31 December 2019. Where relevant, we used specialists including IT specialists and financial risk modelling experts to gain comfort on model recalibration, resultant ECL calculations and data integrity. We also assessed the adequacy of financial statements' disclosures required by IFRS 9 and IFRS 7 – *Financial Instruments: Disclosures* ("IFRS 7").
Classification of investments	As at 31 December 2019, the Group's gross investments amounted to SR 134,169 million (2018: SR 118,195 million), against which an impairment allowance of SR 178 million (2018: SR 206 million) has been maintained as at 31 December 2019. These include sukuks, bonds, hedge funds, mutual funds, quoted and unquoted shares and other private equity investments. In accordance with the requirements of IFRS 9, the Group classifies its investments into the following categories: measured at amortized cost ("IAC"), measured at fair value through other comprehensive income ("FVOCI") and measured at fair value through income statement ("FVIS"). These classifications are generally based on (except equity instruments and derivatives) the characteristics of contractual cash flows and the business models under which they are held. The classification of investments is considered a key audit matter considering the fact that IFRS 9 requires significant judgment in performing the contractual cash flow characteristics test and the business model assessment. Refer to note 2.5(i) to the consolidated financial statements for significant judgments applied in the determination of classification of investments and note 3.4 for significant accounting policies pertaining to classification.	Our audit procedures in response to the significant risk associated with the classification of Group's investments covered assessing the appropriateness and adequacy of the classification criteria and we have performed the below procedures. We have checked the Group's investment classification policy and compared it with the requirements of IFRS 9. For sample of investments classified as amortized cost, we checked the appropriateness of the classification by verifying that each financial asset meets both of the following conditions and is not designated as FVIS: • the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and • the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test). For sample of investments classified as FVOCI, we checked the appropriateness of the classification by verifying that a debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVIS: • the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and • the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test). We assessed the financial statements' disclosures to ensure compliance with IFRS 9 and IFRS 7 requirements.

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
Impairment for credit losses on debt investments held at IAC and FVOCI	As at 31 December 2019, the Group had gross investments in debt instruments held at amortised cost (IAC) and fair value through other comprehensive income (FVOCI) amounting to SR 123,572 million (2018: SR 111,750 million) against which an impairment allowance of SR 178 million has been maintained as at 31 December 2019 (2018: SR 206 million). These investments comprise government, quasi government and corporate sukuks and bonds which are subject to the risk of impairment in value due to either adverse market conditions and/or liquidity constraints faced by the issuers. Due to the subjectivity inherent in the process of identifying and computing impairment charge for credit losses, it requires significant management judgment. As per the requirements of IFRS 9, management is required to determine and recognize expected credit losses ('ECL'). This required significant judgment, especially in the areas of classifying investments into stages as stipulated in IFRS 9, determination of significant increase in credit risk, establishing curing periods and computing probability of defaults (PD) and loss given default (LGD) percentages for counterparties. In accordance with the requirements of IFRS 9, the Group measures ECL based on the credit losses expected to arise over the next twelve months ('12 month ECL'), unless there has been a significant increase in credit risk since origination or default, in which case, the allowance is based on the ECL expected to arise over the life of the investments ('Lifetime ECL'). Moreover, in making an assessment of whether an investment in a sovereign debt is credit-impaired, the Group considers creditworthiness as reflected in the bond yields and assessed by the rating agencies, the country's ability to access the capital markets for new debt issuance, the probability of debt being restructured, the international support mechanisms in place to provide the necessary support to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. Since debt investments form a significant component of the Group's consolidated assets, and on account of the significance of judgments applied by management in the aforementioned aspects, we have considered impairment charge for credit losses on IAC and FVOCI to be a key audit matter. Refer to notes 2.5(h) to the consolidated financial statements for significant judgments applied in the determination of expected credit losses, note 6.2 for movement in ECL during the year ended 31 December 2019, and note 35 for credit risk management strategy and credit quality analysis in respect of investments.	Our audit procedures in response to the significant risk associated with the impairment charge for credit losses on Group's debt investments held at IAC and FVOCI covered assessing the appropriateness and adequacy of the corresponding impairment allowances and we have performed following procedures. We checked the Group's impairment policy against debt instruments held at IAC and debt instruments held at FVOCI and compared it with the requirements of IFRS 9. We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for determining impairment allowance against investment in debt instruments held at IAC and FVOCI. We checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. For provision against debt instruments classified as Stage 1, Stage 2 and Stage 3, we obtained an understanding of the Group's provisioning methodology, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used. or a sample of investments in debt instruments, we checked the appropriateness of determining exposure at default, probability of default, and loss given default used in the expected credit losses calculations. Where relevant, we used specialists including IT specialists and financial risk modelling experts to gain comfort on model recalibration, resultant ECL calculations and data integrity. We also assessed the financial statements' disclosures to ensure compliance with IFRS 9 and IFRS 7 requirements. There were no exposures determined to be individually impaired classified as stage 3 as at 31 December 2019.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
Valuation of unquoted derivative and non-derivative financial instruments carried at fair value	As at 31 December 2019, the carrying values of unquoted derivative and non derivative financial assets and financial liabilities carried at fair value aggregated to SR 37,903 million (2018: SR 25,027 million) and SR 6,082 million (2018: SR 3,279 million), respectively. In the absence of observable market inputs; the valuation of certain unquoted derivative and non-derivative financial instruments is derived using complex techniques, applying varied assumptions that are considered appropriate, reasonable and relevant based on management's judgment. The valuation estimate is particularly sensitive to certain inputs, whereby small changes can have a material impact on the Group's reported consolidated financial position, results and disclosures. Accordingly, due to the significance of unquoted financial instruments and related estimation uncertainty, this has been determined as a key audit matter. Please refer to note 2.5(a) for details of the significant judgments applied in valuation of unquoted financial instruments and note 39 for the composition and gross carrying values and methodology applied in the valuation of such financial instruments.	Our audit procedures in response to the significant risk with respect to the valuation of unquoted derivative and non-derivative financial instruments included the assessment of the Group's overall valuation framework; including: • Obtaining an understanding of the management processes for identification, and mitigation of valuation risk, • Conducting an evaluation of applied judgments and significant inputs used in the valuation, • Assessing the reliability of the source and appropriateness of key assumptions, and • Understanding controls over approval of new models or changes to existing valuation models. We carried out an independent valuation assessment for a sample of unquoted financial instruments. In addition to independently testing the valuation of derivatives, we have also checked the valuation of selected samples against counterparty valuation statements. With respect to financial statements disclosure, we have assessed whether the Group has appropriately reflected its exposure to valuation risk of unquoted financial instruments, using appropriate narratives and sensitivity analysis.
Application of hedge accounting	As at 31 December 2019, the positive and negative fair values of derivatives designated under hedging relationships aggregated to SR 247 million (2018: SR 890 million) and SR 1,619 million (2018: SR 809 million) respectively, while the corresponding unrecognised notional values amounted to SR 15,980 million (2018: SR 36,167 million). The IAS 39 '*Financial Instruments: recognition and measurement*' stipulate certain criteria including hedge effectiveness testing as a pre-requisite to the application of hedge accounting. Due to the complex nature of the hedge accounting rules and their corresponding application, we have determined hedge accounting to be a key audit matter. Please refer note 14 for details of the composition, notional values and carrying values and note 3.9 for details of the corresponding accounting policy adopted by the Group in the application of hedge accounting.	Our audit procedures in response to the significant risk associated with the application of hedge accounting included: • obtaining an understanding of the Group's framework for financial risk management and hedge accounting. • Understanding the process of establishing hedge relationships, preparation of appropriate documentation and hedge monitoring process, including testing the prospective and retrospective effectiveness. In addition, we have also checked hedge effectiveness testing for a selected sample of hedges. Our audit procedures also included tests of the design, implementation and operating effectiveness of application controls embedded in the systems used in connection with the accounting for designated hedges. We have also assessed the appropriateness of the consolidated financial statements disclosures reflecting the Group's cumulative exposures under hedging relationships at the reporting date.

Other Information included in the Group's 2019 Annual Report

Management is responsible for the other information in Group's annual report. Other information consists of the information included in the Group's 2019 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS that are endorsed in KSA, the Regulation for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws, and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Bank is not in compliance with the requirements of the Regulation for Companies, the Banking Control law in the Kingdom of Saudi Arabia and the Bank's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young
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11 Jumada Al Thani 1441H
(Corresponding to 5 February 2020)

Consolidated Statement of Financial Position

As at 31 December 2019 and 2018

	Notes	2019 SAR '000	2018 SAR '000
ASSETS			
Cash and balances with SAMA	4	**45,382,209**	32,514,075
Due from banks and other financial institutions, net	5	**16,565,294**	15,964,451
Investments, net	6	**134,076,572**	118,090,208
Financing and advances, net	7	**282,288,760**	265,061,962
Positive fair value of derivatives, net	14	**5,276,039**	3,913,049
Investments in associates, net	8	**438,483**	447,371
Other real estate, net	9	**1,283,387**	1,132,277
Property, equipment and software, net	10	**5,496,576**	5,347,611
Right of use assets, net	11	**1,669,825**	–
Other assets	13	**14,786,657**	9,705,764
Total assets		**507,263,802**	452,176,768
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	15	**62,186,044**	45,962,850
Customers' deposits	16	**353,389,315**	318,701,026
Debt securities issued	17	**1,016,101**	9,430,907
Negative fair value of derivatives, net	14	**6,081,580**	3,279,130
Other liabilities	18	**14,802,485**	9,134,146
Total liabilities		**437,475,525**	386,508,059
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Share capital	19	**30,000,000**	30,000,000
Treasury shares	27	**(357,971)**	(373,313)
Statutory reserve	20	**25,650,012**	22,894,980
Other reserves (cumulative changes in fair values)	21	**866,542**	(606,048)
Employees' share based payments reserve	27	**202,508**	196,798
Retained earnings		**6,621,912**	6,790,221
Proposed dividend	31	**3,600,000**	3,288,350
Foreign currency translation reserve		**(4,694,978)**	(4,454,071)
Equity attributable to shareholders of the Bank		**61,888,025**	57,736,917
Tier 1 Sukuk	30	**7,000,000**	7,000,000
Equity attributable to equity holders of the Bank		**68,888,025**	64,736,917
Non-controlling interests		**900,252**	931,792
Total equity		**69,788,277**	65,668,709
Total liabilities and equity		**507,263,802**	452,176,768

Lama A. Ghazzaoui
Chief Financial Officer

Faisal O. Al-Saqqaf
Chief Executive Officer

Saeed M. Al-Ghamdi
Chairman

The accompanying notes from 1 to 46 form an integral part of these consolidated financial statements.

Consolidated Statement of Income

For the years ended 31 December 2019 and 2018

	Notes	2019 SAR '000	2018 SAR '000 Restated
Special commission income	23	**20,527,145**	19,058,796
Special commission expense	23	**(4,720,595)**	(3,935,655)
Net special commission income		**15,806,550**	15,123,141
Fee income from banking services, net	24	**2,527,348**	2,529,208
Exchange income, net		**1,062,347**	1,166,248
Income from FVIS instruments, net	25	**940,477**	450,026
Gains/income on non-FVIS financial instruments, net	26	**470,256**	63,797
Other operating (expenses), net		**(199,866)**	(405,197)
Total operating income		**20,607,112**	18,927,223
Salaries and employee-related expenses		**3,549,789**	3,491,156
Rent and premises-related expenses		**355,306**	726,375
Depreciation/amortisation of property, equipment, software and ROU assets	10 & 11	**865,935**	607,325
Other general and administrative expenses		**1,560,021**	1,621,589
Total operating expenses before impairment		**6,331,051**	6,446,445
Net impairment charge for expected credit losses		**1,419,930**	1,430,092
Impairment charge for goodwill	12	**–**	204,965
Total operating expenses		**7,750,981**	8,081,502
Income from operations, net		**12,856,131**	10,845,721
Other non-operating income (expenses), net		**62,447**	(15,602)
Net income for the year before Zakat and income tax		**12,918,578**	10,830,119
Zakat and income tax expenses		**(1,434,712)**	(1,107,900)
Net income for the year after Zakat and income tax		**11,483,866**	9,722,219
Net income for the year after Zakat and income tax attributable to:			
Equity holders of the Bank		**11,401,436**	9,593,949
Non-controlling interests		**82,430**	128,270
Net income for the year after Zakat and income tax		**11,483,866**	9,722,219
Basic earnings per share (expressed in SAR per share)	29	**3.68**	3.08
Diluted earnings per share (expressed in SAR per share)	29	**3.67**	3.08

Lama A. Ghazzaoui
Chief Financial Officer

Faisal O. Al-Saqqaf
Chief Executive Officer

Saeed M. Al-Ghamdi
Chairman

The accompanying notes from 1 to 46 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the years ended 31 December 2019 and 2018

	2019 SAR '000	2018 SAR '000 Restated
Net income for the year after Zakat and income tax	**11,483,866**	9,722,219
Other comprehensive income		
Items that cannot be reclassified to the consolidated statement of income in subsequent years:		
– Movement in fair value reserve in equity instruments and actuarial gains (losses)	**(238,886)**	(25,044)
Items that are or may be reclassified to the consolidated statement of income in subsequent years:		
– Foreign currency translation reserve (losses)	**(347,607)**	(1,239,366)
FVOCI debt instruments:		
– Net change in fair values	**1,930,893**	(1,206,252)
– Transfers to the consolidated statement of income	**(217,900)**	3,867
Cash flow hedges:		
– Effective portion of changes in fair values	**91,912**	103,095
– Transfers to the consolidated statement of income	**(61,384)**	(78,166)
Total other comprehensive income/(loss)	**1,157,028**	(2,441,866)
Total comprehensive income for the year	**12,640,894**	7,280,353
Attributable to:		
Equity holders of the Bank	**12,633,119**	7,544,127
Non-controlling interests	**7,775**	(263,774)
Total comprehensive income for the year	**12,640,894**	7,280,353

Lama A. Ghazzaoui
Chief Financial Officer

Faisal O. Al-Saqqaf
Chief Executive Officer

Saeed M. Al-Ghamdi
Chairman

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Consolidated Statement of Changes in Equity

For the years ended 31 December 2019 and 2018

		Attributable to equity holders of the Bank				
				Other reserves		
	Notes	Share capital SAR' 000	Treasury shares SAR' 000	Statutory reserve SAR' 000	Available for sale financial assets reserve SAR' 000	Cash flow hedge reserves SAR' 000
Balance as at 1 January 2019		**30,000,000**	**(373,313)**	**22,894,980**	**–**	**31,148**
IFRS adjustments	3.3	**–**	**–**	**–**	**–**	**–**
Balance as at 1 January 2019 (restated)		**30,000,000**	**(373,313)**	**22,894,980**	**–**	**31,148**
Other comprehensive income/(loss) for the year		**–**	**–**	**–**	**–**	**31,807**
Net income for the year		**–**	**–**	**–**	**–**	**–**
Total comprehensive income/(loss) for the year		**–**	**–**	**–**	**–**	**31,807**
Transfer to statutory reserve	20	**–**	**–**	**2,755,032**	**–**	**–**
Adjustments in non-controlling interests and subsidiaries		**–**	**–**	**–**	**–**	**–**
Tier 1 Sukuk related costs	30	**–**	**–**	**–**	**–**	**–**
Purchase of treasury shares for employee's share based payment plan	27	**–**	**(125,000)**	**–**	**–**	**–**
Settlement of vested share based payments plan via treasury shares		**–**	**140,342**	**–**	**–**	**–**
Share based payments reversal		**–**	**–**	**–**	**–**	**–**
Employees' share based payments plan reserve – charged to the consolidated statement of income	27	**–**	**–**	**–**	**–**	**–**
Final dividend paid for 2018		**–**	**–**	**–**	**–**	**–**
Interim dividend paid for 2019	31	**–**	**–**	**–**	**–**	**–**
Final proposed dividend 2019	31	**–**	**–**	**–**	**–**	**–**
Proposed dividend reversal		**–**	**–**	**–**	**–**	**–**
Balance as at 31 December 2019		**30,000,000**	**(357,971)**	**25,650,012**	**–**	**62,955**
Balance as at 1 January 2018		20,000,000	(226,011)	20,266,514	132,096	10,353
IFRS 9 first time adoption impact		–	–	–	(132,096)	–
Balance as at 1 January 2018 (restated)		20,000,000	(226,011)	20,266,514	–	10,353
Other comprehensive (loss)/income for the year		–	–	–	–	20,795
Net income for the year		–	–	–	–	–
Total comprehensive (loss)/income for the year		–	–	–	–	20,795
Transfer to statutory reserve	20	–	–	2,628,466	–	–
Adjustments in non-controlling interests and subsidiaries		–	–	–	–	–
Tier 1 Sukuk related costs	30	–	–	–	–	–
Purchase of treasury shares for employee's share based payment plan	27	–	(112,000)	–	–	–
Employees' share based payments plan reserve – charged to the consolidated statement of income	27	–	–	–	–	–
Final dividend paid for 2017		–	–	–	–	–
Interim dividend paid for 2018	31	–	–	–	–	–
Final proposed dividend 2018	31	–	–	–	–	–
Proposed dividend reversal		–	–	–	–	–
Bonus issue		10,000,000	(35,302)	–	–	–
Balance as at 31 December 2018 – Restated		30,000,000	(373,313)	22,894,980	–	31,148

Lama A. Ghazzaoui
Chief Financial Officer

Faisal O. Al-Saqqaf
Chief Executive Officer

Saeed M. Al-Ghamdi
Chairman

The accompanying notes from 1 to 46 form an integral part of these consolidated financial statements.

Attributable to equity holders of the Bank									
FVOCI Financial instrument reserve SAR' 000	Employees' share based payments reserve SAR' 000	Retained earnings SAR' 000	Proposed dividend SAR' 000	Foreign currency translation reserve SAR' 000	Total equity attributable to shareholders of the Bank SAR' 000	Tier 1 Sukuk SAR' 000	Total equity attributable to equity holders of the Bank SAR' 000	Non-controlling interests SAR' 000	Total equity SAR' 000
(637,196)	**196,798**	**6,790,221**	**3,288,350**	**(4,454,071)**	**57,736,917**	**7,000,000**	**64,736,917**	**931,792**	**65,668,709**
–	**–**	**(1,450,148)**	**–**	**–**	**(1,450,148)**	**–**	**(1,450,148)**	**10**	**(1,450,138)**
(637,196)	**196,798**	**5,340,073**	**3,288,350**	**(4,454,071)**	**56,286,769**	**7,000,000**	**63,286,769**	**931,802**	**64,218,571**
1,440,783	**–**	**–**	**–**	**(240,907)**	**1,231,683**	**–**	**1,231,683**	**(74,655)**	**1,157,028**
–	**–**	**11,401,436**	**–**	**–**	**11,401,436**	**–**	**11,401,436**	**82,430**	**11,483,866**
1,440,783	**–**	**11,401,436**	**–**	**(240,907)**	**12,633,119**	**–**	**12,633,119**	**7,775**	**12,640,894**
–	**–**	**(2,755,032)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**(26,273)**	**–**	**–**	**(26,273)**	**–**	**(26,273)**	**(39,325)**	**(65,598)**
–	**–**	**(396,900)**	**–**	**–**	**(396,900)**	**–**	**(396,900)**	**–**	**(396,900)**
–	**–**	**–**	**–**	**–**	**(125,000)**	**–**	**(125,000)**	**–**	**(125,000)**
–	**–**	**(140,342)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**(103,330)**	**103,330**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
–	**109,040**	**–**	**–**	**–**	**109,040**	**–**	**109,040**	**–**	**109,040**
–	**–**	**–**	**(3,292,730)**	**–**	**(3,292,730)**	**–**	**(3,292,730)**	**–**	**(3,292,730)**
–	**–**	**(3,300,000)**	**–**	**–**	**(3,300,000)**	**–**	**(3,300,000)**	**–**	**(3,300,000)**
–	**–**	**(3,600,000)**	**3,600,000**	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**(4,380)**	**4,380**	**–**	**–**	**–**	**–**	**–**	**–**
803,587	**202,508**	**6,621,912**	**3,600,000**	**(4,694,978)**	**61,888,025**	**7,000,000**	**68,888,025**	**900,252**	**69,788,277**
–	96,886	18,158,718	1,196,879	(3,594,886)	56,040,549	7,000,000	63,040,549	1,235,049	64,275,598
574,236	–	(1,711,069)	–	–	(1,268,929)	–	(1,268,929)	(40,084)	(1,309,013)
574,236	96,886	16,447,649	1,196,879	(3,594,886)	54,771,620	7,000,000	61,771,620	1,194,965	62,966,585
(1,211,432)	–	–	–	(859,185)	(2,049,822)	–	(2,049,822)	(392,044)	(2,441,866)
–	–	9,593,949	–	–	9,593,949	–	9,593,949	128,270	9,722,219
(1,211,432)	–	9,593,949	–	(859,185)	7,544,127	–	7,544,127	(263,774)	7,280,353
–	–	(2,628,466)	–	–	–	–	–	–	–
–	–	(2,266)	–	–	(2,266)	–	(2,266)	601	(1,665)
–	–	(379,303)	–	–	(379,303)	–	(379,303)	–	(379,303)
–	–	–	–	–	(112,000)	–	(112,000)	–	(112,000)
–	99,912	–	–	–	99,912	–	99,912	–	99,912
–	–	–	(1,195,764)	–	(1,195,764)	–	(1,195,764)	–	(1,195,764)
–	–	(2,989,409)	–	–	(2,989,409)	–	(2,989,409)	–	(2,989,409)
–	–	(3,288,350)	3,288,350	–	–	–	–	–	–
–	–	1,115	(1,115)	–	–	–	–	–	–
–	–	(9,964,698)	–	–	–	–	–	–	–
(637,196)	196,798	6,790,221	3,288,350	(4,454,071)	57,736,917	7,000,000	64,736,917	931,792	65,668,709

Consolidated Statement of Cash Flows

For the years ended 31 December 2019 and 2018

	Notes	2019 SAR '000	2018 SAR '000
OPERATING ACTIVITIES			
Net income for the year before Zakat and income tax		**12,918,578**	10,830,119
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium on non-trading financial instruments, net		**(455,578)**	259,601
(Gains) on non-FVIS financial instruments, net	26	**(374,384)**	(26,348)
(Gains) on disposal of property, equipment and software, net		**(24,803)**	(18,014)
(Gains) on disposal of other real estate, net		**(5,593)**	(5,118)
Loss on disposal of other repossessed assets		**51,306**	67,314
Depreciation/amortisation of property, equipment, software, and ROU Assets	10 & 11	**865,935**	607,325
Impairment charge for financing and advances, net	7.3	**1,447,164**	1,347,071
Impairment charge on investments, net		**(27,234)**	83,021
Impairment charge on other real estate		**2,658**	150
Impairment charge for goodwill	12	**–**	204,965
Share of results of associates, net		**(2,560)**	(1,070)
Share based payments plan expense		**109,040**	99,912
		14,504,529	13,448,928
Net (increase) decrease in operating assets:			
Statutory deposits with SAMA		**(491,938)**	(1,191,903)
Due from banks and other financial institutions with original maturity of more than three months, net		**(437,659)**	2,509,702
Held at fair value through income statement (FVIS) investments		**(2,880,568)**	1,301,353
Financing and advances, net		**(23,643,317)**	(26,028,403)
Positive fair value of derivatives, net		**(1,294,315)**	(851,304)
Other real estate		**470,090**	50,345
Other assets		**(4,970,418)**	(543,768)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**16,720,419**	(1,231,082)
Customers' deposits		**36,821,213**	16,014,270
Negative fair value of derivatives, net		**2,835,885**	804,707
Other liabilities		**2,438,481**	400,012
Net cash from operating activities:		**40,072,402**	4,682,857
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-(FVIS) investments		**16,214,712**	9,582,711
Purchase of non-FVIS investments		**(27,092,811)**	(16,575,991)
Purchase of property, equipment and software	10	**(812,515)**	(897,828)
Proceeds from disposal of property, equipment and software		**26,852**	26,865
Dividends from associates	11	**11,448**	3,747
Net cash (used in) investing activities:		**(11,652,314)**	(7,860,496)
FINANCING ACTIVITIES			
Debt securities issued	17	**5,312,980**	3,028,039
Debt securities payment	17	**(13,244,516)**	(3,457,626)
Net movement in non-controlling interests		**(32,709)**	6,745
Tier 1 Sukuk related costs		**(396,900)**	(379,303)
Purchase of treasury shares	27.2	**(125,000)**	(112,000)
Final dividend paid for 2018/2017		**(3,292,730)**	(1,195,764)
Interim dividend paid for 2019/2018	31	**(3,300,000)**	(2,989,409)
Net cash (used in) financing activities:		**(15,078,875)**	(5,099,318)
Net increase (decrease) in cash and cash equivalents		**13,341,213**	(8,276,957)
Foreign currency translation reserve – net movement on cash and cash equivalents at the beginning of the year		**(458,014)**	(733,658)
Cash and cash equivalents at the beginning of the year		**19,791,544**	28,802,159
Cash and cash equivalents at the end of the year	32	**32,674,743**	19,791,544
Special commission income received during the year		**19,854,957**	17,732,205
Special commission expense paid during the year		**4,905,761**	3,557,509
Supplemental non-cash information			
Movement in other reserve and transfers to the consolidated statement of income		**1,743,521**	(1,177,456)

Lama A. Ghazzaoui
Chief Financial Officer

Faisal O. Al-Saqqaf
Chief Executive Officer

Saeed M. Al-Ghamdi
Chairman

The accompanying notes from 1 to 46 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2019 and 2018

1. GENERAL

(1.1) Introduction

The financial statements comprise of the consolidated financial statements of The National Commercial Bank (the Bank) and its subsidiaries (the Group).

The National Commercial Bank is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and Royal Decree No. M/19 on 23 Dhul Qida 1417H (31 March 1997), approving the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank commenced business as a partnership under registration certificate authenticated by a Royal Decree on 28 Rajab 1369H (15 May 1950) and registered under commercial registration number 4030001588 dated on 19 Safar 1418H (26 June 1997). The Bank initiated business in the name of "The National Commercial Bank" under Royal Decree No. 3737 on 20 Rabi Thani 1373H (26 December 1953). The date of 1 July 1997 was determined to be the effective date of the Bank's conversion from a General Partnership to a Saudi Joint Stock Company. The Bank's shares have been trading on Saudi Stock Exchange (Tadawul) since 12 November 2014.

The Bank operates through its 434 branches (2018: 401 branches), 12 retail service centers (2018: 19 centers), 8 corporate service centers (2018: 7 centers) and 138 QuickPay remittance centers (2018: 150 centers) in the Kingdom of Saudi Arabia and two overseas branches in the Kingdom of Bahrain and the Republic of Singapore.

The Board of Directors in their meeting dated 23 November 2015 resolved to close the Bank's branch operations domiciled in Beirut, Lebanon. The required regulatory approvals have been received and the legal formalities in respect of the closure of the branch are in progress.

The Board of Directors of the Bank, in its announcement dated 16 December 2019, agreed with Riyad Bank, (a Bank listed in the Kingdom of Saudi Arabia stock market), to end the initial discussions studying the merger of the two banks that was proposed for study on 24 December 2018.

The Bank's Head Office is located at the following address:
The National Commercial Bank
Head Office
King Abdul Aziz Street
P.O. Box 3555, Jeddah 21481,
Kingdom of Saudi Arabia
www.alahli.com

The objective of the Group is to provide a full range of banking and investment management services. The Group also provides non-special commission based banking products in compliance with Shariah rules, which are approved and supervised by an independent Shariah Board.

(1.2) Group's subsidiaries

The details of the Group's significant subsidiaries are as follows:

	Ownership %		
Name of subsidiaries	2019	2018	Description
NCB Capital Company (NCBC)	**99.94%**	96.70%	A Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia to manage the Bank's investment services and asset management activities.
NCB Capital Dubai Inc. (formerly Eastgate Capital Holdings Inc.)	**99.94%**	96.70%	An exempt company with limited liability incorporated in the Cayman Islands to source, structure and invest in private equity and real estate development opportunities across emerging markets.
NCB Capital Real Estate Investment Company (REIC)	**99.94%**	96.70%	The Company is a special purpose entity registered in the Kingdom of Saudi Arabia. The primary objective of REIC is to hold and register the real estate assets on behalf of real estate funds managed by NCB Capital Company.
Türkiye Finans Katılım Bankası A.Ş. (TFKB)	**67.03%**	67.03%	A participation bank registered in Turkey that collects funds through current accounts, profit sharing accounts and lends funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships. As at the end of the year, TFKB fully owns the issued share capital of TF Varlık Kiralama AŞ, (TFVK) and TFKB Varlik Kiralama A.Ş., which are special purpose entities (SPEs) established in connection with issuance of Sukuks by TFKB.
Real Estate Development Company (REDCO)	**100%**	100%	A Limited Liability Company registered in the Kingdom of Saudi Arabia. REDCO is engaged in keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.
Alahli Insurance Service Marketing Company	**100%**	100%	A Limited Liability Company, engaged as an insurance agent for distribution and marketing of Islamic insurance products in Saudi Arabia.

1. GENERAL (continued)

(1.2) Group's subsidiaries (continued)

Name of subsidiaries	Ownership % 2019	Ownership % 2018	Description
Saudi NCB Markets Limited	**100%**	100%	A Limited Liability Company registered in the Cayman Islands, engaged in trading in derivatives and Repos/Reverse Repos on behalf of the Bank.
Eastgate MENA Direct Equity L.P.	**100%**	100%	A private equity fund domiciled in the Cayman Islands and managed by NCB Capital Dubai. The Fund's investment objective is to generate returns via investments in Shari'ah compliant direct private equity opportunities in high growth businesses in countries within the Middle East and North Africa (MENA).
AlAhli Outsourcing Company	**100%**	100%	A Limited Liability Company registered in the Kingdom of Saudi Arabia, engaged in recruitment services within the Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

(2.1) Statement of compliance

The consolidated financial statements of the Group have been prepared;

- In accordance with 'International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA); and
- In compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and by-laws of the Bank.

On 17 July 2019, Saudi Arabian Monetary Authority (SAMA) instructed the banks in the Kingdom of Saudi Arabia to account for the Zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board (IASB) that are endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants (SOCPA) (collectively referred to as IFRS that are endorsed in KSA).

Accordingly, the Group changed its accounting treatment for Zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standards (as disclosed in note 3.3) and the effects of this change are disclosed in note 18 to the consolidated financial statements. The change in accounting policies due to this new standard and treatment of Zakat & Tax are disclosed in note 3.3.

The consolidated financial statements of the Group as at and for the year ended 31 December 2018, was prepared in compliance with the International Financial Reporting Standards ("IFRS"), as modified by SAMA for the accounting of Zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" so far as these relate to Zakat and income tax) and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

(2.2) Basis of measurement

The consolidated financial statements are prepared and presented under the historical cost convention except for the measurement at fair value of financial assets held at fair value [derivatives, financial assets held at fair value through income statement (FVIS), Fair value through other comprehensive income (FVOCI) – debt instruments and equity instruments and defined benefit obligation. In addition, financial assets or liabilities that are carried at amortized cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged. The statement of financial position is broadly in order of liquidity.

(2.3) Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SAR) which is also the Bank's functional currency and have been rounded off to the nearest thousand Saudi Arabian Riyals, except as otherwise indicated.

(2.4) Basis of consolidation

The consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries (see note 1.2). The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

(2.5) Critical accounting judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with the IFRS as endorsed in KSA requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future period affected.

In preparing these consolidated financial statements, the critical accounting judgments, estimates and assumptions made by management are the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2018, except for judgments and assumptions used in the application of accounting policies as disclosed in note 3.3.

Significant areas where the management has used estimates, assumptions or exercised judgements are as follows:

(a) Fair value of financial instruments that are not quoted in an active market

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurment date. The fair value measurment is based on the pressupmtion that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Financial instruments for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy (see note 39).

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of their nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

(b) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

(c) Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGUs. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

For the purpose of impairment testing (see note 12), goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The subsidiaries are regarded as a cash-generating unit for the purpose of impairment testing of their respective goodwill. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets including the intangible assets in the unit (group of units) on a pro rata basis on condition that the carrying amount of other assets should not be reduced below their fair values.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal off the operation. Goodwill disposed off in this circumstance is measured based on the relative values of the operation disposed off and the portion of the cash-generating unit retained.

2. BASIS OF PREPARATION (continued)

(2.5) Critical accounting judgments and estimates and assumptions (continued)

(c) Impairment of non-financial assets (continued)

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative foreign currency translation reserve and unimpaired goodwill is recognised in the consolidated statement of income.

The previously recognised impairment loss in respect of goodwill cannot be reversed through the consolidated statement of income.

Non-financial assets held under Murabaha arrangements are measured at their lower of cost and net realizable value. Net realizable value is the estimated selling price, less selling expenses. Any impairment loss arising as a result of carrying these assets at their net realizable values is recognised in the consolidated statement of income under other operating (expense), net.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(d) Determination of control over investment funds

The Group acts as a Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors rights to remove the Fund Manager.

(e) Provisions for liabilities and charges

The Group receives legal claims in the ordinary course of business. Management makes judgments in assigning the risk that might exists in such claims. It also sets appropriate provisions against probable losses. The claims are recorded or disclosed, as appropriate, in the consolidated financial statements based on the best estimates of the amounts required to settle these claims.

(f) Measurement of defined benefits obligation

The Group maintains an end of service benefit plan for its employees and to arrive at the estimated obligation as at the reporting date, the Group uses assumptions such as the discount rate, expected rate of salary increase and normal retirement age.

(g) Useful lives of property, equipment and other software

The management determines the estimated useful lives of its property, equipment and other software for calculating depreciation/amortisation. This estimate is determined after considering the expected usage of the asset or its physical wear and tear. The residual value, useful lives and future depreciation/amortisation charges are revised by the management where they believe the useful lives differ from previous estimates.

(h) Impairment charge for expected credit losses

The Group exercises judgement and applies the use of various assumptions in the determination of expected credit losses (refer note 3.26).

(i) Classification of financial instruments

The Group exercises judgement for the classification of financial instruments (refer note 3.4).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements, and changes therein, are set out below:

(3.1) Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December, 2018 except for the adoption of the new standard and other amendments as disclosed in note 3.3.

(3.2) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

Loan commitments are Bank commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

The Group has issued no loan commitments that are measured at FVIS. For other loan commitments, the Group recognises loss allowance.

(3.3) Implication of new standard and change in accounting treatment

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short– term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption of IFRS 16 is as follows:

Reconciliation of lease liabilities

	2019 SAR '000
Off-balance sheet lease obligations as of 31 December 2018	**1,567,307**
Current leases contracts with a lease term of 12 months or less & low-value contracts leases	**4,386**
Operating lease contracts obligations as of January 1, 2019 (Gross without discounting)	**1,567,307**
Operating lease contracts obligations as of January 1, 2019 (net, discounted)	**1,136,233**
Reasonably certain extension or termination option	**802,371**
Total lease liabilities as of January 1, 2019	**1,938,604**

Nature of effect of IFRS 16

The Group has lease contracts for Branch premises, ATM premises and leasehold improvements thereon until 31 December 2018 (i.e. before the adoption of IFRS 16). The Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities respectively.

Upon adoption of IFRS 16, the Group has applied a single recognition and measurement approach for all leases in which it is the lessee, except for short-term leases and leases of low-value assets. The Group has recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets under lease arrangements. In accordance with the modified retrospective method of adoption, the Group applied IFRS 16 at the date of initial application with transition impact of SAR 272 million recognized in retained earnings. Accordingly, comparative information in these consolidated financial statements has not been restated.

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

Policy applicable on or after 1 January 2019

Right of use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. As of 1 January 2019, the right of use assets amounted to SAR 1,797 million.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.3) Implication of new standard and change in accounting treatment (continued)

Lease liabilities (continued)

In calculating the present value of lease payments, the Group uses the internal cost of funds as the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and is reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. Lease liabilities are included within other liabilities.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of one to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Assessment of the fee income recognition on financing and advances

During the year, in light of enhanced interpretative guidance on fee income, the Bank carried out a reassessment of the timing of the recognition of fee received in connection with its financing and advances. Accordingly, the Bank has analyzed whether any upfront fee is an integral component of the effective special rate of the corresponding financial asset via consideration of factors such as provision of distinct service or product, presence of a separate performance obligation and related contract costs. As a result, the Bank has identified certain fees that are required to be adjusted to the amortised cost of the related financing and advances.The impact of such adjustment in prior periods has been determined to be insignificant in relation to the financial statements as a whole. Therefore, the identified fees has been adjusted from the carrying value of financing and advances with a corresponding debit to retained earnings as at 1 January 2019, amounting to SAR 1,177 million.

Change in the accounting treatment relating to Zakat and income tax

As set out in note 2, the basis of preparation has been changed for the year ended 31 December 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, Zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the Zakat and income tax shall be recognized in the statement of income. The Group has accounted for this change in the accounting for Zakat and income tax retrospectively and the effects of the above change are disclosed in note 18 to the consolidated financial statements. The change has resulted in reduction of reported income of the Group for the year ended 31 December 2018 by SAR 1,108 million. The change has had no impact on the statement of financial position and the statement of cash flows for the year ended 31 December 2018.

Income tax:

The income tax expense or (credit) for the period is the tax payable or (refund) on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made.

IFRIC Interpretation 23 Uncertainty over Income Tax

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Group's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

Deferred income tax:

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in statement of income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

(3.4) Classification of financial assets

On initial recognition, a financial asset is classified as held at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through income statement ("FVIS").

Financial asset at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVIS:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows (HTC); and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial asset at FVOCI

Debt instruments

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVIS:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTCS); and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Special commission income and foreign exchange gains and losses are recognised in the consolidated statement of income

Equity instruments

On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in the statement of other comprehensive income. This election is made on an investment-by-investment basis.

Financial asset at FVIS

All financial assets, not classified as held at amortised cost or FVOCI are classified as FVIS.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVIS if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.5) Business model assessment

The Group makes an assessment of the objective of a business model under which an asset is held, at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated– e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVIS because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

(3.6) Assessments whether contractual cash flows are solely payments of principal and interest ("SPPI" criteria)

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Interest' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money– e.g. periodical reset of interest rates.

(3.7) Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

All money market deposits, customers' deposits, term financing and other debt securities in issue are initially recognised at fair value less transaction costs.

Subsequently, financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through income statement or the Group has opted to measure a liability at fair value through statement of income.

Amortised cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the effective special commission rate.

(3.8) Settlement date accounting

All regular way purchases and sales of financial assets are recognised and derecognised on the settlement date, i.e. the date on which the asset is delivered to the counterparty. When settlement date accounting is applied, the Group accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(3.9) Derivative financial instruments and hedge accounting

Derivative financial instruments including foreign exchange contracts, special commission rate futures, forward rate agreements, currency and special commission rate swaps, swaptions, currency and special commission rate options (both written and purchased) are measured at fair value. Fair values are obtained by reference to quoted market prices and/or valuation models as appropriate.

(3.9.1) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income for the year and are disclosed in trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting as described below.

(3.9.2) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risk, the Group applies hedge accounting for transactions that meet specific criteria. As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

For the purpose of hedge accounting, hedges are classified into two categories:

(a) Fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and

(b) Cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be "highly effective", i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis.

A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognised in the consolidated statement of income in 'income from FVIS instruments, net'. For situations where the hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

(3.9.3) Fair value hedges

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognised immediately in the consolidated statement of income. Any gain or loss on the hedged item attributable to fair value changes relating to the risks being hedged is adjusted against the carrying amount of the hedged item and recognised in the consolidated statement of income (in the same line item as the hedging instrument). Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the consolidated statement of income over the remaining life of the instrument.

For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective commission rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

(3.9.4) Cash flow hedges

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in other reserves under equity and the ineffective portion, if any, is recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. However, if the Group expects that all or a portion of a loss recognised in consolidated statement of other comprehensive income will not be recovered in one or more future periods, it shall reclassify into the consolidated statement of income as a reclassification adjustment the amount that is not to be recognised.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Group revokes the designation then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other reserves from the period when the hedge was effective is transferred from equity to the consolidated statement of income when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affect the consolidated statement of income, the net cumulative gain or loss recognised in other reserves is transferred immediately to the consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.9) Derivative financial instruments and hedge accounting (continued)

(3.9.5) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair values. with all changes in fair value recognized in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship.

(3.10) Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in the consolidated statement of income.

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in the consolidated statement of income on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-andrepurchase transactions, as the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the asset.

(3.11) Modifications of financial assets and financial liabilities

(a) Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in the consolidated statement of income. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as special commission income.

(b) Financial liabilities

The Group derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the consolidated statement of income.

(3.12) Foreign currencies

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of NCB, NCBC, NCB Capital Real Estate Investment Company (REIC), Redco, Alahli Insurance Service Marketing Company, Saudi NCB Markets Limited and AlAhli Outsourcing Company is Saudi Riyals. The functional currency for the TFKB is Turkish Lira and the functional currency of NCB Capital Dubai Inc. and Eastgate MENA Direct Equity L.P. is U.S. Dollars.

(a) Transactions and balances of the Bank

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are retranslated into the functional currency at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Non-monetary assets measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined.

(b) Foreign operations

As at the reporting date, the assets and liabilities of the foreign operations are translated into the Group's presentation currency (Saudi Arabian Riyals) at the rate of exchange ruling at the statement of financial position date, equity (pre-acquisition) is translated at historical exchange rate at the date of acquisition and income and expenses of the statement of income are translated at the spot exchange rates prevailing at transaction dates on daily basis. Exchange differences arising on translation are taken directly to a separate component of equity (foreign currency translation reserve) and are recognised in consolidated statement of comprehensive income. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the foreign exchange translation reserve is allocated to the non-controlling interest. The deferred cumulative amount of exchange differences recognised in equity will be reclassified in the consolidated statement of income in 'Other operating expenses' or 'Other operating income' at the time of any future disposal or partial disposal with loss of control.

Goodwill and intangible assets arising on the acquisition of the foreign operations and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

Foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI, are recognised in the statement of OCI.

(3.13) Offsetting financial instruments

Financial assets and financial liabilities are offset and reported net in the consolidated statement of financial position when there is a current legally enforceable right to set off the recognised amounts and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

(3.14) Revenue/expenses recognition

(3.14.1) Special commission income and expenses

Special commission income and expense are recognised in the consolidated statement of income using the effective interest method. Fee income received in connection with financing and advances that are integral component of the effective special commission rate are adjusted from the amortized cost of the related financing and advances and recognized in the statement of income over the life of the respective financial asset. The 'special commission rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortised cost of the financial instrument.

When calculating the special commission rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted special commission rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the special commission rate includes transaction costs and fees and points paid or received that are an integral part of the special commission rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating special commission income and expense, the special commission rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, special commission income is calculated by applying the special commission rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of special commission income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, special commission income is calculated by applying the credit-adjusted special commission rate to the amortised cost of the asset. The calculation of special commission income does not revert to a gross basis, even if the credit risk of the asset improves.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.14) Revenue/expenses recognition (continued)

(3.14.2) Fee and other income expenses

Income from FVIS includes all realised and unrealised gains and losses from changes in fair value and related special commission income or expense, dividends for financial assets held for trading and foreign exchange differences on open positions.

Exchange income from banking services are recognised when earned.

Dividend income is recognised when the right to receive dividend income is established.

Fees income and expenses are recognised on an accrual basis as the service is provided.

Financing commitment fees for financing arrangement that are likely to be drawn down are deferred and recognised as an adjustment to the effective yield on the financing arrangement. Portfolio and other management advisory and service fee income are recognised based on the applicable service contracts, usually on a time-proportionate basis. Fee income received on other services that are provided over an extended period of time, are recognised rateably over the period when the service is being provided, if material.

Fee received in connection with syndication financing where the Group acts as the lead arranger and retains no part of the financing for itself (or retains a part at the same EIR for comparable risk as other syndicate participants) is recognized upon the execution of the syndicate financing arrangement. Moreover, commitment fee received by the Group where it is unlikely that a specific lending arrangement will be entered into by the counterparty is recognized upon execution of the corresponding facility arrangement.

Success fee is recognized upon satisfaction of the promised performance obligation which generally corresponds to the execution of a specified task or completion of a milestone as agreed with the respective counterparty.

Other fee expenses mainly relate to transaction and services fee, which are expensed as related services are provided.

(3.15) Sale and repurchase agreements (including securities lending and borrowings)

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. When substantially all the risks and rewards of ownership remain with the Bank. These assets are continued to measure in accordance with related accounting policies for investments held as FVTPL, FVOCI, other investments held at amortized cost. The transactions are treated as collateralised borrowing and counter-party liability for amounts received under these agreements is included in "Due to banks and other financial institutions" as appropriate. The difference between sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective special commission rate.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "cash and balances with SAMA", "due from banks and other financial institutions" or "financing and advances", as appropriate. The difference between purchase and resale price is treated as special commission income which is accrued over the life of the reverse repo agreement using the effective yield basis.

Securities borrowing and lending transactions are typically secured; collateral takes the form of securities or cash advanced or received. Securities lent to counterparties are retained on the consolidated statement of financial position. Securities borrowed are not recognised on the consolidated statement of financial position, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability. Cash collateral given or received is treated as a loan and receivable or customers' deposit.

(3.16) Business combinations

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition, being total consideration of the acquisition, is measured as the fair value of the assets given and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition that occurred prior to 1 January 2010. For any subsequent acquisitions, the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and are included in administrative expenses.

Identifiable assets acquired (including previously unrecognised intangible assets) and liabilities (including contingent liabilities) in an acquisition are measured initially at fair values at the date of acquisition, irrespective of the extent of any non-controlling interest. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Upon loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising from the loss of control is recognised in the consolidated statement of income. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investment or other categories of investment in accordance with the Group's relevant accounting policy.

(a) Subsidiaries

Subsidiaries are entities which are controlled by the Group. To meet the definition of control, all three criteria must be met:

(i) The Group has power over the entity;

(ii) The Group has exposure, or rights, to variable returns from its involvement with the entity; and

(iii) The Group has the ability to use its power over the entity to affect the amount of the entity's returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which the control is transferred from the Group. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

The Group invests in structured entities forming part of larger structure with the objective to resell the investment in a short period after acquisition. For all such investment, the Group analyses whether and to what extent it controls the investee and any underlying entities. Moreover, whenever any such investee, controlled by the Group meets the criteria of held for sale, it is accounted as such and the total assets and total liabilities are included under other assets and other liabilities.

(b) Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the Bank's equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(c) Associates

Associates are enterprises over which the Group exercises significant influence. Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity-accounted value or the recoverable amount.

Equity-accounted value represents the cost plus post-acquisition changes in the Group's share of net assets of the associate (share of the results, reserves and accumulated gains/losses based on latest available financial statements) less impairment, if any.

The previously recognised impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before allowance for impairment) or the recoverable amount.

(d) Transactions eliminated on consolidation

Inter-group balances, income and expenses (except for foreign currency transaction gains or losses) arising from inter-group transactions are eliminated, as appropriate, in preparing the consolidated financial statements.

(3.17) Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses; impairment loss of goodwill is charged to the consolidated statement of income. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

(3.18) Financing and advances

Financing and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Financing and advances are recognised when cash is advanced to borrowers. They are derecognised when either the borrower repays their obligations, or the financing and advances are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Financing and advances are initially measured at fair value of the consideration given.

Following initial recognition, financing and advances for which fair value has not been hedged are stated at amortised cost less any amount written off and ECL allowances for impairment.

For presentation purposes, allowance for expected cerdit losses is deducted from financing and advances.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.19) Due from banks and other financial institutions

Due from banks and other financial institutions are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following initial recognition, due from banks and other financial institutions are stated at amortized cost less any ECL allowance.

(3.20) Other real estate and repossessed assets

The Group, in the ordinary course of business, acquires certain real estate and other assets against settlement of due financing and advances. These are considered as assets held for sale and are initially stated at the lower of net realizable value of due financing and advances or the current fair value of such related assets, less any costs to sell (if material). No depreciation is charged on such assets.

Subsequent to the initial recognition, such assets are revalued on a periodic basis and adjusted for any subsequent provision for impairment. Previously recognised unrealised revaluation losses of such assets can be reversed through the consolidated statement of income on an individual basis upon subsequent increase in fair value. Any unrealised losses on revaluation (or reversal), realised losses or gains on disposal and net rental income are recognised in the consolidated statement of income as other operating income expense, net.

The other real estate assets are disclosed in note 9 while other repossessed assets are included in other assets. Gain/loss on disposal of repossessed assets are included in other operating income, net.

(3.21) Property, equipment and software

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss, if any. Freehold land is not depreciated. Changes in the expected useful lives are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the group. Ongoing repairs and maintenance are expensed as incurred.

The depreciable amount of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Leasehold improvements	Over the lease period or useful economic life whichever is shorter
Furniture, equipment, vehicles and software	4-10 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the date of each consolidated statement of financial position.

Software are recognised only when their cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to them will flow to the Group. Software are amortised over the useful economic life and assessed for impairment whenever there is an indication that the software may be impaired. The amortisation period and the amortisation method for software assets are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on software is recognised in the consolidated statement of income.

All such assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(3.22) Financial liabilities

All money market deposits, customers' deposits and debt securities issued are initially recognised at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

(3.23) Financial guarantees and financing commitments

In the ordinary course of business, the Group issues letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value on the date the guarantee was given; typically the premium received. Subsequent to the initial recognition, the Group's liability under such guarantees are measured at the higher of their amortised amount and the best estimate of the expenditure required to settle any financial obligation arising at the statement of financial position date. These estimates are determined based on experience of similar transactions and history of past losses net of any cash margin. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income as impairment charge for financing and advances losses, net. The premium received is recognised in the consolidated statement of income as fee income from banking services on a straight line basis over the life of the guarantee, if material.

Financing commitments are commitments to provide credit under pre-specified terms and conditions.

(3.24) Provisions

Provisions are recognised when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events where it is more likely that an outflow of resources will be required to settle the obligation. Provision balance are presented under other liabilities.

(3.25) Expected credit loss (ECL)

The Group recognizes loss allowances for ECL on the following financial instruments that are not measured at FVIS:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The Group categorizes its financial assets into following three stages in accordance with the IFRS-9 methodology:

Stage 1 – financial assets that are not significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on 12 months Probability of Default (PD).

Stage 2 – financial assets that has significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on lifetime ECL. The impairment allowance is recorded based on life time PD.

Stage 3 – for Financial assets that are impaired, the Group recognizes the impairment allowance based on life time ECL.

The Group also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as macroeconomic factors (e.g., unemployment, GDP growth, inflation, profit rates and house prices) and economic forecasts obtained through internal and external sources.

(3.26) Measurement of ECL

ECL represent probability-weighted estimates of credit losses. These are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less cash flows that the Group expects to receive any.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.26) Measurement of ECL (continued)

Expected credit losses are discounted to the reporting date at the effective interest rate (EIR) determined at initial recognition or an approximation thereof and consistent with income recognition.

(3.27) Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original special commission rate of the existing financial asset.

(3.28) Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise ;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- the market's assessment of creditworthiness as reflected in the investment yields;
- the rating agencies' assessments of creditworthiness;
- the country's ability to access the capital markets for new debt issuance;
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and
- the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Allowances for ECL are presented in the consolidated statement of financial position as follows:

Financial assets measured at amortised cost

- as a deduction from the gross carrying amount of the assets.

Loan commitments and financial guarantee contracts

- generally, as a provision; in other liabilities

Financial instrument includes both a drawn and an undrawn component

- where the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

Debt instruments measured at FVOCI

- The group recognizes a loss allowance for financial assets that are measured at fair value through other comprehensive income on the statement of other comprehensive income which will not reduce the carrying amount of the financial asset in the statement of financial position.

(3.29) Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(3.30) Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

(3.31) Collateral repossessed

The Group's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Group's policy.

(3.32) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA, excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair value.

(3.33) Investment management services

The financial statements of investment management funds are not included in the consolidated financial statements of the Group.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these consolidated financial statements.

(3.34) Banking products that comply with Shariah rules

Beside conventional banking products, the Bank offers certain banking products that comply with Shariah rules. These products are approved and overseen by the Bank's Shariah Board and Shariah advisor. Shariah complaint products are treated under International Financial Reporting Standards (IFRS) and in accordance with the accounting policies used in the preparation of these consolidated financial statements.

Banking products that comply with Shariah rules are based on several Islamic types, including but not limited to:

(3.34.1) Murabaha

Murabaha is a financing agreement whereby the Bank purchases and owns commodities based on client's request and sells them to the client with a specified agreed price (including the cost of the bank plus a profit margin) and paid as agreed.

Examples of products in which the bank uses Murabaha are residential finance, commercial real estate, and trade finance, commercial finance, trade finance, deposit products for customers and inter-bank Murabaha.

(3.34.2) Tawarruq

Tawarruq is financing instrument for customers in need of cash financing. It involves the bank buying commodities from international or local markets and selling them to customers at agreed-upon deferred installment terms. Customers, on their own, or by appointing an agent, resell the commodities to third parties for cash.

Examples of products in which the bank uses Tawarruq are in residential finance for individuals (Self-Construction/Sale on the map), personal finance, credit cards, corporate finance, structured finance, syndications, as well as interbank transactions.

(3.34.3) Ijara

The bank has two types of Ijara forms based on the lease contract. Ijarah with the promise of transfer ownership, which is based on requests from customers, either purchases assets with agreed-upon specifications on a cash basis and leases them to customers for an agreed-upon rent to be settled in agreed-upon installments. The second type is forward Ijara, which assets are not in existence and not specified. In this case, it remains a liability on the bank to deliver the agreed upon usufruct.

In the Ijara contract, the bank promises to transfer ownership of the assets to its customers at the end of the lease period, either by sale at nominal prices or in the form of grants.

Examples of products in which the bank uses Ijara are auto lease with promises to transfer ownership, residential finance, commercial real estate finance, and structured finance. The main uses of forward Ijara are in structured finance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.34) Banking products that comply with Shariah rules (continued)

(3.34.4) Mudarabah

Mudaraba is a form of participation in profit where the client provides the capital to the bank or vice versa depending on the product type. The capital owner is called the "Rab Almaal" and the worker is "Mudharib". The worker duty is to invest the capital in activities that comply with Shariah rules. The income is divided according to the agreement. In the case of loss, "Rab Almaal" has to bear all the losses from his capital and the "Mudharib" loses his efforts.

Examples of the products in which the bank uses the Mudaraba are Islamic Mudaraba Certificates, Mudaraba Call Accounts, and Tier 1 Sukuks.

(3.34.5) Promise

Promise is a mandatory commitment by the Bank to its client or vice versa to enter into a sale or purchase transaction for the purpose of hedge against fluctuations in index prices, commodity prices and currency prices.

Examples of products in which the bank uses the promise are structured hedging products and structured investment products.

All the above Shariah-compliant financing products are accounted for in conformity with the accounting policies described in these consolidated financial statements. They are included in financing and advances.

(3.35) Shariah-compliant deposit products

The Group offers its customers certain deposit products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

(3.35.1) AlKhairaat

AlKhairaat is a Shariah-compliant product based on commodity Murabaha. The Group acts as an agent for its customers in purchasing commodities on their behalf with their funds and then purchases these commodities for its own account from customers at agreed-upon price and deferred maturities (3,6,9 or 12 months). Being a retail product, customers are allowed to choose the investment amount, tenure, and currency. Since the Group purchases commodities from its customers, it is liable to them for the capital they invested plus a profit.

(3.35.2) Structured AlKhairaat

This product is an enhanced deposit product which provides a Shariah compliant alternative to structured deposits. It combines a AlKhairaat placement with a promise to enter into a secondary Murabaha transaction for the benefit of the customer where the profit will be linked to a predetermined index. These are capital protected up to a specified percentage (typically 95-100%).

These Shariah-compliant deposit products are accounted for in conformity with the accounting policies described in these consolidated financial statements. They are included in customers' deposit.

(3.36) Shariah-compliant treasury products

The Group offers its customers certain treasury products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board and Shariah Advisor.

(3.36.1) Structured Hedging Products

These products are offered to clients to hedge their existing exposure to foreign currencies. It is based on the concept of Waad (binding promise) where the Group promises to buy/sell a particular amount of foreign currency at an agreed upon price. It may include only one Waad or a combination of Waads.

(3.36.2) Structured Investment Products

These products are offered to clients to offer them a return that is typically higher than a standard AlKhairaat. There are based on the Structured AlKhairaat product and are designed to give the customers exposure to a number of indexes including foreign currencies, precious metals and Shariah compliant equity indexes.

(3.36.3) Rates Products

These products are offered to clients who have exposure to fixed/floating rates and need hedging solutions. The products are designed around the concept of Waad to enter into Murabaha where the profit is based on a rates index or formula. It may include only one Waad or a combination of Waads.

(3.36.4) Commodity Products

These products are offered to clients who have exposure to commodity prices and need hedging solutions. These products are designed around the concept of Waad to enter into Murabaha where the profit is based on a commodity price index. It may include only one Waad or a combination of Waads.

(3.37) Treasury shares

Treasury shares are recorded at acquisition cost and presented as a deduction from equity. Any gains or losses on disposal of such shares are reflected under equity and are not recognised in the consolidated statement of income.

(3.38) End of service benefits

The provision for end of service benefits is based on IAS 19 "Employee Benefits", the rules stated under the Saudi Arabian Labor and Workmen Law and in accordance with the local statutory requirements of the foreign branches and subsidiaries. The provision for the Group is also in line with independent actuarial valuation.

Benefits payable to the employees of the Group at the end of their services are accrued based on actuarial valuation and are included in other liabilities in the consolidated statement of financial position.

(3.39) Staff compensation

The Bank's Board of Directors and its Nomination, Compensation and Governance Committee oversee the design and implementation of the Bank's Compensation System in accordance with SAMA's Compensation Rules and Financial Stability Board's (FSB) Principles and Standards of Sound Compensation Practice.

The Nomination, Compensation and Governance Committee was established by the Board of Directors and is composed of three non-executive members including the Chairman of the Committee. The Committee's role and responsibilities are in line with SAMA's Compensation Rules.

The Committee is responsible for the development and implementation of the compensation system and oversight of its execution, with the objective of preventing excessive risk-taking and promoting corporate financial soundness. The Committee submits its recommendations, resolutions and reports to the Board of Directors for approval.

Key elements of compensation in the Bank:

(3.39.1) Fixed Compensation

The fixed compensation includes salaries, allowances and benefits. Salaries are set in relation to market rates to attract, retain and motivate talented individuals. Salary administration is based on key processes such as job evaluation, performance appraisal and pay scales structure. The competitiveness of pay scales is monitored and maintained through participation in regular market pay surveys.

(3.39.2) Variable Compensation

Variable compensation aims at driving performance and limiting excessive risk taking. The Group operates three plans under variable compensation:

(a) Short Term Incentive Plan (Annual Performance Bonus)

The annual performance bonus aims at supporting the achievement of a set of annual financial and non-financial objectives. The financial objectives relate to the economic performance of the Group's is business, while the non-financial objectives relate to some other critical objectives relating, for example, to complying with risk and control measures, employees development, teamwork, staff morale etc.

The Group has established a regular performance appraisal process aimed at assessing employees' performance and contribution. Annual performance bonus payments are based on employee contributions, business performance and the Group's overall results. The overall annual performance bonus pool is set as a percentage of the Group's net income, adjusted to reflect the core performance of the employees. The Group does not operate a guaranteed bonus plan.

The cost of this plan is recognised in the consolidated statement of income of the year to which it relates and is normally paid during the 1st quarter of the following year.

(b) Share Based Payment Arrangements

The Bank maintains an equity-settled share based payment plan for its key management. The grant-date fair value of such share-based payment arrangement granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.39) Staff compensation (continued)

(3.39.2) Variable Compensation (continued)

(b) Share Based Payment Arrangements (continued)

If the employees are not entitled to dividends declared during the vesting period, then the fair value of these equity instruments is reduced by the present value of dividends expected to be paid compared with the fair value of equity instruments that are entitled to dividends. If the employees are entitled to dividends declared during the vesting period, then the accounting treatment depends on whether the dividends are forfeitable. Forfeitable dividends are treated as dividend entitlements during the vesting period. If the vesting conditions are not met, then any true-up of the share-based payment would recognise the profit or loss effect of the forfeiture of the dividend automatically because the dividend entitlements are reflected in the grant-date fair value of the award.

In cases, where an award is forfeited (i.e. when the vesting conditions relating to award are not satisfied), the Bank reverses the expense relating to such awards previously recognised in the consolidated statement of income. Where an equity-settled award is cancelled (other than forfeiture), it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

The Group acquires its own shares in connection with the anticipated grant of shares to the key management in future. Until such time as the beneficial ownership of such shares in the Bank passes to the employees, the unallocated/non-vested shares are treated as treasury shares.

(3.40) Tier 1 Sukuk

The Group classifies Sukuk issued with no fixed redemption/maturity dates (Perpetual Sukuk) and not obliging the Group for payment of profit as part of equity.

The related initial costs and distributions thereon are recognised directly in the consolidated statement of changes in equity under retained earnings.

4. CASH AND BALANCES WITH SAMA

	2019 SAR '000	2018 SAR '000
Cash in hand	**9,521,562**	10,217,631
Balances with SAMA:		
Statutory deposit	**19,728,953**	19,237,015
Money market placements and current accounts	**16,131,694**	3,059,429
Cash and balances with SAMA	**45,382,209**	32,514,075

In accordance with article (7) of the Banking Control Law and regulations issued by the Saudi Arabian Monetary Authority (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits calculated at the end of each Gregorian month (see note 37). The statutory deposits with SAMA are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents (see note 32).

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

	2019 SAR '000	2018 SAR '000
Current accounts	**5,989,350**	4,992,782
Money market placements	**9,641,305**	10,038,547
Reverse repos (note 34(d))	**938,822**	939,753
Expected credit loss allowance	**(4,183)**	(6,631)
Due from banks and other financial institutions, net	**16,565,294**	15,964,451

6. INVESTMENTS, NET

(6.1) Investments are classified as follows:

	SAR '000		
	Domestic	International	Total
2019			
Fixed rate securities	–	1,100,817	1,100,817
Equity instruments	554,946	1,432,504	1,987,450
Mutual Funds, Hedge Funds and Others	1,961,439	3,300,724	5,262,163
Held at FVIS	2,516,385	5,834,045	8,350,430
Fixed rate securities	24,269,941	21,583,235	45,853,176
Floating rate securities	5,241,539	7,372,112	12,613,651
Equity instruments	2,086,580	160,628	2,247,208
Held at FVOCI, net	31,598,060	29,115,975	60,714,035
Fixed rate securities	29,783,462	8,677,559	38,461,021
Floating rate securities	24,906,296	1,737,381	26,643,677
Expected credit loss allowance	(21,492)	(71,099)	(92,591)
Held at amortised cost, net	54,668,266	10,343,841	65,012,107
Investments, net	88,782,711	45,293,861	134,076,572
2018			
Fixed rate securities	–	91,735	91,735
Equity instruments	22,402	812,689	835,091
Mutual Funds, Hedge Funds and Others	1,214,389	2,813,658	4,028,047
Held at FVIS	1,236,791	3,718,082	4,954,873
Fixed rate securities	6,107,136	21,266,232	27,373,368
Floating rate securities	11,473,755	7,496,228	18,969,983
Equity instruments	1,335,196	155,108	1,490,304
Held at FVOCI, net	18,916,087	28,917,568	47,833,655
Fixed rate securities	25,565,398	9,586,573	35,151,971
Floating rate securities	27,321,361	2,933,247	30,254,608
Expected credit loss allowance	(22,763)	(82,136)	(104,899)
Held at amortised cost, net	52,863,996	12,437,684	65,301,680
Investments, net	73,016,874	45,073,334	118,090,208

(6.2) An analysis of changes in expected credit loss allowance for debt instruments carried at amortized cost and FVOCI, is as follows:

	SAR '000			
	Stage 1	Stage 2	Stage 3	
2019	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at 1 January 2019	104,331	102,077	–	206,408
Net ECL charge/(reversal)	(28,532)	495	–	(28,037)
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Foreign currency translation and other adjustments	(106)	(10)	–	(116)
Balance as at 31 December 2019	75,693	102,562	–	178,255

6. INVESTMENTS, NET (continued)

(6.2) An analysis of changes in expected credit loss allowance for debt instruments carried at amortized cost and FVOCI, is as follows: (continued)

	SAR '000			
	Stage 1	Stage 2	Stage 3	
2018	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at 1 January 2018	145,298	83,948	–	229,246
Net ECL charge/(reversal)	(38,638)	17,441	–	(21,197)
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(685)	685	–	–
Transfer to stage 3	–	–	–	–
Foreign currency translation and other adjustments	(1,644)	3	–	(1,641)
Balance as at 31 December 2018	104,331	102,077	–	206,408

(6.3) The analysis of the composition of investments is as follows:

	SAR '000		
2019	Quoted	Unquoted	Total
Fixed rate securities	**83,056,877**	**2,358,137**	**85,415,014**
Floating rate securities	**28,659,864**	**10,597,464**	**39,257,328**
Equity instruments, Mutual Funds, Hedge Funds and Others	**5,109,344**	**4,387,477**	**9,496,821**
Expected credit loss allowance	**(71,591)**	**(21,000)**	**(92,591)**
Investments, net	**116,754,494**	**17,322,078**	**134,076,572**

	SAR '000		
2018	Quoted	Unquoted	Total
Fixed rate securities	54,936,532	7,680,542	62,617,074
Floating rate securities	40,345,771	8,878,820	49,224,591
Equity instruments, Mutual Funds, Hedge Funds and Others	4,061,631	2,291,811	6,353,442
Expected credit loss allowance	(83,355)	(21,544)	(104,899)
Investments, net	99,260,579	18,829,629	118,090,208

(a) Investments held at amortised cost include investments amounting to SAR 4,654 million (2018: SAR 7,962 million) which are held under a fair value hedge relationship. As at 31 December 2019, the fair value of these investments amounts to SAR 5,078 million (2018: SAR 7,888 million).

(b) Investments, net, include securities that are issued by the Ministry of Finance of Saudi Arabia amounting to SAR 69,154 million, (2018: SAR 55,189 million) and also include investment in Sukuks amounting to SAR 19,943 million, (2018: SAR 23,575 million).

(c) Dividend income recognized during 2019 for FVOCI investments amount to SAR 96 million (2018: SAR 37 million).

(6.4) Securities lending transactions

The Group pledges financial assets for the securities lending transactions which are generally conducted under terms that are usual and customary for standard securitised borrowing contracts. As at 31 December 2019, securities amounting to SAR 1,115 million (2018: SAR 1,836 million) have been lent to counterparties under securities lending transactions.

(6.5) The analysis of unrealised revaluation gains/(losses) and fair values of investments held at amortised cost are as follows:

(a) Investments held at amortised cost

	SAR '000			
2019	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
Fixed rate securities	**38,461,021**	**583,247**	**(102,686)**	**38,941,582**
Floating rate securities	**26,643,677**	**–**	**(103,824)**	**26,539,853**
Expected credit loss allowance	**(92,591)**	**–**	**–**	**(92,591)**
Total investments held at amortised cost, net	**65,012,107**	**583,247**	**(206,510)**	**65,388,844**

2018	SAR '000			
	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
Fixed rate securities	35,151,971	29,413	(1,291,289)	33,890,095
Floating rate securities	30,254,608	252	(126,638)	30,128,222
Expected credit loss allowance	(104,899)	–	–	(104,899)
Total investments held at amortised cost, net	65,301,680	29,665	(1,417,927)	63,913,418

(6.6) Counterparty analysis of the Group's investments, net of impairment

	2019 SAR '000	2018 SAR '000
Government and Quasi Government	**113,895,665**	102,201,805
Corporate	**10,618,782**	10,623,618
Banks and other financial institutions	**9,562,125**	5,264,785
Investment, net	**134,076,572**	118,090,208

7. FINANCING AND ADVANCES, NET

(7.1) Financing and advances

2019	SAR '000				
	Consumer & Credit card	Corporate	International	Others	Total
Performing financing and advances	**123,642,317**	**130,338,558**	**18,884,948**	**11,455,493**	**284,321,316**
Non-performing financing and advances	**564,288**	**3,086,639**	**1,678,469**	**–**	**5,329,396**
Total financing and advances	**124,206,605**	**133,425,197**	**20,563,417**	**11,455,493**	**289,650,712**
Allowance for financing losses (ECL allowance) (note 7.2)	**(1,634,094)**	**(4,647,233)**	**(1,039,418)**	**(41,207)**	**(7,361,952)**
Financing and advances, net	**122,572,511**	**128,777,964**	**19,523,999**	**11,414,286**	**282,288,760**

2018	SAR '000				
	Consumer & Credit card	Corporate	International	Others	Total
Performing financing and advances	104,602,827	131,893,162	21,093,653	9,650,960	267,240,602
Non-performing financing and advances	618,301	3,402,684	1,226,392	–	5,247,377
Total financing and advances	105,221,128	135,295,846	22,320,045	9,650,960	272,487,979
Allowance for financing losses (ECL allowance) (note 7.2)	(1,630,999)	(4,628,707)	(1,108,952)	(57,359)	(7,426,017)
Financing and advances, net	103,590,129	130,667,139	21,211,093	9,593,601	265,061,962

Others includes financing to financial institutions.

Financing and advances, net, include financing products in compliance with Shariah rules mainly Murabaha, Tayseer and Ijara amounting to SAR 239,494 million (2018: SAR 221,998 million).

Allowance for financing losses related to financing products in compliance with Shariah rules is SAR 6,402 million (2018: SAR 6,405 million).

Special commission income relating to non-performing financing and advances is SAR 178 million (2018: SAR 182 million).

7. FINANCING AND ADVANCES, NET (continued)

(7.2) Movement in loss allowance for financing and advances at amortised cost for the year is as follows:

	SAR '000			
	Stage 1	Stage 2	Stage 3	
2019	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Consolidated				
Balance as at 1 January 2019	**2,566,045**	**1,097,784**	**3,762,188**	**7,426,017**
Net impairment charge/(reversal)	**(698,949)**	**588,380**	**2,257,801**	**2,147,232**
Transfer to stage 1	**63,750**	**(43,923)**	**(19,827)**	**–**
Transfer to stage 2	**(125,490)**	**138,741**	**(13,251)**	**–**
Transfer to stage 3	**(58,081)**	**(152,811)**	**210,892**	**–**
Bad debts written off	**–**	**–**	**(2,068,052)**	**(2,068,052)**
Foreign currency translation adjustment	**(31,652)**	**(46,645)**	**(64,948)**	**(143,245)**
Balance as at 31 December 2019	**1,715,623**	**1,581,526**	**4,064,803**	**7,361,952**

	SAR '000			
	Stage 1	Stage 2	Stage 3	
2018	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Consolidated				
Balance as at 1 January 2018	2,713,435	1,700,263	3,821,815	8,235,513
Net impairment charge/(reversal)	(57,046)	394,330	1,826,415	2,163,699
Transfer to stage 1	141,240	(89,709)	(51,531)	–
Transfer to stage 2	(70,429)	78,546	(8,117)	–
Transfer to stage 3	(44,574)	(785,467)	830,041	–
Bad debts written off	–	–	(2,538,816)	(2,538,816)
Foreign currency translation adjustment	(116,581)	(200,179)	(117,619)	(434,379)
Balance as at 31 December 2018	2,566,045	1,097,784	3,762,188	7,426,017

	SAR '000			
	Stage 1	Stage 2	Stage 3	
2019	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Consumer and Credit card				
Balance as at 1 January 2019	**1,150,249**	**185,738**	**295,012**	**1,630,999**
Net impairment charge/(reversal)	**33,519**	**(1,871)**	**977,156**	**1,008,804**
Transfer to stage 1	**62,783**	**(42,956)**	**(19,827)**	**–**
Transfer to stage 2	**(17,414)**	**30,665**	**(13,251)**	**–**
Transfer to stage 3	**(5,132)**	**(11,158)**	**16,290**	**–**
Bad debts written off	**–**	**–**	**(1,005,709)**	**(1,005,709)**
Foreign currency translation adjustment	**–**	**–**	**–**	**–**
Balance as at 31 December 2019	**1,224,005**	**160,418**	**249,671**	**1,634,094**

2018	SAR '000			
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Consumer and Credit card				
Balance as at 1 January 2018	1,234,666	144,437	285,429	1,664,532
Net impairment charge/(reversal)	(177,039)	90,084	1,120,266	1,033,311
Transfer to stage 1	116,226	(64,695)	(51,531)	–
Transfer to stage 2	(16,658)	24,775	(8,117)	–
Transfer to stage 3	(6,946)	(8,863)	15,809	–
Bad debts written off	–	–	(1,066,844)	(1,066,844)
Foreign currency translation adjustment	–	–	–	–
Balance as at 31 December 2018	1,150,249	185,738	295,012	1,630,999

2019	SAR '000			
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Corporate				
Balance as at 1 January 2019	**1,299,701**	**725,372**	**2,603,634**	**4,628,707**
Net impairment charge/(reversal)	**(767,481)**	**547,841**	**916,270**	**696,630**
Transfer to stage 1	**–**	**–**	**–**	**–**
Transfer to stage 2	**(100,769)**	**100,769**	**–**	**–**
Transfer to stage 3	**(24,654)**	**(38,148)**	**62,802**	**–**
Bad debts written off	**–**	**–**	**(678,104)**	**(678,104)**
Foreign currency translation adjustment	**–**	**–**	**–**	**–**
Balance as at 31 December 2019	**406,797**	**1,335,834**	**2,904,602**	**4,647,233**

2018	SAR '000			
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Corporate				
Balance as at 1 January 2018	1,361,108	1,226,507	2,555,192	5,142,807
Net impairment charge/(reversal)	34,333	105,938	597,000	737,271
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(63,627)	63,627	–	–
Transfer to stage 3	(32,113)	(670,700)	702,813	–
Bad debts written off	–	–	(1,251,371)	(1,251,371)
Foreign currency translation adjustment	–	–	–	–
Balance as at 31 December 2018	1,299,701	725,372	2,603,634	4,628,707

7. FINANCING AND ADVANCES, NET (continued)

(7.2) Movement in loss allowance for financing and advances at amortised cost for the year is as follows: (continued)

	SAR '000			
	Stage 1	Stage 2	Stage 3	
2019	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
International				
Balance as at 1 January 2019	**79,064**	**166,346**	**863,542**	**1,108,952**
Net impairment charge/(reversal)	**38,078**	**55,497**	**364,375**	**457,950**
Transfer to stage 1	**967**	**(967)**	**–**	**–**
Transfer to stage 2	**(7,307)**	**7,307**	**–**	**–**
Transfer to stage 3	**(28,295)**	**(103,505)**	**131,800**	**–**
Bad debts written off	**–**	**–**	**(384,239)**	**(384,239)**
Foreign currency translation adjustment	**(31,652)**	**(46,645)**	**(64,948)**	**(143,245)**
Balance as at 31 December 2019	**50,855**	**78,033**	**910,530**	**1,039,418**

	SAR '000			
	Stage 1	Stage 2	Stage 3	
2018	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
International				
Balance as at 1 January 2018	116,762	286,972	981,194	1,384,928
Net impairment charge/(reversal)	73,502	196,353	109,149	379,004
Transfer to stage 1	25,014	(25,014)	–	–
Transfer to stage 2	(14,118)	14,118	–	–
Transfer to stage 3	(5,515)	(105,904)	111,419	–
Bad debts written off	–	–	(220,601)	(220,601)
Foreign currency translation adjustment	(116,581)	(200,179)	(117,619)	(434,379)
Balance as at 31 December 2018	79,064	166,346	863,542	1,108,952

	SAR '000			
	Stage 1	Stage 2	Stage 3	
2019	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Others				
Balance as at 1 January 2019	**37,031**	**20,328**	**–**	**57,359**
Net impairment charge/(reversal)	**(3,065)**	**(13,087)**	**–**	**(16,152)**
Transfer to stage 1	**–**	**–**	**–**	**–**
Transfer to stage 2	**–**	**–**	**–**	**–**
Transfer to stage 3	**–**	**–**	**–**	**–**
Bad debts written off	**–**	**–**	**–**	**–**
Foreign currency translation adjustment	**–**	**–**	**–**	**–**
Balance as at 31 December 2019	**33,966**	**7,241**	**–**	**41,207**

2018	SAR '000			
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Others				
Balance as at 1 January 2018	899	42,347	–	43,246
Net impairment charge/(reversal)	12,158	1,955	–	14,113
Transfer to stage 1	–	–	–	–
Transfer to stage 2	23,974	(23,974)	–	–
Transfer to stage 3	–	–	–	–
Bad debts written off	–	–	–	–
Foreign currency translation adjustment	–	–	–	–
Balance as at 31 December 2018	37,031	20,328	–	57,359

(7.3) Impairment charge for financing and advances losses in the consolidated statement of income represents:

2019	SAR '000			
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Net impairment (reversal)/charge	**(698,949)**	**588,381**	**2,257,800**	**2,147,232**
Provision/(reversal) against indirect facilities (included in other liabilities)	**(79,528)**	**(24,075)**	**71,824**	**(31,779)**
Recoveries of debts previously written-off	**–**	**–**	**(685,383)**	**(685,383)**
Direct write-off	**–**	**21,364**	**8,400**	**29,764**
Others	**(11,201)**	**(1,469)**	**–**	**(12,670)**
Net charge for the year	**(789,678)**	**584,201**	**1,652,641**	**1,447,164**

2018	SAR '000			
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Net impairment charge	(57,046)	394,330	1,826,415	2,163,699
Provision/(reversal) against indirect facilities (included in other liabilities)	(49,122)	(1,740)	10,490	(40,372)
Recoveries of debts previously written-off	–	–	(794,583)	(794,583)
Direct write-off	–	23,218	3,032	26,250
Others	(1,868)	(6,055)	–	(7,923)
Net charge for the year	(108,036)	409,753	1,045,354	1,347,071

(7.4) Economic sector risk concentrations for the financing and advances and allowances for financing losses are as follows:

2019	Gross financing and advances SAR' 000	ECL allowance SAR' 000	Financing and advances, net SAR' 000
Government and Quasi Government	**3,188,473**	**(4)**	**3,188,469**
Banks and other financial institutions	**8,737,646**	**(42,119)**	**8,695,527**
Agriculture and fishing	**339,870**	**(22,982)**	**316,888**
Manufacturing	**31,991,870**	**(1,572,403)**	**30,419,467**
Mining and quarrying	**6,876,490**	**(29,170)**	**6,847,320**
Electricity, water, gas and health services	**18,115,248**	**(64,498)**	**18,050,750**
Building and construction	**13,813,941**	**(1,213,795)**	**12,600,146**
Commerce	**38,788,684**	**(2,371,460)**	**36,417,224**
Transportation and communication	**10,584,405**	**(73,648)**	**10,510,757**
Others services	**33,007,480**	**(337,779)**	**32,669,701**
Consumers	**124,206,605**	**(1,634,094)**	**122,572,511**
Financing and advances, net	**289,650,712**	**(7,361,952)**	**282,288,760**

7. FINANCING AND ADVANCES, NET (continued)

(7.4) Economic sector risk concentrations for the financing and advances and allowances for financing losses are as follows: (continued)

2018	Gross financing and advances SAR' 000	ECL allowance SAR' 000	Financing and advances, net SAR' 000
Government and Quasi Government	3,357,785	(40)	3,357,745
Banks and other financial institutions	8,576,737	(61,171)	8,515,566
Agriculture and fishing	653,379	(21,784)	631,595
Manufacturing	32,555,268	(1,495,323)	31,059,945
Mining and quarrying	7,934,486	(36,984)	7,897,502
Electricity, water, gas and health services	17,880,645	(59,578)	17,821,067
Building and construction	14,097,897	(1,213,912)	12,883,985
Commerce	39,588,987	(2,426,867)	37,162,120
Transportation and communication	12,939,366	(89,016)	12,850,350
Others services	29,682,302	(390,343)	29,291,959
Consumers	105,221,127	(1,630,999)	103,590,128
Financing and advances, net	272,487,979	(7,426,017)	265,061,962

(7.5) Financing and advances include finance lease receivables (including Ijara in compliance with Shariah rules) which are analysed as follows:

	2019 SAR '000	2018 SAR '000
Gross finance lease receivables:		
Less than 1 year	**1,996,118**	1,453,535
1 to 5 years	**15,182,247**	16,611,382
Over 5 years	**35,379,002**	35,016,355
Total	**52,557,367**	53,081,272
Unearned finance income on finance leases		
Less than 1 year	**(86,349)**	(106,040)
1 to 5 years	**(2,937,836)**	(3,269,665)
Over 5 years	**(8,735,247)**	(9,587,458)
Total	**(11,759,432)**	(12,963,163)
Net finance lease receivables:		
Less than 1 year	**1,909,769**	1,347,495
1 to 5 years	**12,244,411**	13,341,717
Over 5 years	**26,643,755**	25,428,897
Total	**40,797,935**	40,118,109

Allowance for uncollectable finance lease receivables included in the allowance for expected credit losses is SAR 546 million (2018: SAR 538 million).

8. INVESTMENTS IN ASSOCIATES, NET

	2019 SAR '000	2018 SAR '000
Cost:		
At the beginning of the year	**1,014,000**	1,014,000
At 31 December	**1,014,000**	1,014,000
Allowance for impairment and share of results:		
At beginning of the year	**(566,629)**	(563,952)
Share of results in associates	**2,560**	1,070
Dividends	**(11,448)**	(3,747)
At 31 December	**(575,517)**	(566,629)
Investment in associates, net	**438,483**	447,371

Investment in associates primarily consists of a 60% (2018: 60%) ownership interest in the Commercial Real Estate Markets Company and 29.9% (2018: 29.9%) ownership interest in Al-Ahli Takaful Company, which are both registered in the Kingdom of Saudi Arabia.

As of 31 December 2019, the quoted share price of Alahli Takaful Company was SAR 25.25 (31 December 2018: SAR 28.50). Commercial Real Estate Markets Company is not listed on any stock exchange.

9. OTHER REAL ESTATE, NET

	2019 SAR '000	2018 SAR '000
Cost:		
At beginning of the year	**1,282,268**	976,678
Additions	**648,229**	350,967
Disposals	**(467,155)**	(45,377)
At 31 December	**1,463,342**	1,282,268
Provision and foreign currency translation:		
Foreign currency translation adjustment	**(124,054)**	(97,570)
Provision for impairment	**(55,901)**	(52,421)
At 31 December	**(179,955)**	(149,991)
Other real estate, net	**1,283,387**	1,132,277

10. PROPERTY, EQUIPMENT AND SOFTWARE, NET

	2019					2018				
	Land, buildings and leasehold improvements SAR '000	Furniture, equipment and vehicles SAR '000	Software SAR '000	Capital work in progress SAR '000	Total SAR '000	Land, buildings and leasehold improvements SAR '000	Furniture, equipment and vehicles SAR '000	Software SAR '000	Capital work in progress SAR '000	Total SAR '000
Cost:										
At beginning of the year	**5,480,395**	**3,053,966**	**2,120,720**	**384,288**	**11,039,369**	5,240,086	2,860,793	1,951,548	465,455	10,517,882
Foreign currency translation adjustment	**(58,201)**	**(24,996)**	**(22,470)**	**(634)**	**(106,301)**	(193,498)	(74,459)	(63,071)	(2,950)	(333,978)
Additions	**90,350**	**126,915**	**30,614**	**564,636**	**812,515**	192,471	213,574	33,860	457,923	897,828
Disposals and retirements	**(1,000)**	**(31,598)**	**(1,505)**	**(61)**	**(34,164)**	(4,270)	(37,871)	(222)	–	(42,363)
Transfer from capital work in progress	**138,130**	**84,304**	**151,613**	**(374,047)**	**–**	245,606	91,929	198,605	(536,140)	–
As at 31 December	**5,649,674**	**3,208,591**	**2,278,972**	**574,182**	**11,711,419**	5,480,395	3,053,966	2,120,720	384,288	11,039,369
Accumulated depreciation/amortisation:										
At beginning of the year	**2,243,234**	**2,135,481**	**1,313,043**	**–**	**5,691,758**	2,036,325	1,989,018	1,211,867	–	5,237,210
Foreign currency translation adjustment	**(7,211)**	**(12,768)**	**(19,414)**	**–**	**(39,393)**	(21,132)	(49,333)	(48,800)	–	(119,265)
Charge for the year	**194,287**	**354,418**	**45,888**	**–**	**594,593**	230,933	226,402	149,990	–	607,325
Disposals and retirements	**(1,239)**	**(30,675)**	**(201)**	**–**	**(32,115)**	(2,892)	(30,606)	(14)	–	(33,512)
As at 31 December	**2,429,071**	**2,446,456**	**1,339,316**	**–**	**6,214,843**	2,243,234	2,135,481	1,313,043	–	5,691,758
Net book value:										
As at 31 December	**3,220,603**	**762,135**	**939,656**	**574,182**	**5,496,576**	3,237,161	918,485	807,677	384,288	5,347,611

11. RIGHT OF USE ASSETS, NET

	2019 SAR '000
Cost:	
At beginning of the year	**1,796,913**
Additions	**200,871**
Terminations	**(46,132)**
Foreign currency translation adjustment	**(19,955)**
As at 31 December	**1,931,697**
Accumulated depreciation	
At beginning of the year	**–**
Charge for the year	**271,342**
Terminations	**(7,513)**
Foreign currency translation adjustment	**(1,957)**
As at 31 December	**261,872**
Right of use assets, net	**1,669,825**

12. GOODWILL

(12.1) Net book value

	2019 SAR '000	2018 SAR '000
Cost:		
At beginning of the year	**–**	745,672
Foreign currency translation adjustment	**–**	(241,322)
As at 31 December	**–**	504,350
Amortisation, impairment and foreign currency translation:		
At beginning of the year	**–**	442,635
Impairment loss for the year	**–**	204,965
Foreign currency translation adjustment	**–**	(143,250)
At 31 December	**–**	504,350
Net book value:		
At 31 December	**–**	–

(12.2) Türkiye Finans Katılım Bankası A.Ş., (TFKB)

In accordance with the requirements of International Financial Reporting Standards (IFRS), during 2018 the Group's management carried out an impairment test in respect of the goodwill that arose on the acquisition of Türkiye Finans Katılım Bankası A.Ş (TFKB). Thus, the goodwill was fully impaired during the year ended 31 December 2018.

The recoverable amount for TFKB as a Cash Generating Unit (CGU) was determined based on value in use calculation by using Dividend Discount Model, built on the five-year projections approved by the senior management of TFKB. In preparing the forecasts for the value in use calculation, management made certain assumptions regarding the future cash flows and level of earnings. Further, the key assumptions used in the calculation of value in use are the discount rate and the perpetual growth rate; the discount rate being a function of the beta, risk free rate, equity risk premium, and expected inflation.

Discount rate of 23.29% computed using the Capital Asset Pricing Method (CAPM) was used to calculate the present value of future cashflows.

The management compared the value in use, calculated based on the above assumptions, with the carrying value of TFKB as at the date of the impairment test. As a result, the value in use of TFKB was lower than its carrying value; hence, an impairment loss on goodwill was recognised in respect of TFKB for the year ended 31 December 2018.

If the discount rate used for the value in use calculation had been adjusted by +/-1% with all other factors remaining constant, the value in use of TFKB would not have been materially different.

13. OTHER ASSETS

	2019 SAR '000	2018 SAR '000
Assets purchased under Murabah arrangements	**2,913,428**	2,237,670
Prepayments and advances	**1,024,032**	1,839,121
Margin deposits against derivatives and repos	**7,350,250**	3,464,919
Others	**3,498,947**	2,164,054
Total	**14,786,657**	9,705,764

14. DERIVATIVES

In the ordinary course of business, the Group utilises the following financial derivative instruments for both trading and hedging purposes:

(a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate special commission payments in a single currency without exchanging principal. For currency swaps, fixed special commission payments and principal are exchanged in different currencies. For cross-currency special commission rate swaps, principal and fixed and floating special commission payments are exchanged in different currencies.

(b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardized amounts on regulated exchanges. Changes in futures contract values are settled daily.

(c) Forward rate agreements

Forward rate agreements are individually negotiated special commission rate contracts that call for a cash settlement for the difference between a contracted special commission rate and the market rate on a specified future date, based on a notional principal for an agreed period of time.

(d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

(e) Structured derivative products

Structured derivative products provide financial solutions to the customers of the Group to manage their risks in respect of foreign exchange, special commission rate and commodity exposures and enhance yields by allowing deployment of excess liquidity within specific risk and return profiles. The majority of the Group's structured derivative transactions are entered on a back-to-back basis with various counterparties.

(14.1) Derivatives held for trading purposes

Most of the Group'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.

(14.2) Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk (see note 35 – credit risk, note 36 – market risk and note 37 – liquidity risk). Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce special commission rate gaps to within the established limits.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading, such as special commission rate swaps, special commission rate options and futures, forward foreign exchange contracts and currency options.

14. DERIVATIVES (continued)

(14.2) Derivatives held for hedging purposes (continued)

The Group uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Group also uses special commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

The tables below show the positive and negative fair values of derivatives, together with the notional amounts analysed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

			SAR '000 Notional amounts by term to maturity					
2019	Positive fair value	Negative fair value	Notional amount	Within 3 months	3–12 months	1–5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate instruments	**4,621,626**	**(4,356,977)**	**251,474,994**	**4,489,740**	**31,959,613**	**144,789,404**	**70,236,237**	**250,019,987**
Forward foreign exchange contracts	**395,879**	**(92,285)**	**79,739,479**	**34,923,677**	**16,366,658**	**28,449,144**	**–**	**66,910,086**
Options	**7,018**	**(8,634)**	**315,583**	**101,749**	**213,834**	**–**	**–**	**255,208**
Structured derivatives	**4,274**	**(4,274)**	**61,662**	**61,278**	**384**	**–**	**–**	**1,018,007**
Held as fair value hedges:								
Special commission rate instruments	**114,361**	**(1,543,746)**	**11,559,835**	**375,000**	**1,018,500**	**2,888,711**	**7,277,624**	**17,595,627**
Held as cash flow hedges:								
Special commission rate instruments	**132,881**	**(75,664)**	**4,420,104**	**218,091**	**417,871**	**3,400,938**	**383,204**	**5,739,526**
Total	**5,276,039**	**(6,081,580)**	**347,571,657**	**40,169,535**	**49,976,860**	**179,528,197**	**77,897,065**	

			SAR '000 Notional amounts by term to maturity					
2018	Positive fair value	Negative fair value	Notional amount	Within 3 months	3–12 months	1–5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate instruments	2,678,597	(2,387,874)	212,624,498	4,060,000	10,464,021	125,363,499	72,736,978	189,975,176
Forward foreign exchange contracts	335,677	(73,316)	80,779,791	34,910,151	24,331,245	21,538,395	–	72,112,689
Options	35	(36)	22,560	22,560	–	–	–	253,477
Structured derivatives	8,371	(9,342)	2,600,149	341,499	2,218,500	40,150	–	8,749,758
Held as fair value hedges:								
Special commission rate instruments	687,692	(424,863)	23,938,733	–	157,221	4,435,263	19,346,249	19,647,292
Held as cash flow hedges:								
Special commission rate instruments	202,677	(383,699)	12,228,663	5,000,000	1,707,025	4,568,822	952,816	12,151,923
Total	3,913,049	(3,279,130)	332,194,394	44,334,210	38,878,012	155,946,129	93,036,043	

The table below shows a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value.

	SAR '000					
2019	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
Description of hedged items						
Fixed rate instruments	**12,914,262**	**11,663,087**	Fair value	Special commission rate instruments	**114,361**	**(1,543,746)**
Fixed rate and floating rate instruments	**4,414,351**	**4,409,938**	Cash flow	Special commission rate instruments	**132,881**	**(75,664)**
2018						
Description of hedged items						
Fixed rate instruments	23,072,793	23,566,418	Fair value	Special commission rate instruments	687,692	(424,863)
Fixed rate and floating rate instruments	11,037,417	10,907,294	Cash flow	Special commission rate instruments	202,677	(383,699)

Approximately 56% (2018: 70%) of the positive fair value of the Group's derivatives are entered into with financial institutions and 44% (2018: 30%) of the positive fair value contracts are with non-financial institutions at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Group's Treasury segment.

Cash flows hedges:

The Group is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Bank generally uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks.

Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	SAR' 000			
2019	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	**143,142**	**189,206**	**32,400**	**4,307**
Cash outflows (liabilities)	**(99,795)**	**(114,282)**	**(30,712)**	**(3,027)**
Net cash inflows (outflows)	**43,347**	**74,924**	**1,688**	**1,280**

	SAR' 000			
2018	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	318,899	354,480	144,608	104,348
Cash outflows (liabilities)	(269,701)	(279,604)	(105,660)	(67,076)
Net cash inflows (outflows)	49,198	74,876	38,948	37,272

15. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 SAR '000	2018 SAR '000
Current accounts	**6,013,422**	10,938,366
Money market deposits	**18,975,537**	11,996,876
Repos (note 34 (a))	**37,197,085**	23,027,608
Total	**62,186,044**	45,962,850

16. CUSTOMERS' DEPOSITS

	2019 SAR '000	2018 SAR '000
Current accounts	**250,700,137**	254,744,356
Savings	**132,093**	125,938
Time	**90,023,429**	49,747,561
Others	**12,533,656**	14,083,171
Total	**353,389,315**	318,701,026

Other customers' deposits include SAR 3,685 million (2018: SAR 3,096 million) of margins held for irrevocable commitments and contingencies

International segment deposits included in customers' deposits comprise of:

	2019 SAR '000	2018 SAR '000
Current accounts	**9,450,761**	6,867,202
Savings	**–**	–
Time	**15,685,172**	12,113,741
Others	**471,915**	299,820
Total	**25,607,848**	19,280,763

16. CUSTOMERS' DEPOSITS (continued)

Details on foreign currency deposits included in customers' deposits as follows:

	2019 SAR '000	2018 SAR '000
Current accounts	**14,064,240**	12,855,921
Savings	**341**	341
Time	**38,004,033**	25,282,179
Others	**896,029**	1,204,503
Total	**52,964,643**	39,342,944

17. DEBT SECURITIES ISSUED

Issuer	Year of issue	Tenure	Particulars	2019 SAR '000	2018 SAR '000
National Commercial Bank	2014	10 years	Non-convertible unlisted sukuk, callable on the 5th anniversary of the issue date, carrying profit payable semi-annually. During the year ended 31 December 2019, the Group has exercised its option and early redeemed its Tier 2 sukuk amounting to SAR 5 billion at face value.	**–**	5,069,111
Türkiye Finans Katılım Bankası A.Ş.	2014	5 years	Non-convertible listed sukuk on the Irish Stock Exchange, carrying profit at a fixed rate payable semi-annually.	**–**	1,848,509
	2014	5 years	Non-convertible unlisted sukuk, carrying profit at a fixed rate payable semi-annually.	**–**	718,509
	2015	5 years	Non-convertible unlisted sukuk, carrying profit at a fixed rate payable semi-annually.	**332,513**	327,524
	2018	1 Year	Non-convertible listed sukuk on the Borsa Istanbul, carrying profit at a fixed rate.	**–**	6,296
	2018	4 months	Non-convertible listed sukuk on the Borsa Istanbul, carrying profit at a fixed rate.	**–**	294,324
	2018	3 months	Non-convertible listed sukuk on the Borsa Istanbul, carrying profit at a fixed rate.	**–**	1,166,634
	2019	3 months	Non-convertible listed sukuk on the Borsa Istanbul, carrying profit at a fixed rate.	**613,843**	–
	2019	6 months	Non-convertible listed sukuk on the Borsa Istanbul, carrying profit at a fixed rate.	**69,745**	–
Total				**1,016,101**	9,430,907

Movement of the debt securities issued during the year is as follows:

	2019 SAR '000	2018 SAR '000
Balance at beginning of the year	**9,430,907**	10,250,310
Debt securities issued	**5,312,980**	3,028,039
Debt securities payment	**(13,244,516)**	(3,457,626)
Foreign currency translation adjustment	**(483,270)**	(389,816)
Balance at the end of the year	**1,016,101**	9,430,907

18. OTHER LIABILITIES

	2019 SAR '000	2018 SAR '000
Zakat payable including subsidiaries (see note below)	**1,457,474**	1,180,024
Staff-related payables	**1,228,715**	1,052,172
Accrued expenses and accounts payable	**4,714,413**	3,612,766
Allowances for indirect facilities	**300,216**	349,146
Employee benefit obligation (note 28)	**1,203,645**	1,043,139
Lease liabilities	**1,825,149**	–
Others	**4,072,873**	1,896,899
Total	**14,802,485**	9,134,146

The Group is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to the profit or loss.

The Bank has calculated Zakat accruals for the year 2019 based on the new Zakat rules for financing activities.

In 2018, the Bank reached a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle the Zakat Liability for previous years and accordingly all assessments have been finalized until 2017.

Zakat for 2018 was computed in line with the basis of settlement agreement with GAZT.

The change in the accounting treatment for zakat and income tax (as explained in note 3.3) has the following impact on the line items of the statements of income and changes in shareholders' equity:

For the year ended 31 December 2018	Financial statement impacted	As previously reported 31 December 2018 SAR '000	Effect of restatement SAR '000	As restated 31 December 2018 SAR '000
Provision for zakat and income tax (retained earnings)	Statement of changes in equity	1,107,900	(1,107,900)	–
Zakat and income tax expenses	Statement of income	–	1,107,900	1,107,900
Earnings per share	Statement of income	3.44	(0.36)	3.08
Net income for the year	Statement of income	10,830,119	(1,107,900)	9,722,219
Total comprehensive income for the year	Statement of comprehensive income	8,388,253	(1,107,900)	7,280,353

19. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 3,000,000,000 shares of SAR 10 each (31 December 2018: 3,000,000,000 shares of SAR 10 each). The capital of the Bank excluding treasury shares (refer to note 27.2) consists of 2,991,171,957 shares of SAR 10 each (31 December 2018: 2,989,409,411 shares of SAR 10 each).

20. STATUTORY RESERVE

In accordance with the Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income after Zakat and income tax, inclusive of the overseas branches, is required to be transferred to a statutory reserve up to where the reserve equals a minium amount of the paid up capital of the Bank. Moreover, in accordance with the Regulation for Companies in Saudi Arabia, NCBC is also required to transfer a minimum of 10% of its annual net income (after Zakat and income tax) to statutory reserve.

TFKB transfers 5% of its previous year annual net income after Zakat and income tax to statutory reserve.

The statutory reserves are not currently available for distribution.

21. OTHER RESERVES (CUMULATIVE CHANGES IN FAIR VALUES)

Other reserves represent the net unrealised revaluation gains (losses) of cash flow hedges (effective portion) and FVOCI investments. The movement of other reserves during the year is included under consolidated statement of other comprehensive income and the consolidated statement of changes in equity.

22. COMMITMENTS AND CONTINGENCIES

(22.1) Capital and other non-credit related commitments

As at 31 December 2019 the Bank had capital commitments of SAR 1,305 million (2018: SAR 1,008 million) in respect of building, equipment purchases and capital calls on private equity funds.

(22.2) Credit-related commitments and contingencies

Credit-related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and commitments to extend credit (irrevocable). The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees including standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as financing and advances.

Cash requirements under guarantees are normally considerably less than the amount of the related commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipment of goods to which they relate and therefore have significantly less risk.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent unused portions of authorisation to extended credit, principally in the form of financing, guarantees and letters of credit. With respect to credit risk relating to commitments to extend unused credit lines, the Group is potentially exposed to a loss in an amount which is equal to the total unused commitments. The likely amount of loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

(a) The contractual maturity structure of the Group's credit-related commitments and contingencies is as follows:

	SAR '000				
2019	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	**4,748,099**	**3,702,790**	**512,629**	**12,270**	**8,975,788**
Guarantees	**6,043,567**	**16,629,412**	**8,920,510**	**2,114,823**	**33,708,312**
Acceptances	**1,310,150**	**338,816**	**22,640**	**10,809**	**1,682,415**
Irrevocable commitments to extend credit	**1,450**	**2,143,117**	**2,168,099**	**5,156,408**	**9,469,074**
Total	**12,103,266**	**22,814,135**	**11,623,878**	**7,294,310**	**53,835,589**

	SAR '000				
2018	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	8,503,542	2,012,922	195,970	88,060	10,800,494
Guarantees	7,620,613	15,670,270	7,588,067	2,682,584	33,561,534
Acceptances	1,310,801	817,456	52,439	4,466	2,185,162
Irrevocable commitments to extend credit	57,470	2,042,266	5,347,271	1,624,122	9,071,129
Total	17,492,426	20,542,914	13,183,747	4,399,232	55,618,319

(b) The analysis of commitments and contingencies by counterparty is as follows:

	2019 SAR '000	2018 SAR '000
Government and Quasi Government	**6,681,859**	9,782,819
Corporate and establishment	**34,880,613**	30,352,604
Banks and other financial institutions	**11,941,194**	15,318,416
Others	**331,923**	164,480
Total	**53,835,589**	55,618,319

23. NET SPECIAL COMMISSION INCOME

	2019 SAR '000	2018 SAR '000
Special commission income:		
Investments – FVOCI	**1,236,823**	1,847,455
Investments held at amortised cost	**2,667,461**	1,819,467
Sub total – investments	**3,904,284**	3,666,922
Due from banks and other financial institutions	**648,473**	680,687
Financing and advances	**15,974,388**	14,711,187
Total	**20,527,145**	19,058,796
Special commission expense:		
Due to banks and other financial institutions	**1,382,537**	914,061
Customers' deposits	**2,897,311**	2,426,783
Debt securities issued	**440,747**	594,811
Total	**4,720,595**	3,935,655
Net special commission income	**15,806,550**	15,123,141

24. FEE INCOME FROM BANKING SERVICES, NET

	2019 SAR '000	2018 SAR '000
Fee income:		
Shares brokerage	**239,835**	252,819
Investment management services	**583,668**	557,690
Finance and lending	**812,115**	729,929
Credit cards	**724,031**	665,803
Trade finance	**387,619**	446,735
Others	**486,045**	511,902
Total	**3,233,313**	3,164,878
Fee expenses:		
Shares brokerage	**(93,557)**	(92,034)
Investment management services	**(5,055)**	(8,714)
Credit cards	**(603,205)**	(527,149)
Others	**(4,148)**	(7,773)
Total	**(705,965)**	(635,670)
Fee income from banking services, net	**2,527,348**	2,529,208

25. INCOME FROM FVIS FINANCIAL INSTRUMENTS, NET

	2019 SAR '000	2018 SAR '000
Investments held at FVIS	**651,375**	310,554
Derivatives	**289,102**	139,472
Total	**940,477**	450,026

26. GAINS/INCOME ON NON-FVIS FINANCIAL INSTRUMENTS, NET

	2019 SAR '000	2018 SAR '000
Gains on disposal of non-FVIS financial instruments	**374,384**	26,348
Dividend income from non-FVIS financial instruments	**95,872**	37,449
Total	**470,256**	63,797

27. SHARE BASED PAYMENTS RESERVE

Employees' share based payment plan and Treasury shares:

(27.1) Employee share based payment plan:

The Bank established a share based compensation scheme for its key management that entitles the related personnel to be awarded shares in the Bank subject to successfully meeting certain service and performance conditions. Under the share based compensation scheme, the Bank has three outstanding plans. Significant features of these plans are as follows:

Maturity dates	Between Dec. 2019 and Dec. 2021
Total number of shares granted	6,182,775
Vesting period	3 years
Method of settlement	Equity
Fair value per share on grant date	Average SAR 53.09

(27.2) Treasury shares:

During the year ended 31 December 2019, the Bank acquired further treasury shares amounting to SAR 125 million in connection with its employee share based payment plan (note 19), which has been duly approved by the concerned regulatory authorities.

28. EMPLOYEE BENEFIT OBLIGATION

(28.1) The characteristics of the end of service benefits scheme

The Group operates an unfunded end of service benefit plan (the plan) for its employees based on the prevailing Saudi Labor Laws. The liability in respect of the plan is estimated by a qualified external actuary in accordance with International Accounting Standard 19 – Employee Benefits, and using "Projected Unit Credit Method". The liability recognised in the consolidated statement of financial position in respect of the plan is the present value of the defined benefit obligation at the end of the reporting period. During the year, based on the actuarial assessment, a charge of SAR 152 million (2018: SAR 175 million) related to current service and interest cost was recorded in the consolidated statement of income. The end of service liability is disclosed in note 18.

(28.2) The valuation of the defined benefit obligation

Liability under the plan is based on various assumptions ("actuarial assumptions") including the estimation of the discount rate, inflation rate, expected rate of salary increase and normal retirement ages. Based on the assumptions, also taking into consideration the future salary increases, cash outflows are estimated for the Group's employees as a whole giving the total payments expected over the future years, which are discounted to arrive at the closing obligation. Any changes in actuarial assumptions from one period to another may effect the determination of the estimated closing obligation, which is accounted for as an actuarial gain or loss for the period.

29. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2019 and 31 December 2018 is calculated by dividing the net income attributable to common equity holders of the Bank (adjusted for Tier 1 sukuk costs) for the periods by the weighted average number of shares outstanding during the period.

Diluted earnings per share for the years ended 31 December 2019 and 31 December 2018 is calculated by dividing the fully diluted net income attributable to equity holders of the Bank for the year by the weighted average number of outstanding shares. The diluted earning per share are adjusted with the impact of the employees' share based payment plan.

Details of Basic and diluted earnings per share are as follows:

	Basic EPS		Diluted EPS	
	2019	2018	**2019**	2018
Weighted-Average number of shares outstanding (in thousands)	**2,991,580**	2,989,719	**2,995,278**	2,994,432
Earnings per share (in SAR)	**3.68**	3.08	**3.67**	3.08

30. TIER 1 SUKUK

These Sukuks are perpetual securities in respect of which there is no fixed redemption dates and represents an undivided ownership interest of the Sukuk-holders in the Sukuk assets, with each Sakk constituting an unsecured, conditional and subordinated obligation of the Bank classified under equity. However, the Bank shall have the exclusive right to redeem or call the Sukuks in a specific period of time, subject to the terms and conditions stipulated in the Sukuk Agreement.

The applicable profit rate on the Sukuks is payable quarterly in arrears on each periodic distribution date, except upon the occurrence of a non payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

31. DIVIDEND

During the year, the Board of Directors recommended dividends, net of Zakat, for the year as follows:

	Amount SAR '000		Dividend per share SAR	
	2019	2018	2019	2018
Interim dividend paid	**3,300,000**	2,989,409	**1.10**	1.00
Proposed final dividend	**3,600,000**	3,288,350	**1.20**	1.10
Total net dividend	**6,900,000**	6,277,759	**2.30**	2.10
Zakat provision for the year attributable to the Bank's shareholders	**1,329,374**	958,214		
Total gross dividend	**8,229,374**	7,235,973		

32. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following:

	2019 SAR '000	2018 SAR '000
Cash and balances with SAMA excluding statutory deposit (note 4)	**25,653,256**	13,277,060
Due from banks and other financial institutions with original maturity of three months or less	**7,021,487**	6,514,484
Total	**32,674,743**	19,791,544

33. OPERATING SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's management.

The Group has five reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

Retail

Provides banking services, including lending and current accounts in addition to products in compliance with Shariah rules which are supervised by the independent Shariah Board, to individuals and private banking customers.

Corporate

Provides banking services including all conventional credit-related products and financing products in compliance with Shariah rules to small sized businesses, medium and large establishments and companies.

Treasury

Provides a full range of treasury and correspondent banking products and services, including money market and foreign exchange, to the Group's clients, in addition to carrying out investment and trading activities (local and international) and managing liquidity risk, market risk and credit risk (related to investments).

Capital Market

Provides wealth management, asset management, investment banking and shares brokerage services (local, regional and international).

International

Comprises banking services provided outside Saudi Arabia including TFK.

Transactions between the operating segments are recorded as per the Bank and its subsidiaries' transfer pricing system.

The supports and Head Office expenses are allocated to segments using activity-based costing.

33. OPERATING SEGMENTS (continued)

(33.1) The Group's total assets and liabilities at year end, its operating income and expenses (total and main items) and net income for the year, by business segments, are as follows:

	SAR '000					
2019	Retail	Corporate	Treasury	Capital Market	International	Total
Total assets	**153,735,125**	**133,425,432**	**185,235,196**	**2,090,983**	**32,777,066**	**507,263,802**
Total liabilities	**239,668,411**	**88,492,846**	**80,101,324**	**365,403**	**28,847,541**	**437,475,525**
– Customers' deposits	**228,550,843**	**86,666,949**	**12,560,252**	**3,423**	**25,607,848**	**353,389,315**
Total operating income from external customers	**7,731,316**	**6,905,587**	**3,630,803**	**786,908**	**1,552,498**	**20,607,112**
– Intersegment operating income (expense)	**2,320,683**	**(2,520,279)**	**291,318**	**(123)**	**(91,599)**	**–**
Total operating income	**10,051,999**	**4,385,308**	**3,922,121**	**786,785**	**1,460,899**	**20,607,112**
of which:						
Net special commission income	**8,711,493**	**3,871,548**	**1,981,290**	**18,196**	**1,224,023**	**15,806,550**
Fee income from banking services, net	**1,035,808**	**514,041**	**86,147**	**715,136**	**176,216**	**2,527,348**
Total operating expenses	**4,355,816**	**1,463,839**	**401,902**	**327,663**	**1,201,761**	**7,750,981**
of which:						
– Depreciation/amortisation of property, equipment, software and ROU assets	**585,815**	**91,631**	**60,212**	**19,084**	**109,193**	**865,935**
– Net impairment charge for expected credit losses	**446,462**	**554,829**	**(56,387)**	**–**	**475,026**	**1,419,930**
Other non-operating (expenses)/income, net	**68,852**	**(16,948)**	**(23,201)**	**198**	**33,546**	**62,447**
Net income for the period before Zakat and income tax	**5,765,035**	**2,904,521**	**3,497,018**	**459,320**	**292,684**	**12,918,578**

	SAR '000					
2018	Retail	Corporate	Treasury	Capital Market	International	Total
Total assets	134,020,882	134,128,237	149,510,956	1,601,538	32,915,155	452,176,768
Total liabilities	254,924,846	49,504,769	53,159,749	317,391	28,601,304	386,508,059
– Customers' deposits	242,562,243	48,042,017	8,812,110	3,893	19,280,763	318,701,026
Total operating income from external customers	6,764,674	6,476,164	3,341,181	720,166	1,625,038	18,927,223
– Intersegment operating income (expense)	1,907,626	(2,414,816)	605,431	–	(98,241)	–
Total operating income	8,672,300	4,061,348	3,946,612	720,166	1,526,797	18,927,223
of which:						
Net special commission income	7,499,768	3,623,361	2,732,248	10,009	1,257,755	15,123,141
Fee income from banking services, net	1,073,382	439,518	109,192	694,837	212,279	2,529,208
Total operating expenses	4,279,187	1,645,537	509,790	343,567	1,303,421	8,081,502
of which:						
– Depreciation/amortisation of property, equipment, software and ROU assets	395,953	77,013	47,909	15,955	70,495	607,325
– Net impairment charge for expected credit losses	274,077	723,552	69,528	–	362,935	1,430,092
Other non-operating (expenses)/income, net	(18,460)	(17,049)	(18,943)	(890)	39,740	(15,602)
Net income for the period before Zakat and income tax	4,374,653	2,398,762	3,417,879	375,709	263,116	10,830,119

(33.2) The Group's credit risk exposure, by business segments, is as follows:

	SAR '000					
2019	Retail	Corporate	Treasury	Capital Market	International	Total
Statement of financial position assets	**123,714,593**	**128,777,964**	**153,333,218**	**474,262**	**25,853,697**	**432,153,734**
Commitments and contingencies (credit equivalent)	**706,697**	**23,124,263**	**7,452,315**	**–**	**2,919,577**	**34,202,852**
Derivatives (credit equivalent)	**–**	**–**	**15,920,707**	**–**	**7,461**	**15,928,168**

2018	SAR '000					
	Retail	Corporate	Treasury	Capital Market	International	Total
Statement of financial position assets	104,617,838	130,922,868	138,220,999	324,728	27,281,007	401,367,440
Commitments and contingencies (credit equivalent)	2,094,256	20,883,751	8,436,432	–	3,300,008	34,714,447
Derivatives (credit equivalent)	–	–	8,340,843	–	299,584	8,640,427

The credit exposure of assets as per the consolidated statement of financial position comprises the carrying value of due from banks and other financial institutions, investments subject to credit risk, financing and advances, positive fair value of derivatives, other receivables and refundable deposits.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

34. COLLATERAL AND OFFSETTING

Following are the details of collaterals held/received by the Group and offsetting carried out as at 31 December 2019:

(a) The Bank conducts Repo transactions under the terms that are usually based on the applicable GMRA (Global Master Repurchase Agreement) collateral guidelines. Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. These assets continue to be measured in accordance with related accounting policies for investments held at FVIS, held at FVOCI and investments held at amortised cost. The carrying amount and fair value of securities pledged under agreement to repurchase (repo) are as follows:

	2019 SAR '000		2018 SAR '000	
	Carrying amount	Fair value	Carrying amount	Fair value
Held at FVOCI	**29,374,177**	**29,374,177**	12,732,271	12,732,271
Investments held at amortised cost	**10,733,238**	**10,987,799**	13,245,936	13,013,197
Total	**40,107,415**	**40,361,976**	25,978,207	25,745,468

The Bank has placed a margin deposit of SAR 591 million (2018: SAR 245 million) as an additional security for these repo transactions.

(b) Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2019 and 31 December 2018.

(c) For details of margin deposits held for the irrevocable commitments and contingencies, please refer note 16 and for details of margin deposits against derivatives and repos, (refer note 13).

(d) Securities pledged with the Group in respect of reverse repo transactions comprise of SAR 939 million (2018: SAR 940 million). The Group is allowed to sell or repledge these securities in the event of default by the counterparty.

(e) No significant financial assets or liabilities were required to be offset during the year ended 31 December 2019.

35. CREDIT RISK

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument or transaction will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in credit-related risk that is embedded in financing and advances and investments. There is also credit risk in off-statement of financial position financial instruments, such as trade-finance related products, derivatives and financing commitments.

For financing and advances and off-statement of financial position financing to borrowers, the Group assesses the probability of default of counterparties using internal rating models. For investments, due from banks and off-statement of financial position financial instruments held with international counterparties, the Group uses external ratings of the major rating agencies.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify risks and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored on a daily basis.

The Group manages the credit exposure relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation and the Group assesses counterparties using the same techniques as for its financing activities in order to control the level of credit risk taken.

35. CREDIT RISK (continued)

Concentrations of credit risk may arise in case of sizeable exposure to a single obligor or when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular customer, industry or geographical location.

The debt securities included in investments are mainly sovereign risk and high-grade securities. Analysis of investments by counterparty is provided in note (6.6). For details of the composition of the financing and advances refer to note (7.4). Information on credit risk relating to derivative instruments is provided in note (14) and for commitments and contingencies in note (22). The information on the Group's total maximum credit exposure is given in note (35.1).

Each individual corporate borrower is rated based on an internally developed debt rating model that evaluates risk based on financial, qualitative and industry specific inputs. The associated loss estimate norms for each grade have been developed based on the Group's experience. These risk ratings are reviewed on a regular basis.

Performing credit cards and consumer financing are classified as standard as they are performing and have timely repayment with no past dues.

The Group in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in financing and advances. These collaterals mostly include time and other cash deposits, financial guarantees from other banks, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and individual loans and are managed against relevant exposures at their net realisable values. The Group holds real estate collateral against registered mortgage as a collateral financial instruments such as financing and advances and customers' deposits are shown gross on the consolidated statement of financial position and no offsetting has been done.

The Group also manages its credit risk exposure through the diversification of financing activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant financing and advances. The Group monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement and Group's policy.

(35.1) Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2019 SAR '000	2018 SAR '000
Assets		
Due from banks and other financial institutions (note 5)	**16,565,294**	15,964,451
Investments (note 35.2 a)	**123,571,525**	111,749,930
Financing and advances, net (note 7.1)	**282,288,760**	265,061,962
Other assets – margin deposits against derivatives and repos (note 13)	**7,350,250**	3,464,919
Total assets	**429,775,829**	396,241,262
Contingent liabilities and commitments, net (notes 18 and 22.2)	**49,850,644**	52,173,028
Derivatives – positive fair value, net (note 14)	**5,276,039**	3,913,049
Total maximum credit exposure	**484,902,512**	452,327,339

(35.2) Financial risk management

(a) Credit quality analysis

(i) The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

- Investment Grade is composed of Very Strong Credit Quality (AAA to BBB–)
- Non–Investment Grade is composed of: Good, satisfactory and Special Mention Credit Quality (BB+ to C)

	SAR '000 Gross carrying amount			
2019	Stage 1	Stage 2	Stage 3	Total
Due from Bank and Other financial institutions				
Investment grade	11,236,035	–	–	11,236,035
Non–investment grade	4,423,819	–	–	4,423,819
Unrated	909,623	–	–	909,623
Individually impaired	–	–	–	–
Gross carrying amount	16,569,477	–	–	16,569,477
Financing and advances				
Investment Grade	52,691,078	4,621	–	52,695,699
Non–investment Grade	89,466,914	15,129,205	–	104,596,119
Unrated	125,147,340	1,882,158	–	127,029,498
Individually impaired	–	–	5,329,396	5,329,396
Gross carrying amount	267,305,332	17,015,984	5,329,396	289,650,712
Debt investment securities at amortised cost				
Saudi Government Bonds, Sukuk and Treasury Bills	40,317,689	–	–	40,317,689
Investment Grade	21,018,214	415,437	–	21,433,651
Non–investment Grade	1,887,573	1,465,785	–	3,353,358
Gross carrying amount	63,223,476	1,881,222	–	65,104,698
Debt investment securities at FVOCI				
Saudi Government Bonds, Sukuk and Treasury Bills	28,836,343	–	–	28,836,343
Investment Grade	25,636,821	79,730	–	25,716,551
Non–investment Grade	3,103,467	810,466	–	3,913,933
Gross carrying amount	57,576,631	890,196	–	58,466,827
Commitment and contingencies				
Investment Grade	20,354,958	7,223	–	20,362,181
Non–investment Grade	28,226,110	2,652,108	851,444	31,729,662
Unrated	1,704,425	39,321	–	1,743,746
Total	50,285,493	2,698,652	851,444	53,835,589

35. CREDIT RISK (continued)

(35.2) Financial risk management (continued)

(a) Credit quality analysis (continued)

2018	SAR '000 Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total
Due from Bank and Other financial institutions				
Investment grade	9,468,989	–	–	9,468,989
Non-investment grade	5,521,122	–	–	5,521,122
Unrated	980,971	–	–	980,971
Individually impaired	–	–	–	–
Gross carrying amount	15,971,082	–	–	15,971,082
Financing and advances				
Investment Grade	54,555,406	16,907	–	54,572,313
Non-investment Grade	95,136,802	10,331,807	–	105,468,609
Unrated	105,626,848	1,572,832	–	107,199,680
Individually impaired	–	–	5,247,377	5,247,377
Gross carrying amount	255,319,056	11,921,546	5,247,377	272,487,979
Debt investment securities at amortised cost				
Saudi Government Bonds, Sukuk and Treasury Bills	38,095,771	–	–	38,095,771
Investment Grade	23,691,100	415,532	–	24,106,632
Non-investment Grade	1,742,849	1,461,327	–	3,204,176
Gross carrying amount	63,529,720	1,876,859	–	65,406,579
Debt investment securities at FVOCI				
Saudi Government Bonds, Sukuk and Treasury Bills	17,109,030	–	–	17,109,030
Investment Grade	28,047,935	91,731	–	28,139,666
Non-investment Grade	352,672	741,983	–	1,094,655
Gross carrying amount	45,509,637	833,714	–	46,343,351
Commitment and contingencies				
Investment Grade	19,332,617	30,252	–	19,362,869
Non-investment Grade	31,007,380	1,306,766	427,812	32,741,958
Unrated	3,341,729	15,192	156,571	3,513,492
Total	53,681,726	1,352,210	584,383	55,618,319

(ii) The table below details the aging of the performing financing and advances:

2019	SAR '000 Loans and advances				
	Consumer & Credit card	Corporate	International	Others	Total
Neither past due nor impaired	**119,580,610**	**127,796,408**	**16,196,293**	**11,455,493**	**275,028,804**
Past due but not impaired					
Less than 30 days	**2,619,181**	**1,251,232**	**365,346**	**–**	**4,235,759**
30-59 days	**944,140**	**692,099**	**163,875**	**–**	**1,800,114**
60-89 days	**498,386**	**598,819**	**2,159,434**	**–**	**3,256,639**
Total past due not impaired	**4,061,707**	**2,542,150**	**2,688,655**	**–**	**9,292,512**
Total performing financing and advances	**123,642,317**	**130,338,558**	**18,884,948**	**11,455,493**	**284,321,316**

2018	SAR '000 Loans and advances				
	Consumer & Credit card	Corporate	International	Others	Total
Neither past due nor impaired	100,174,370	129,283,117	18,336,957	9,650,960	257,445,404
Past due but not impaired					
Less than 30 days	2,960,657	1,435,529	240,380	–	4,636,566
30-59 days	1,011,156	846,876	257,350	–	2,115,382
60-89 days	456,644	327,640	2,258,966	–	3,043,250
Total past due not impaired	4,428,457	2,610,045	2,756,696	–	9,795,198
Total performing financing and advances	104,602,827	131,893,162	21,093,653	9,650,960	267,240,602

(b) Amounts arising from ECL – significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure based on approved stages of criteria.

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each corporate exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of exposures involves use of the following data.

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes. • Data from credit reference agencies, press articles, changes in external credit ratings. • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	• Internally collected data and customer behavior – e.g. utilization of credit card facilities.	• Payment record – this includes overdue status as well as a range of variables about payment ratios. • Utilization of the granted limit • Requests for and granting of forbearance. • Existing and forecast changes in business, financial and economic conditions.

(i) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information obtained from external credit reference agencies is also used.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors include GDP growth, benchmark interest rates, unemployment etc. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from Group's Economics Department and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

35. CREDIT RISK (continued)

(35.2) FINANCIAL RISK MANAGEMENT (continued)

(b) Amounts arising from ECL – significant increase in credit risk (continued)

(ii) Determining whether credit risk has increased significantly

The criteria for determining whether there is a significant increase in credit risk (SICR) since initial recognition, include quantitative changes in PDs and various qualitative factors, including a backstop based on delinquency.

Moreover, the bank also considers information about guarantees or other credit enhancements in assessing changes in credit risk, as well as the impact of the changes in nature, type and value of such collaterals, on the ability and/or economic incentive of a borrower to repay. As such, where available and applicable, the Bank has duly considered the same.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due unless reasonable evidences are present to prove otherwise. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

(iii) Modified financial assets

The contractual terms of financing and advances may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing and advances whose terms have been modified may be derecognised and the renegotiated Financing and advances recognised as a new financing and advances at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly is completed on the basis of the approved staging criteria.

The Group renegotiates financing and advances to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Group's forbearance policy, Financing and advances forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of special commission payments and amending the terms of financing and advances covenants. Both retail and corporate financing and advances are subject to the forbearance policy.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect special commission income and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

(iv) Definition of 'Default'

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:

- The obligor is past due for 90 days or more on any material credit obligations to the Group 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.
- The Group 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).

The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

(v) Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Group's Economics Department experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private sector and academic forecasters.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 years. During 2019, no changes have occurred in underlying assumptions and the defined economic variables. Moreover, a sensitivity analysis has been conducted on the macro-economic impact such as GDP, interest rate, etc. in order to assess the change in ECL. A shift of 10% would result in a shift of 5 basis points in ECL.

(vi) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

(a) probability of default (PD);
(b) loss given default (LGD);
(c) exposure at default (EAD).

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For Financing and advances secured by retail property, LTV (Lending to Value) ratios are a key parameter in determining LGD.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

The Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a Financing and advances commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a Financing and advances and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits. Cancellation of the facility and/or turning the outstanding balance into a Financing and advances with fixed repayment terms.

(c) Collateral

The Group 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 Group 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 Group 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. The Group 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. Group'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.

36. MARKET RISK

Market risk is the risk that changes in market prices, such as special commission rate, credit spreads (not relating to changes in the obligor's/issuer's credit standing), equity prices and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group 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.

Overall authority for market risk is vested to 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.

(36.1) Market risk – Trading book

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 basis. The model computes volatility and correlations using relevant historical market data.

The Group uses VaR limits for total market risk embedded in its trading activities including derivatives related to foreign exchange and special commission rate. The overall structure of VaR limits is subject to review and approval by the Board of Directors. VaR limits are allocated to the trading book. The daily reports of utilisation of VaR limits are submitted to the senior management of the Group. In addition, regular summaries about various risk measures 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 gives rise to some limitations, including the following:

(i) 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.

(ii) A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a 1% probability that losses could exceed the VaR.

(iii) VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

(iv) 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.

(v) 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 recognised 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 Group uses stress tests to model the financial impact of exceptional market scenarios on individual trading book and the Group's overall trading position.

The table below shows the VaR arises from special commission rate, foreign currency exposure and equity exposure for the years ended 31 December 2019 and 31 December 2018 for Held at FVIS portfolio:

	SAR '000 Held at FVIS			
2019	Foreign exchange risk	Special commission risk	Equity Price Risk	Overall risk
End of year VaR	**1,416**	**9,860**	**10,803**	**22,079**
Average VaR	**1,750**	**8,236**	**1,618**	**11,604**

	SAR '000 Held at FVIS			
2018	Foreign exchange risk	Special commission risk	Equity Price Risk	Overall risk
End of year VaR	324	2,056	601	2,981
Average VaR	580	3,021	509	4,110

(36.2) Market risk – Banking book

Market risk on banking book positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

(36.2.1) Special commission rate risk

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Assets Liabilities Committee (ALCO) has established limits on the special commission rate gap. Positions are regularly monitored and reported on a monthly basis to ALCO and hedging strategies are used to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be monitored more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at 31 December 2019, including the effect of hedging instruments. The sensitivity of the equity is calculated by revaluing the fixed rate fair value through income statement, including the effect of any associated hedges, as at 31 December 2019 for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the assets or cash flow hedge swaps. All significant banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

2019	Increase/decrease in basis points	Sensitivity of special commission income	SAR '000 Sensitivity of equity (other reserves)				Total
			Within 3 months	3-12 months	1-5 years	Over 5 years	
Currency							
SAR	**± 10**	**± 145,152**	**–**	**–**	**± 12,754**	**± 133,803**	**± 146,557**
USD	**± 10**	**± 18,235**	**± 82**	**± 1,118**	**± 26,105**	**± 101,862**	**± 129,167**

2018	Increase/decrease in basis points	Sensitivity of special commission income	SAR '000 Sensitivity of equity (other reserves)				Total
			Within 3 months	3-12 months	1-5 years	Over 5 years	
Currency							
SAR	± 10	± 118,747	–	–	± 4,990	± 6,246	± 11,236
USD	± 10	± 998	± 284	± 324	± 34,818	± 57,693	± 93,119

(a) Special commission rate sensitivity of assets, liabilities and off-statement of financial position items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its consolidated financial position and cash flows. The table below summarizes the Group's exposure to special commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group manages exposure to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-statement of financial position instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

36. MARKET RISK (continued)

(36.2) Market risk – Banking book (continued)

(36.2.1) Special commission rate risk (continued)

The table below summarizes the Group's exposure to special commission rate risks.

	SAR '000					
2019	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-special commission bearing	Total
Assets						
Cash and balances with SAMA	15,942,001	–	–	–	29,440,208	45,382,209
Due from banks and other financial institutions	4,656,899	1,869,745	969,095	–	9,069,555	16,565,294
Investments, net	34,622,875	16,391,208	35,410,763	38,154,905	9,496,821	134,076,572
- Held at FVIS	1,084	934,752	164,981	–	7,249,613	8,350,430
- Held at FVOCI	7,575,997	8,447,851	14,287,882	28,155,097	2,247,208	60,714,035
- Investments held at amortised cost	27,045,794	7,008,605	20,957,900	9,999,808	–	65,012,107
Financing and advances, net	78,012,871	100,957,982	64,269,036	38,512,583	536,288	282,288,760
- Consumer & Credit Card	8,983,865	23,008,983	54,436,300	36,133,682	9,681	122,572,511
- Corporate	56,486,210	66,467,113	3,830,055	1,956,445	38,141	128,777,964
- International	5,444,380	7,813,994	5,841,994	422,456	1,175	19,523,999
- Others	7,098,416	3,667,892	160,687	–	487,291	11,414,286
Positive fair value of derivatives, net	2,685,611	1,505,747	486,073	16,294	582,314	5,276,039
Total financial assets	135,920,257	120,724,682	101,134,967	76,683,782	49,125,186	483,588,874
Liabilities	–					
Due to banks and other financial institutions	52,434,192	5,955,437	81,600	–	3,714,815	62,186,044
Customers' deposits	73,390,071	21,870,625	1,365,603	–	256,763,016	353,389,315
- Current accounts	6,130,837	–	–	–	244,569,300	250,700,137
- Savings	–	–	–	–	132,093	132,093
- Time	66,787,201	21,870,625	1,365,603	–	–	90,023,429
- Others	472,033	–	–	–	12,061,623	12,533,656
Debt securities issued	800,996	215,105	–	–	–	1,016,101
Negative fair value of derivatives, net	2,883,439	2,479,662	454,986	10,424	253,069	6,081,580
Total financial liabilities	129,508,698	30,520,829	1,902,189	10,424	260,730,900	422,673,040
On-statement of financial position gap	6,411,559	90,203,853	99,232,778	76,673,358	(211,605,714)	
Off-statement of financial position gap	(9,450)	7,457,341	76,054	(2,515,043)	–	
Total special commission rate sensitivity gap	6,402,109	97,661,194	99,308,832	74,158,315	(211,605,714)	
Cumulative special commission rate sensitivity gap	6,402,109	104,063,303	203,372,135	277,530,450	65,924,736	

2018	SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-special commission bearing	Total
Assets						
Cash and balances with SAMA	2,565,000	–	–	–	29,949,075	32,514,075
Due from banks and other financial institutions	3,702,100	1,224,811	3,506,425	–	7,531,115	15,964,451
Investments, net	29,374,401	23,423,451	37,657,625	21,281,289	6,353,442	118,090,208
- Held at FVIS	–	–	91,735	–	4,863,138	4,954,873
- Held at FVOCI	7,209,482	14,433,750	16,644,331	8,055,788	1,490,304	47,833,655
- Investments held at amortised cost	22,164,919	8,989,701	20,921,559	13,225,501	–	65,301,680
Financing and advances, net	98,098,026	72,871,173	68,030,255	25,881,163	181,345	265,061,962
- Consumer & Credit Card	8,846,566	18,504,584	52,678,246	23,560,733	–	103,590,129
- Corporate	76,240,949	44,759,691	8,002,317	1,600,836	63,346	130,667,139
- International	6,277,141	7,216,612	7,281,386	434,826	1,128	21,211,093
- Others	6,733,370	2,390,286	68,306	284,768	116,871	9,593,601
Positive fair value of derivatives, net	1,869,911	1,092,336	450,329	104,420	396,053	3,913,049
Total financial assets	135,609,438	98,611,771	109,644,634	47,266,872	44,411,030	435,543,745
Liabilities	–					
Due to banks and other financial institutions	36,583,363	3,700,775	872,733	–	4,805,979	45,962,850
Customers' deposits	42,420,471	22,620,730	6,820,695	1,592	246,837,538	318,701,026
- Current accounts	8,728,190	8,725,200	4,362,600	–	232,928,366	254,744,356
- Savings	–	–	–	–	125,938	125,938
- Time	33,392,344	13,895,530	2,458,095	1,592	–	49,747,561
- Others	299,937	–	–	–	13,783,234	14,083,171
Debt securities issued	6,478,456	2,637,322	315,129	–	–	9,430,907
Negative fair value of derivatives, net	1,737,120	1,124,673	232,394	78,126	106,817	3,279,130
Total financial liabilities	87,219,410	30,083,500	8,240,951	79,718	251,750,334	377,373,913
On-statement of financial position gap	48,390,028	68,528,271	101,403,683	47,187,154	(207,339,304)	
Off-statement of financial position gap	1,566,500	1,008,157	(357,226)	957,226	–	
Total special commission rate sensitivity gap	49,956,528	69,536,428	101,046,457	48,144,380	(207,339,304)	
Cumulative special commission rate sensitivity gap	49,956,528	119,492,956	220,539,413	268,683,793	61,344,489	

The off-statement of financial position gap represents the net notional amounts of derivative financial instruments, which are used to manage the special commission rate risk.

(36.2.2) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its consolidated financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

36. MARKET RISK (continued)

(36.2) Market risk – Banking book (continued)

(36.2.2) Currency risk (continued)

At the year end, the Group had the following significant net exposures denominated in foreign currencies:

	2019 SAR '000 Long (short)	2018 SAR '000 Long (short)
Currency		
US Dollar	**608,741**	(846,965)
TRY	**2,060,257**	2,066,870

A long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

The table below indicates the extent to which the Group was exposed to currency risk at 31 December 2019 on its significant foreign currency positions. The analysis is performed for reasonably possible movements of the currency rate against the Saudi Riyal with all other variables held constant, including the effect of hedging instruments, on the consolidated statement of income; the effect on equity of foreign currencies other than Turkish Lira (TRY) is not significant. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

	2019 SAR '000			2018 SAR '000		
Currency	Increase/ decrease in currency rate in %	Effect on profit	Effect on equity	Increase/ decrease in currency rate in %	Effect on profit	Effect on equity
TRY	**± 10%**	**± 21,088**	**± 307,053**	± 10%	± 16,816	± 308,365

(36.2.3) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The effect on equity (other reserves) as a result of a change in the fair value of equity instruments quoted on Saudi Stock Exchange (Tadawul) and held as FVOCI at 31 December 2019 and 31 December 2018, due to reasonably possible changes in the prices of these quoted shares held by the Group, with all other variables held constant, is as follows:

	2019 SAR '000		2018 SAR '000	
Market index – (Tadawul)	Increase/ decrease in market prices %	Effect on equity (otherreserves)	Increase/ decrease in market prices %	Effect on equity (otherreserves)
Impact of change in market prices	**± 10%**	**± 191,260**	± 10%	± 123,423

(36.3) Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates (referred to as 'IBOR reform'). The Group has exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. There is uncertainty over the methods of transition. The Group anticipates that IBOR reform will have operational, risk management , accounting, legal and Shariah impacts across all of its business lines. The Group established a cross-functional IBOR Committee to manage its transition to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which exposures have reference to IBOR, whether such legal contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties, as well as system implications. The IBOR Committee collaborates with other business functions and reports to ALCO as needed. The IBOR Committee is currently conducting a comprehensive assessment (financial and non-financial) on the transition for which it can be identified as to whether or not a significant impact is determined. This would include a quantitative impact assessment that would gauge the potential impact of such transition.

37. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Group has lines of credit in place that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of average demand deposits and 4% of average savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale and Saudi Government Bonds excluding repos. Deposits liabilities include both customers and Banks, excluding non-resident Bank deposits in foreign currency.

(37.1) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 and 31 December 2018 based on contractual undiscounted repayment obligations; as special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities as shown on note (37.2) below (Maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	SAR '000					
Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2019						
Due to banks and other financial institutions	**9,585,040**	**50,260,944**	**5,814,877**	**81,395**	**–**	65,742,256
Customers' deposits	**264,677,944**	**65,968,349**	**22,822,940**	**2,607,290**	**58,782**	356,135,305
- Current accounts	**250,751,836**	**–**	**–**	**–**	**–**	250,751,836
- Savings	**132,093**	**–**	**–**	**–**	**–**	132,093
- Time	**1,260,359**	**65,968,349**	**22,822,940**	**2,607,290**	**58,782**	92,717,720
- Others	**12,533,656**	**–**	**–**	**–**	**–**	12,533,656
Debt securities issued	**–**	**818,920**	**288,429**	**279,308**	**36,093**	1,422,750
Derivative financial instruments (gross contractual amounts payable)	**–**	**34,384,261**	**20,862,531**	**44,601,557**	**11,408,180**	111,256,529
Lease Liabilities	**–**	**77,456**	**222,602**	**1,014,980**	**815,795**	2,130,833
Total undiscounted financial liabilities	**274,262,984**	**151,509,930**	**50,011,379**	**48,584,530**	**12,318,850**	536,687,673

	SAR '000					
Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2018						
Due to banks and other financial institutions	11,203,594	30,649,448	3,132,819	1,393,723	1,181,329	47,560,913
Customers' deposits	270,846,777	32,962,637	14,044,143	3,100,678	130,426	321,084,661
- Current accounts	255,566,769	–	–	–	–	255,566,769
- Savings	125,938	–	–	–	–	125,938
- Time	1,070,899	32,962,637	14,044,143	3,100,678	130,426	51,308,783
- Others	14,083,171	–	–	–	–	14,083,171
Debt securities issued	–	6,568,208	2,761,888	618,345	100,983	10,049,424
Derivative financial instruments (gross contractual amounts payable)	–	38,872,897	26,370,835	40,080,017	3,617,491	108,941,240
Lease Liabilities	–	–	–	–	–	–
Total undiscounted financial liabilities	282,050,371	109,053,190	46,309,685	45,192,763	5,030,229	487,636,238

The contractual maturity structure of the credit-related and commitments and contingencies are shown under note (22.2(a)).

37. LIQUIDITY RISK (continued)

(37.2) Maturity analysis of assets and liabilities

Below is an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (37.1) above for the contractual undiscounted financial liabilities.

	SAR '000			
2019	Less than 1 year	Over 1 year	No-fixed maturity	Total
Assets				
Cash and balances with SAMA	25,774,652	9,896,301	9,711,256	45,382,209
Due from banks and other financial institutions	10,288,343	405,273	5,871,678	16,565,294
Investments, net	12,440,844	111,758,278	9,877,450	134,076,572
- Held at FVIS	628,804	164,981	7,556,645	8,350,430
- Held at FVOCI	4,498,754	53,967,732	2,247,549	60,714,035
- Held at amortized cost	7,313,286	57,625,565	73,256	65,012,107
Financing and advances, net	3,790,686	278,498,074	–	282,288,760
- Consumer & Credit Card	2,127,604	120,444,907	–	122,572,511
- Corporate	1,283,974	127,493,990	–	128,777,964
- International	–	19,523,999	–	19,523,999
- Others	379,108	11,035,178	–	11,414,286
Positive fair value of derivatives, net	9,615	5,266,424	–	5,276,039
Investments in associates, net	–	–	438,483	438,483
Other real estate, net	–	–	1,283,387	1,283,387
Property, equipment and software, net	–	–	5,496,576	5,496,576
Right of use assets	–	–	1,669,825	1,669,825
Other assets	–	–	14,786,657	14,786,657
Total assets	52,304,140	405,824,350	49,135,312	507,263,802
Liabilities				
Due to banks and other financial institutions	59,457,373	2,728,671	–	62,186,044
Customers' deposits	179,515,000	171,039,114	2,835,201	353,389,315
- Current accounts	76,961,990	170,902,946	2,835,201	250,700,137
- Savings	–	132,093	–	132,093
- Time	90,019,354	4,075	–	90,023,429
- Others	12,533,656	–	–	12,533,656
Debt securities issued	81,262	934,839	–	1,016,101
Negative fair value of derivatives, net	85,209	5,996,371	–	6,081,580
Other liabilities	196,490	–	14,605,995	14,802,485
Total liabilities	239,335,334	180,698,995	17,441,196	437,475,525

2018	SAR '000			
	Less than 1 year	Over 1 year	No-fixed maturity	Total
Assets				
Cash and balances with SAMA	9,996,082	11,805,934	10,712,059	32,514,075
Due from banks and other financial institutions	6,449,464	3,785,470	5,729,517	15,964,451
Investments, net	4,134,333	107,455,461	6,500,414	118,090,208
– Held as FVIS	–	–	4,954,873	4,954,873
– Held at FVOCI	2,684,561	43,658,422	1,490,672	47,833,655
– Held at amortized cost	1,449,772	63,797,039	54,869	65,301,680
Financing and advances, net	3,012,481	262,049,481	–	265,061,962
– Consumer & Credit Card	225,987	103,364,142	–	103,590,129
– Corporate	880,404	129,786,735	–	130,667,139
– International	–	21,211,093	–	21,211,093
– Others	1,906,090	7,687,511	–	9,593,601
Positive fair value of derivatives, net	84,086	3,828,963	–	3,913,049
Investments in associates, net	–	–	447,371	447,371
Other real estate, net	–	–	1,132,277	1,132,277
Property, equipment and software, net	–	–	5,347,611	5,347,611
Right of use assets	–	–	–	–
Other assets	–	–	9,705,764	9,705,764
Total assets	23,676,446	388,925,309	39,575,013	452,176,768
Liabilities				
Due to banks and other financial institutions	43,108,724	2,854,081	45	45,962,850
Customers' deposits	128,076,036	188,564,893	2,060,097	318,701,026
– Current accounts	64,247,489	188,436,770	2,060,097	254,744,356
– Savings	–	125,938	–	125,938
– Time	49,745,376	2,185	–	49,747,561
– Others	14,083,171	–	–	14,083,171
Debt securities issued	8,176,869	1,254,038	–	9,430,907
Negative fair value of derivatives, net	253,357	3,025,773	–	3,279,130
Other liabilities	264,101	–	8,870,045	9,134,146
Total liabilities	179,879,087	195,698,785	10,930,187	386,508,059

38. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

(38.1) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure at year end is as follows:

	SAR '000					
2019	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Assets						
Cash and balances with SAMA	43,647,371	36,083	267,626	1,090,489	340,640	45,382,209
Due from banks and other financial institutions	4,070,582	2,542,580	1,185,194	6,321,940	2,444,998	16,565,294
Investments, net	88,782,759	16,796,435	1,642,607	3,747,047	23,107,724	134,076,572
- Held at FVIS	2,516,396	332,432	935,900	793,785	3,771,917	8,350,430
- Held at FVOCI	31,598,098	9,969,194	296,632	2,953,262	15,896,849	60,714,035
- Held at amortised cost	54,668,265	6,494,809	410,075	–	3,438,958	65,012,107
Financing and advances, net	243,203,952	9,023,646	–	24,444,074	5,617,088	282,288,760
- Consumer & Credit Card	122,572,511	–	–	–	–	122,572,511
- Corporate	110,341,351	8,349,663	–	4,749,730	5,337,220	128,777,964
- International	–	–	–	19,523,999	–	19,523,999
- Others	10,290,090	673,983	–	170,345	279,868	11,414,286
Positive fair value of derivatives, net	2,864,310	627,342	1,689,221	9,615	85,551	5,276,039
Investments in associates, net	436,309	–	–	–	2,174	438,483
Total	383,005,283	29,026,086	4,784,648	35,613,165	31,598,175	484,027,357
Liabilities						
Due to banks and other financial institutions	3,330,489	20,218,754	33,376,423	1,441,901	3,818,477	62,186,044
Customers' deposits	326,578,977	1,161,612	26,611	25,607,849	14,266	353,389,315
- Current accounts	240,281,176	954,051	–	9,450,761	14,149	250,700,137
- Savings	132,093	–	–	–	–	132,093
- Time	74,104,085	207,561	26,611	15,685,172	–	90,023,429
- Others	12,061,623	–	–	471,916	117	12,533,656
Debt securities issued	–	–	–	1,016,101	–	1,016,101
Negative fair value of derivatives, net	864,625	75,708	5,054,058	85,208	1,981	6,081,580
Total	330,774,091	21,456,074	38,457,092	28,151,059	3,834,724	422,673,040
Commitments and contingencies (note 22.2)	37,326,201	3,344,580	1,090,630	4,612,437	7,461,741	53,835,589
- Letters of credit	5,627,802	592,893	49,455	462,446	2,243,192	8,975,788
- Guarantees	22,168,380	1,784,632	1,041,175	3,958,491	4,755,634	33,708,312
- Acceptances	1,028,000	–	–	191,500	462,915	1,682,415
- Irrevocable commitments to extend credit	8,502,019	967,055	–	–	–	9,469,074
Credit exposure (credit equivalent) (note 33.2):						
Commitments and contingencies	24,118,686	1,886,729	698,480	2,919,577	4,579,380	34,202,852
Derivatives	6,243,698	2,216,960	7,460,049	7,461	–	15,928,168

2018	SAR '000					
	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Assets						
Cash and balances with SAMA	30,394,859	25,953	230,513	1,394,146	468,604	32,514,075
Due from banks and other financial institutions	4,499,343	3,258,217	1,184,381	5,861,143	1,161,367	15,964,451
Investments, net	73,016,875	19,007,394	577,234	1,840,390	23,648,315	118,090,208
– Held at FVIS	1,236,792	119,322	63,744	–	3,535,015	4,954,873
– Held at FVOCI	18,916,086	11,236,692	97,282	1,692,995	15,890,600	47,833,655
– Held at amortised cost	52,863,997	7,651,380	416,208	147,395	4,222,700	65,301,680
Financing and advances, net	226,701,736	6,361,642	–	26,451,458	5,547,126	265,061,962
– Consumer & Credit Card	103,590,129	–	–	–	–	103,590,129
– Corporate	119,895,282	5,389,593	–	1,354,279	4,027,985	130,667,139
– International	–	–	–	21,211,093	–	21,211,093
– Others	3,216,325	972,049	–	3,886,086	1,519,141	9,593,601
Positive fair value of derivatives, net	1,286,807	250,236	2,165,957	210,049	–	3,913,049
Investments in associates, net	433,750	–	–	–	13,621	447,371
Total	336,333,370	28,903,442	4,158,085	35,757,186	30,839,033	435,991,116
Liabilities						
Due to banks and other financial institutions	3,216,656	13,805,669	21,259,000	4,180,412	3,501,113	45,962,850
Customers' deposits	297,813,788	1,542,128	26,008	19,280,762	38,340	318,701,026
– Current accounts	247,861,265	1,975	–	6,867,202	13,914	254,744,356
– Savings	125,938	–	–	–	–	125,938
– Time	36,067,659	1,540,153	26,008	12,113,741	–	49,747,561
– Others	13,758,926	–	–	299,819	24,426	14,083,171
Debt securities issued	5,069,110	–	–	4,361,797	–	9,430,907
Negative fair value of derivatives, net	740,764	91,592	2,144,533	302,241	–	3,279,130
Total	306,840,318	15,439,389	23,429,541	28,125,212	3,539,453	377,373,913
Commitments and contingencies (note 22.2)	33,732,379	4,279,640	1,596,665	5,350,266	10,659,369	55,618,319
– Letters of credit	4,341,068	1,153,881	482,822	307,196	4,515,527	10,800,494
– Guarantees	19,689,893	1,738,074	1,049,193	4,950,437	6,133,937	33,561,534
– Acceptances	2,092,529	–	–	92,633	–	2,185,162
– Irrevocable commitments to extend credit	7,608,889	1,387,685	64,650	–	9,905	9,071,129
Credit exposure (credit equivalent) (note 33.2):						
Commitments and contingencies	22,304,622	2,786,053	968,370	3,300,008	5,355,394	34,714,447
Derivatives	2,036,784	1,416,691	4,669,332	299,584	218,036	8,640,427

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

38. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

(38.2) The distribution by geographical concentration of non-performing financing and advances and corresponding ECL allowances are as follows:

	SAR '000		
2019	The Kingdom of Saudi Arabia	Turkey	Total
Non performing financing and advances	**3,650,927**	**1,678,469**	**5,329,396**
ECL allowances (stage 3)	**(3,154,271)**	**(910,532)**	**(4,064,803)**
Net	**496,656**	**767,937**	**1,264,593**
2018			
Non performing financing and advances	4,020,985	1,226,392	5,247,377
ECL allowances (stage 3)	(2,898,646)	(863,542)	(3,762,188)
Net	1,122,339	362,850	1,485,189

39. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either:

- In the accessible principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

Fair value information of the Group's financial instruments is analysed below:

(a) Fair value information for financial instruments at fair value

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Quoted prices in active markets for the same instrument;

Level 2: Quoted prices in active markets for similar assets and liabilities or valuation techniques for which all significant inputs are based on observable market data; and

Level 3: Valuation techniques for which any significant input is not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	SAR '000			
2019	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	**–**	**5,276,039**	**–**	**5,276,039**
Financial assets held at FVIS	**1,349,339**	**5,246,776**	**1,754,315**	**8,350,430**
Financial assets held at FVOCI	**40,165,948**	**20,390,941**	**157,146**	**60,714,035**
Investments held at amortized cost, net – fair value hedged (note 6.3 a)	**–**	**5,077,768**	**–**	**5,077,768**
Total	**41,515,287**	**35,991,524**	**1,911,461**	**79,418,272**
Financial liabilites				
Derivative financial instruments	**–**	**6,081,580**	**–**	**6,081,580**
Total	**–**	**6,081,580**	**–**	**6,081,580**

2018	SAR '000			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	–	3,913,049	–	3,913,049
Financial assets held as FVIS	640,320	3,545,093	769,460	4,954,873
Financial assets held at FVOCI	38,922,361	8,760,059	151,235	47,833,655
Investments held at amortized cost, net – fair value hedged (note 6.3 a)	–	7,888,270	–	7,888,270
Total	39,562,681	24,106,471	920,695	64,589,847
Financial liabilites				
Derivative financial instruments	–	3,279,130	–	3,279,130
Total	–	3,279,130	–	3,279,130

(b) Fair value information for financial instruments not measured at fair value

The fair value of financing and advances, net amounts to SAR 290,470 million (2018: SAR 273,757 million).

The fair values of due from banks and other financial institutions, due to banks and other financial institutions, customers' deposits and debt securities issued at 31 December 2019, 31 December 2018 are not materially different from their respective carrying values

(c) Valuation technique and significant unobservable inputs for financial instruments at fair value

The Group uses various valuation techniques for determination of fair values for financial instruments classified under levels 2 and 3 of the fair value hierarchy. These techniques and the significant unobservable inputs used therein are analysed below.

The Group utilises fund manager reports (and appropriate discounts or haircuts where required) for the determination of fair values of private equity funds and hedge funds. The fund manager deploys various techniques (such as discounted cashflow models and multiples method) for the valuation of underlying financial instruments classified under levels 2 and 3 of the respective fund's fair value hierarchy. Significant unobservable inputs embedded in the models used by the fund manager include risk adjusted discount rates, marketability and liquidity discounts and control premiums.

For the valuation of unquoted debt securities and derivative financial instruments, the Group obtains fair value estimates from reputable third party valuers, who use techniques such as discounted cash flows, option pricing models and other sophisticated models.

(d) Transfer between Level 1 and Level 2

There were no transfers between level 1 and level 2 during 31 December 2019 (31 December 2018: Nil).

(e) Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balance to the closing balance for Level 3 fair values.

Movement of level 3 is as follows:

	2019 SAR '000	2018 SAR '000
Balance at beginning of the year	**920,695**	476,520
Total gains/(losses) (realised and unrealised) in consolidated statement of income	**237,076**	(4,094)
Total (losses) in consolidated statement of comprehensive income	**–**	(9,518)
Purchases	**897,208**	499,087
(Sales) and other adjustments	**(143,518)**	(41,300)
Balance at end of the year	**1,911,461**	920,695

(f) Sensitivity analysis for significant unobservable inputs in valuation of financial instruments at fair value

Significant unobservable inputs were applied in the valuation of hedge funds and private equities for the year ended 31 December 2019 and the impact of the sensitivity is not material.

40. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. In the opinion of the Management and the Board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by the limits set by the Banking Control Law and the regulations issued by SAMA. Related party balances include the balances resulting from transactions with Governmental shareholders. All other Government transactions are entered/conducted also at market rates.

Major shareholders represent shareholdings of more than 5% of the Bank's issued share capital. Related parties are the persons or close members of those persons' families and their affiliate entities where they have control, joint control or significant influence over these entities.

(40.1) The balances as at 31 December included in the consolidated financial statements are as follows:

	2019 SAR '000	2018 SAR '000
Bank's Board of Directors and Senior Executives:		
Financing and advances	**963,373**	37,841
Customers' deposits	**237,188**	80,021
Commitments and contingencies	**12,527**	16,129
Investments (Assets under Management)	**55,880**	9,014
Other liabilities – end of service benefits	**36,115**	33,016
Balances of companies and institutions owned by 5% or more by related parties:		
Financing and advances	**6,634,387**	6,234,605
Customers' deposits	**7,339,076**	1,361,964
Commitment and contingencies	**1,433,776**	1,180,657
Investments	**1,083,142**	112,856
Major shareholders:		
Customers' deposits	**26,357,463**	7,924,609
Group's investment fund		
Investment	**718,580**	502,174
Subsidiaries:		
Financing and advances	**937,500**	1,312,500
Customers' deposits	**140,696**	106,523
Investments	**768,433**	1,088,342

(40.2) Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	2019 SAR '000	2018 SAR '000
Special commission income	**378,808**	384,070
Special commission expense	**244,832**	441,265
Fees and commission income and expense, net	**368,449**	296,887

(40.3) The total amount of compensation paid to the Group's Board of Directors and key management personnel during the year is as follows:

	2019 SAR '000	2018 SAR '000
Directors' remuneration	**10,710**	13,182
Short-term employee benefits	**78,197**	87,013
End of service benefits	**1,867**	7,991

The Bank's Board of Directors includes the Board and Board related committees (Executive Committee, Risk Management Committee, Compensation and Nomination Committee and Audit Committee). For Group's senior executives compensation (see note 41).

41. GROUP'S STAFF COMPENSATION

The following table summarizes the Group's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the years ended 31 December 2019 and 2018, and the forms of such payments:

	2019			2018		
Categories of employees	Number of employees	Fixed compensation (on accrual basis) SAR '000	Variable compensation (on cash basis) SAR '000	Number of employees	Fixed compensation (on accrual basis) SAR '000	Variable compensation (on cash basis) SAR '000
Senior Executives	**19**	**29,071**	**125,788**	19	33,776	73,608
Employees engaged in risk taking activities	**528**	**256,341**	**177,583**	540	255,886	128,832
Employees engaged in control functions	**531**	**193,478**	**76,051**	504	183,290	61,324
Other employees	**6,421**	**1,194,900**	**242,154**	6,533	1,248,334	212,835
Other employee related benefits	**–**	**395,853**	**–**	–	391,692	–
Subsidiaries	**5,384**	**603,057**	**147,281**	5,462	604,596	161,511
Group total	**12,883**	**2,672,700**	**768,857**	13,058	2,717,574	638,110

All forms of payment for fixed and variable compensation are in cash/equity.

The Bank's Senior Executives are those persons, including an executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Employees engaged in risk taking activities comprise those officers of the business sectors of Consumer Banking, Corporate and Treasury, who are the key drivers in undertaking business transactions, and managing related business risks.

Employees engaged in control functions include employees in Risk Management, Internal Audit, Compliance, Finance and Legal divisions.

The Group's variable compensation and other employees related benefits recognized as staff expenses in the consolidated statement of income for 2019 is SAR 873 million (2018: SAR 774 million).

42. CAPITAL ADEQUACY

Capital adequacy ratio

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base.

The Group monitors the adequacy of its capital using the ratios and weights established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its consolidated statement of financial position assets, commitments and contingencies and notional amount of derivatives at a weighted amount to reflect their relative credit risk, market risk and operational risk. SAMA requires banks to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted asset at or above the agreed minimum of 8%. Regulatory Capital is computed for Credit, Market and Operational risks which comprise the Pillar 1 minimum capital requirements.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III – which are effective from 1 January 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework.

The following table summarizes the Bank's Pillar-1 Risk Weighted Assets, Tier 1 and Tier 2 capital and capital adequacy ratios.

	Risk Weighted Assets	
	2019 SAR '000	2018 SAR '000
Credit risk	**337,218,124**	311,702,968
Operational risk	**36,073,511**	35,113,912
Market risk	**17,039,531**	13,372,313
Total Pillar-1 – risk weighted assets	**390,331,166**	360,189,193
Core capital (Tier 1)	**70,168,908**	66,613,049
Supplementary capital (Tier 2)	**3,014,128**	7,702,233
Core and supplementary capital (Tier 1 and Tier 2)	**73,183,036**	74,315,282
Capital Adequacy Ratio (Pillar 1):-		
Core capital (Tier 1 ratio)	**18.0%**	18.5%
Core and supplementary capital (Tier 1 and Tier 2 ratios)	**18.7%**	20.6%

Tier 1 capital of the Group comprises share capital, statutory reserve, other reserves, proposed dividend, retained earnings, tier 1 eligible debt securities, foreign currency translation reserve and non-controlling interests less treasury shares, goodwill, intangible assets and other prescribed deductions. Tier 2 capital comprises of eligible debt securities issued and prescribed amounts of eligible portfolio (collective) provisions less prescribed deductions.

The Group uses the Standardized approach of Basel III to calculate the Risk-Weighted Assets and required regulatory capital for Pillar-1 (including Credit Risk, Market Risk and Operational Risk). The Group's Risk Management is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel III requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio.

43. GROUP'S INTEREST IN OTHER ENTITES

(43.1) Material partly-owned subsidiaries

(a) Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which TFKB operate. The supervisory frameworks require TFKB to keep certain levels of regulatory capital and liquid assets, limits its exposure to other parts of the Group and comply with other ratios. The carrying amounts of TFKB's assets and liabilities are SR 32,861 million and SR 29,790 million, respectively (2018: SR 32,628 million and SR 29,922 million, respectively).

(b) Non-controlling interests in subsidiaries

The following table summarises the information relating to the Group's subsidiary (TFKB) that has material non-controlling interests (NCI).

	2019 SAR '000	2018 SAR '000
Summarised statement of financial position		
Financing and advances, net	**19,523,998**	21,211,095
Other assets	**12,993,859**	11,416,927
Liabilities	**29,790,253**	29,922,390
Net assets	**2,727,604**	2,705,632
Carrying amount of NCI	**899,291**	892,047
Summarised statement of income		
Total operating income	**1,482,819**	1,514,561
Net income	**249,267**	455,845
Total comprehensive income (loss)	**21,971**	(732,778)
Total comprehensive income (loss) attributable to NCI	**7,244**	(241,597)
Summarised cash flow statement		
Net cash from operating activities	**4,515,121**	1,651,410
Net cash (used in) investing activities	**(2,044,672)**	1,415,758
Net cash from financing activities	**(3,001,567)**	(485,243)
Net (decrease) increase in cash and cash equivalents	**(531,118)**	2,581,925

(43.2) Involvement with unconsolidated structured entities

The table below describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

Type of structured entity	Nature and purpose	Interest held by the Group
Hedge funds	To generate returns from trading in the units/shares of the fund and/or via distributions made by the fund. These funds are financed through the issue of units/shares to investors.	• Investments in units issued by the funds.
Private equity funds	To generate returns from long-term capital appreciation in the net worth of the fund, reaslised via periodic distributions and eventual exit at the end of the life of the fund. These funds are financed through the issue of units/shares to investors.	• Investments in units/shares issued by the funds.

The table below sets out an analysis of the carrying amounts of interest held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

	2019 SAR '000	2018 SAR '000
Hedge funds	**302,066**	288,471
Private equity funds	**217,635**	297,873
Total	**519,701**	586,344

The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. At 31 December 2019, the Group holds an interest in all structured entities it has sponsored.

44. COMPARATIVE FIGURES

Except for the impact of restatement disclosed in notes 3.3 and 18 certain other prior period figures have been reclassified to conform to current period presentaion, which are not material in nature.

45. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

The following is a brief on the other new IFRS and amendments to IFRS, effective for annual periods beginning on or after 1 January 2020:

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1 January 2020	Amendments to IAS 1 and IAS 8: Definition of Material	The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments clarify that materiality will depend on the nature or magnitude of information, or both.
1 January 2020	Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform	In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).
1 January 2020	Amendments to IFRS 3: Definition of a business	The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

46. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 26 January 2020, corresponding to 1 Jumada al-Akhirah 1441H.

Lama A. Ghazzaoui
Chief Financial Officer

Faisal O. Al-Saqqaf
Chief Executive Officer

Saeed M. Al-Ghamdi
Chairman

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