



CONSOLIDATED FINANCIAL STATEMENTS



Independent Auditors' Report



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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 2020, 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 2020, 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 endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as 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
<p>Expected Credit Loss allowance against financing and advances</p>	<p>As at 31 December 2020, the Group's gross financing and advances amounted to SR 355,500 million (2019: SR 289,205 million), against which an Expected Credit Loss ("ECL") allowance of SR 8,791 million (2019: SR 7,362 million) was maintained.</p> <p>We considered this as a key audit matter, as the determination of ECL involves significant management judgement and this has a material impact on the consolidated financial statements of the Group. Moreover, the Covid-19 pandemic has resulted in heightened uncertainty regarding the economic outlook in particular and hence has increased the levels of judgement needed to determine the ECL under the requirements of IFRS 9 – Financial Instruments ("IFRS 9"). The key areas of judgement include:</p> <ol style="list-style-type: none"> 1. Categorisation of financing and advances into Stages 1, 2 and 3 based on the identification of: <ul style="list-style-type: none"> (a) exposures that have a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired/defaulted exposures. <p>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 financing and advances (Lifetime ECL).</p> <p>The Group has applied judgments to identify and estimate the likelihood of borrowers that may have undergone SICR, notwithstanding the government support programs that resulted in payment deferrals to certain segment of counterparties. The payment deferrals were not deemed to have triggered SICR by themselves.</p> <ol style="list-style-type: none"> 2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including but not limited to assessment of financial condition of counterparty, expected future cash flows and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probabilities. 3. The need to apply post model overlays using expert credit judgment to reflect all relevant risk factors that might not be captured by the ECL model. <p>Application of these judgements, particularly in light of the global pandemic, have given rise to greater estimation uncertainty around ECL and therefore affected the associated audit risk thereon as at 31 December 2020.</p> <p><i>Refer to the summary of significant accounting policy note 3.26 for the impairment of financial assets; note 2.5(h) which contains the disclosure of critical accounting judgments, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group, note 7.2 which contains the disclosure of impairment against loans and advances; note 33 for details of credit quality analysis and key assumptions and factors considered in determination of ECL, and note 43 for impact of Covid-19 pandemic on ECL.</i></p>	<ul style="list-style-type: none"> • We obtained and updated our understanding of management's assessment of ECL allowance in respect of financing and advances, including, Group's internal rating model, accounting policy, methodology, as well any key changes made in light of the Covid-19 pandemic. • We compared the Group's accounting policy and methodology for ECL allowance with the requirements of IFRS 9. • We assessed the design and implementation, and tested the operating effectiveness of the key controls (including relevant "IT" general and application controls) in relation to: <ul style="list-style-type: none"> - the ECL model (including governance over the model, its validation, approval of key assumptions and post model adjustments, if any); - the classification of borrowers into various stages and timely identification of SICR and the determination of default/individually impaired exposures; - the IT systems and applications underpinning the ECL model; and - the integrity of data inputs into the ECL model. • For a sample of customers, we assessed: <ul style="list-style-type: none"> - the internal ratings determined by management based on the Group's internal models and considered these assigned ratings in light of external market conditions and available industry information, in particular with reference to the impacts of the Covid-19 pandemic, and also assessed that these were consistent with the ratings used as input in the ECL model; - the staging as identified by management; and - management's computations for ECL. <p>We assessed the appropriateness of the Group's criteria for the determination of SICR and "default" and the identification of "individually impaired" exposures; and their classification into stages. Further, for a sample of exposures, we assessed the appropriateness of the corresponding staging classification, including customers who were eligible for deferral of instalments under government support programs (with specific focus on customers operating in sectors most affected by the Covid-19 pandemic).</p> <p>We assessed the governance process established by the Group and the qualitative factors considered by the Group when applying any overlays or making any adjustment to the output from the ECL model, due to data or model limitations or otherwise.</p> <p>We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model including forward looking assumptions, keeping in view the uncertainty and volatility in economic scenarios due to the Covid-19 pandemic.</p> <p>We tested the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2020.</p> <p>Where relevant, we involved our specialists including IT specialists to assist us in reviewing ECL model calculations, evaluating inputs and assessing reasonableness of assumptions used, particularly around macroeconomic variables, macroeconomic scenarios and probability weights.</p> <p>We assessed the adequacy of related disclosures in the consolidated financial statements.</p>

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
<p>Classification of investments</p>	<p>As at 31 December 2020, the Group's gross investments amounted to SR 145,032 million (2019: SR 134,255 million), against which an impairment allowance of 179 million (2019: SR 178 million) has been maintained as at 31 December 2020. These include sukuks, bonds, hedge funds, mutual funds, quoted and unquoted shares and other private equity investments.</p> <p>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.</p> <p>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.</p> <p><i>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.</i></p>	<p>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.</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> - 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). • We assessed whether the increase in the frequency and value of sales of investments classified as amortized cost, during the year ended 31 December 2020, due to deterioration of the credit quality of the borrower or the issuer of the financial asset, as a result of the Covid pandemic, is inconsistent with the objective to hold assets to collect contractual cash flows. • 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: <ul style="list-style-type: none"> - 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 adequacy of related disclosures in the consolidated financial statements.
<p>Impairment for credit losses on debt investments held at IAC and FVOCI</p>	<p>As at 31 December 2020, the Group had gross investments in debt instruments held at amortised cost (IAC) and fair value through other comprehensive income (FVOCI) amounting to SR 133,309 million (2019: SR 123,657 million) against which an impairment allowance of SR 179 million has been maintained as at 31 December 2020 (2019: SR 178 million). These investments comprise government, quasi government, corporate sukuks and bonds and other 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.</p> <p>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 1,2 and 3, 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.</p>	<p>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.</p> <ul style="list-style-type: none"> • 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. For 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.

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
<p>Impairment for credit losses on debt investments held at IAC and FVOCI (continued)</p>	<p>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').</p> <p>Moreover, the Covid-19 pandemic has resulted in heightened uncertainty about the economic outlook in particular and increased the levels of judgement needed to determine the ECL.</p> <p>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/sukuk 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.</p> <p>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 ECL against Group's debt instruments held at IAC and FVOCI to be a key audit matter.</p> <p><i>Refer to notes 25(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 2020, note 33 for credit risk management strategy and credit quality analysis in respect of investments.</i></p>	<p>We challenged the SICR assessment for debt instruments issued by issuers operating in vulnerable sectors in light of Covid-19 pandemic and assessed whether lifetime ECL losses have triggered. We have also checked the reasonableness and justification of management overlays.</p> <p>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.</p> <p>We assessed the adequacy of related disclosures in the consolidated financial statements.</p> <p>There were no exposures determined to be individually impaired classified as stage 3 as at 31 December 2020.</p>
<p>Valuation of unquoted derivative and non-derivative financial instruments carried at fair value</p>	<p>As at 31 December 2020, the carrying values of unquoted derivative and non-derivative financial assets and financial liabilities carried at fair value aggregated to SR 40,205 million (2019: SR 37,903 million) and SR 9,744 million (2019: SR 6,082 million), respectively.</p> <p>The fair value of these financial instruments is determined through the application of valuation techniques which often involve the exercise of judgment by management and the use of assumptions and estimates.</p> <p>Estimation uncertainty exists for those instruments not traded in an active market (i.e. unquoted) and where the internal modelling techniques use:</p> <ul style="list-style-type: none"> • significant observable valuation inputs (i.e. level 2 investments); and • significant unobservable valuation inputs (i.e. level 3 investments) <p>Estimation uncertainty is particularly high for level 3 investments. The business disruptions and economic impacts of Covid-19 pandemic have further raised the degree of estimation uncertainty involved in fair valuing unquoted investments.</p>	<ul style="list-style-type: none"> • We assessed the design and implementation and tested the operating effectiveness of key controls over: • management's processes for performing valuation of unquoted derivative and non-derivative financial instruments which are not traded in an active market; and • IT system and the data integrity of the investment portfolio information held. • We evaluated the valuation techniques, inputs and reasonableness of assumptions used by management to value unquoted derivative and non-derivative financial instruments.

Independent Auditors' Report Continued

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
<p>Valuation of unquoted derivative and non-derivative financial instruments carried at fair value (continued)</p>	<p>The valuation of the Group's unquoted derivative and non-derivative financial instruments in level 2 and 3 categories was therefore considered a key audit matter given the degree of complexity involved in valuing these investments and the significance of the judgments and estimates made by the management.</p> <p><i>Refer to the significant accounting policies note 2.5(a) to the consolidated financial statements for details of significant judgements applied in valuation of unquoted derivative and non-derivative financial instruments carried at fair value and note 37 which explain the investment valuation methodology used by the Group and the critical judgments and estimates.</i></p>	<p>We tested the valuation of a sample of unquoted derivative and non-derivative financial instruments. As part of these audit procedures, we assessed the key inputs used in the valuation such as cashflows, discount rates used, comparable entity data and liquidity discounts by benchmarking them with external data.</p> <p>In addition to independently testing the valuation of derivatives, we have also checked the valuation of selected samples against counterparty valuation statements.</p> <ul style="list-style-type: none"> • We assessed the adequacy of the financial instrument hierarchy and also considered IFRS 9 related disclosures in the consolidated financial statements.
<p>SAMA support program and related government grant</p>	<p>In response to Covid-19 pandemic, the Saudi Central Bank (SAMA) launched number of initiatives including the Liquidity support programme for banks and the Private Sector Financing Support Program ("PSFSP"). PSFSP was launched in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME"). The PSFSP included deferred payments program whereby the Bank deferred the instalment payable by MSMEs falling due during the period from 14 March 2020 to 31 March 2021.</p> <p>In order to compensate the Bank with respect to the losses incurred in connection with the PSFSP and the Liquidity support programme, the Bank has received interest/profit free deposits of varying maturities amounting in aggregate to SR 16.6 billion. The difference between fair value of such deposits at initial recognition (or pre-modification), determined using market rates of deposits of similar value and tenure, and their face value (or pre-modification carrying value) has been considered as a government grant and accounted for in accordance with the International Accounting Standard 20: Government Grants ("IAS 20").</p> <p>We considered the accounting for the deposits received under SAMA support programme as a key audit matter because:</p> <ul style="list-style-type: none"> • these deposits represent significant events and material transactions that occurred during the year and thereby required significant auditors' attention and • the recognition and measurement of government grant has involved significant management judgement including but not limited to: <ul style="list-style-type: none"> - determining the appropriate discount rate to be used; and - identifying the objective of each individual deposit to determine the timing of recognition of associated grant. <p><i>Refer to the significant accounting policy note 3.42 to the consolidated financial statements relating to government grant accounting and note 43 which contains the disclosure of SAMA support programmes and details of the government grant received over the year from SAMA.</i></p>	<p>We obtained an understanding of the various programs and initiatives taken by SAMA during the year ended 31 December 2020 in response to Covid-19 and assessed the objectives of the deposits received by the Group in relation thereto to assess the appropriateness of application of IAS 20 (and recognition of government grant) by the Group.</p> <p>We checked the accuracy of the government grant computation (including discount rate used) and assessed the appropriateness of the timing of recognition of the government grant by the Group.</p> <p>We assessed the appropriateness of related disclosures in the consolidated financial statements.</p>

Other Information included in the Group's 2020 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 2020 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 as 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 represents 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 Continued

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 & Co (Certified Public Accountants)

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Corresponding 16 February 2021

Consolidated Statement of Financial Position

As at 31 December 2020 and 2019

	Notes	2020 SAR '000	2019 SAR '000
ASSETS			
Cash and balances with SAMA	4	56,823,677	45,382,209
Due from banks and other financial institutions, net	5	13,636,822	16,565,294
Investments, net	6	144,852,695	134,076,572
Financing and advances, net	7	346,708,138	281,843,332
Positive fair value of derivatives, net	12	7,898,096	5,276,039
Investments in associates, net	8	441,614	438,483
Property, equipment and software, net	9	5,842,454	5,496,576
Right of use assets, net	10	1,525,286	1,669,825
Other assets	11.1	21,717,216	16,070,416
Total assets		599,445,998	506,818,746
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	13	75,028,157	62,186,044
Customers' deposits	14	416,418,721	353,389,315
Debt securities issued	15	1,772,690	1,016,101
Negative fair value of derivatives, net	12	9,744,443	6,081,580
Other liabilities	16	16,267,006	14,802,857
Total liabilities		519,231,017	437,475,897
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Share capital	17	30,000,000	30,000,000
Treasury shares	25.2	(371,071)	(357,971)
Statutory reserve	18	28,369,948	25,650,012
Other reserves (cumulative changes in fair values)	19	1,676,493	866,542
Employees' share based payments reserve	25.1	242,713	202,508
Retained earnings		14,401,446	6,176,484
Proposed dividend	29	-	3,600,000
Foreign currency translation reserve		(5,109,433)	(4,694,978)
Equity attributable to shareholders of the Bank		69,210,096	61,442,597
Tier 1 Sukuk	28	10,200,000	7,000,000
Equity attributable to equity holders of the Bank		79,410,096	68,442,597
Non-controlling interest	41.1	804,885	900,252
Total equity		80,214,981	69,342,849
Total liabilities and equity		599,445,998	506,818,746



Hussein H. Eid
Acting Chief Financial Officer



Talal A. AlKhereiji
Acting 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 2020 and 2019

	Notes	2020 SAR '000	2019 SAR '000
Special commission income	21	19,441,053	21,117,390
Special commission expense	21	(2,754,404)	(4,734,937)
Net special commission income		16,686,649	16,382,453
Fee income from banking services, net	22	2,259,640	1,919,738
Exchange income, net		1,205,268	1,062,347
Income from fair value through income statement (FVIS) financial instruments, net	23	815,967	939,752
Gains/income on non-FVIS financial instruments, net	24	973,433	470,256
Other operating (expenses), net		(483,025)	(199,866)
Total operating income		21,457,932	20,574,680
Salaries and employee-related expenses		3,549,657	3,549,789
Rent and premises-related expenses		340,730	355,306
Depreciation/amortisation of property, equipment, software and right of use assets	9 & 10	900,519	865,935
Other general and administrative expenses		1,706,046	1,527,589
Total operating expenses before expected credit losses		6,496,952	6,298,619
Net impairment charge for expected credit losses	6.2 & 7.3	1,950,887	1,419,930
Total operating expenses		8,447,839	7,718,549
Income from operations, net		13,010,093	12,856,131
Other non-operating (expenses) income, net		(76,770)	62,447
Net income for the year before Zakat and income tax		12,933,323	12,918,578
Zakat and income tax expenses		(1,373,219)	(1,434,712)
Net income for the year		11,560,104	11,483,866
Net income for the year attributable to:			
Equity holders of the Bank		11,440,097	11,401,436
Non-controlling interests	411	120,007	82,430
Net income for the year		11,560,104	11,483,866
Basic earnings per share (expressed in SAR per share)	27	3.68	3.68
Diluted earnings per share (expressed in SAR per share)	27	3.67	3.67



Hussein H. Eid
Acting Chief Financial Officer



Talal A. AlKhereiji
Acting 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 2020 and 2019

	2020 SAR '000	2019 SAR '000
Net income for the year	11,560,104	11,483,866
Other comprehensive income		
<i>Items that cannot be reclassified to the consolidated statement of income in subsequent years:</i>		
Net movement in fair value through other comprehensive income in equity instruments and actuarial valuation (losses)	(45,838)	(238,886)
<i>Items that are or may be reclassified to the consolidated statement of income in subsequent years:</i>		
Net movement in foreign currency translation reserve (losses)	(630,106)	(347,607)
Fair Value Through Other Comprehensive Income debt instruments:		
- Net change in fair values	1,363,563	1,930,893
- Net amounts transferred to the consolidated statement of income	(492,126)	(217,900)
Cash flow hedges:		
- Effective portion of changes in fair values	17,371	91,912
- Net amounts transferred to the consolidated statement of income	(31,785)	(61,384)
Total other comprehensive income	181,079	1,157,028
Total comprehensive income for the year	11,741,183	12,640,894
Attributable to:		
Equity holders of the Bank	11,835,593	12,633,119
Non-controlling interests	(94,410)	7,775
Total comprehensive income for the year	11,741,183	12,640,894



Hussein H. Eid
Acting Chief Financial Officer



Talal A. AlKhereiji
Acting Chief Executive Officer



Saeed M. Al-Ghamdi
Chairman

Consolidated Statement of Changes in Equity

For the years ended 31 December 2020 and 2019

	Attributable to equity holders of the Bank				
	Notes	Share capital SAR' 000	Treasury shares SAR' 000	Other reserves	
				Statutory reserve SAR' 000	Cash flow hedge reserves SAR' 000
Balance as at 1 January 2020		30,000,000	(357,971)	25,650,012	62,955
Other comprehensive (loss)/income for the year		-	-	-	(14,756)
Net income for the year		-	-	-	-
Total comprehensive (loss)/income for the year		-	-	-	(14,756)
Transfer to statutory reserve	18	-	-	2,719,936	-
Adjustments in non-controlling interests and subsidiaries		-	-	-	-
Tier 1 Sukuk issued	28	-	-	-	-
Tier 1 Sukuk called	28	-	-	-	-
Tier 1 Sukuk related costs	28	-	-	-	-
Purchase of treasury shares for employees' share based payment plan	25	-	(146,043)	-	-
Settlement of vested share based payments plan via treasury shares	25.2	-	132,943	-	-
Share based payments vested during the year	25.1	-	-	-	-
Employees' share based payments plan reserve – charged to the consolidated statement of income	25.1	-	-	-	-
Final dividend paid for 2019	29	-	-	-	-
Balance as at 31 December 2020		30,000,000	(371,071)	28,369,948	48,199
Balance as at 1 January 2019		30,000,000	(373,313)	22,894,980	31,148
IFRS adjustments	33	-	-	-	-
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	18	-	-	2,755,032	-
Adjustments in non-controlling interests and subsidiaries		-	-	-	-
Tier 1 Sukuk related costs	28	-	-	-	-
Purchase of treasury shares for employee's share based payment plan	25.2	-	(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	25.1	-	-	-	-
Final dividend paid for 2018		-	-	-	-
Interim dividend paid for 2019	29	-	-	-	-
Final proposed dividend 2019	29	-	-	-	-
Proposed dividend reversal		-	-	-	-
Balance as at 31 December 2019 – Restated		30,000,000	(357,971)	25,650,012	62,955



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Acting Chief Financial Officer



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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
803,587	202,508	6,176,484	3,600,000	(4,694,978)	61,442,597	7,000,000	68,442,597	900,252	69,342,849
824,707	-	-	-	(414,455)	395,496	-	395,496	(214,417)	181,079
-	-	11,440,097	-	-	11,440,097	-	11,440,097	120,007	11,560,104
824,707	-	11,440,097	-	(414,455)	11,835,593	-	11,835,593	(94,410)	11,741,183
-	-	(2,719,936)	-	-	-	-	-	-	-
-	-	(8,951)	-	-	(8,951)	-	(8,951)	(957)	(9,908)
-	-	-	-	-	-	4,200,000	4,200,000	-	4,200,000
-	-	-	-	-	-	(1,000,000)	(1,000,000)	-	(1,000,000)
-	-	(437,504)	-	-	(437,504)	-	(437,504)	-	(437,504)
-	-	-	-	-	(146,043)	-	(146,043)	-	(146,043)
-	-	(132,943)	-	-	-	-	-	-	-
-	(84,199)	84,199	-	-	-	-	-	-	-
-	124,404	-	-	-	124,404	-	124,404	-	124,404
-	-	-	(3,600,000)	-	(3,600,000)	-	(3,600,000)	-	(3,600,000)
1,628,294	242,713	14,401,446	-	(5,109,433)	69,210,096	10,200,000	79,410,096	804,885	80,214,981
(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
-	-	(1,895,576)	-	-	(1,895,576)	-	(1,895,576)	10	(1,895,566)
(637,196)	196,798	4,894,645	3,288,350	(4,454,071)	55,841,341	7,000,000	62,841,341	931,802	63,773,143
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	6,176,484	3,600,000	(4,694,978)	61,442,597	7,000,000	68,442,597	900,252	69,342,849

Consolidated Statement of Cash Flows

For the years ended 31 December 2020 and 2019

	Notes	2020 SAR '000	2019 SAR '000
OPERATING ACTIVITIES			
Net income for the year before Zakat and income tax		12,933,323	12,918,578
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium/discount on non-trading financial instruments, net		153,897	(455,578)
(Gains) on non-Fair value through income statement financial instruments, net	24	(872,968)	(374,384)
(Gains) on disposal of property, equipment and software, net		(12,576)	(24,803)
Loss on disposal of other repossessed assets		77,022	51,306
Depreciation/amortisation of property, equipment, software, and Right of Use Assets	9 & 10	900,519	865,935
Impairment charge for financing and advances, net	7.3	1,949,687	1,447,164
Impairment charge on investments, net	6.2	1,200	(27,234)
Share of results of associates, net		(3,131)	(2,560)
Share based payments plan expense		124,404	109,040
		15,251,377	14,507,464
Net (increase) decrease in operating assets:			
Statutory deposits with SAMA		(3,316,405)	(491,938)
Due from banks and other financial institutions with original maturity of more than three months, net		3,178,926	(437,659)
Held at fair value through income statement (FVIS) investments		(353,925)	(2,880,568)
Financing and advances, net		(72,345,033)	(23,643,317)
Positive fair value of derivatives, net		(2,606,600)	(1,294,315)
Other assets		(4,697,520)	(4,503,263)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		13,637,374	16,720,419
Customers' deposits		68,126,568	36,821,213
Negative fair value of derivatives, net		3,679,823	2,835,885
Other liabilities		714	2,438,481
Net cash from operating activities:		20,555,299	40,072,402
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-FVIS investments		40,449,680	16,214,712
Purchase of non-FVIS investments		(50,024,625)	(27,092,811)
Purchase of property, equipment and software	9	(1,108,488)	(812,515)
Proceeds from disposal of property, equipment and software		19,809	26,852
Dividends from associates	8	-	11,448
Net cash (used in) investing activities:		(10,663,624)	(11,652,314)
FINANCING ACTIVITIES			
Debt securities issued	15	4,758,601	5,312,980
Debt securities payment	15	(3,816,939)	(13,244,516)
Net movement in non-controlling interests		(591)	(32,709)
Tier 1 Sukuk Issuance	28	4,200,000	-
Tier 1 Sukuk called	28	(1,000,000)	-
Tier 1 Sukuk related costs	28	(437,504)	(396,900)
Purchase of treasury shares	25.2	(146,043)	(125,000)
Final dividend paid for 2019/2018	29	(3,600,000)	(3,292,730)
Interim dividend paid for 2019	29	-	(3,300,000)
Net cash (used in) financing activities:		(42,476)	(15,078,875)
Net increase in cash and cash equivalents		9,849,199	13,341,213
Foreign currency translation reserve – net movement on cash and cash equivalents at the beginning of the year		(632,122)	(458,014)
Cash and cash equivalents at the beginning of the year		32,674,743	19,791,544
Cash and cash equivalents at the end of the year	30	41,891,820	32,674,743
Special commission income received during the year		19,535,033	20,978,239
Special commission expense paid during the year		3,072,643	4,920,103
Supplemental non-cash information			
Movement in other reserve and transfers to the consolidated statement of income		857,023	1,743,521



Hussein H. Eid
Acting Chief Financial Officer



Talal A. AlKhereiji
Acting 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 2020 and 2019

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 431 branches (2019: 434 branches), 11 retail service centers (2019: 12 centers), 4 corporate service centers (2019: 8 centers) and 127 QuickPay remittance centers (2019: 138 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 Bank announced on 25 June 2020 that it entered into a framework agreement with Samba Financial Group ("SAMBA"), a bank listed in the Kingdom of Saudi Arabia stock market (Tadawul), in order to begin a reciprocal due diligence process and to negotiate definitive and binding terms of a potential merger of the two banks.

Subsequently, on 11 October 2020, the Bank announced that it has entered into a legally binding merger agreement pursuant to which NCB and SAMBA have agreed to take necessary steps to implement merger between the two Banks in accordance with Article 191-193 of the Companies Law and Article 49(a)(1) of the Merger and Acquisition Regulation.

Pursuant to the terms of the merger agreement, all of the assets and liabilities of SAMBA will be transferred to NCB and accordingly, on completion of the merger, the Bank will continue to exist and SAMBA will cease to exist as a legal entity and its shares will be cancelled and new shares in NCB will be issued to the shareholders of SAMBA based on the agreed exchange ratio. The merger is conditional upon shareholders of both banks and respective regulatory approvals.

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:

Name of subsidiary	Ownership %		Description
	2020	2019	
NCB Capital Company (NCBC)	100%	99.94%	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.)	100%	99.94%	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)	100%	99.94%	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.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2020 and 2019

1. GENERAL (continued)

(1.2) Group's subsidiaries (continued)

Name of subsidiary	Ownership %		Description
	2020	2019	
Türkiye Finans Katılım Bankası A.Ş. (TFKB)	67.03%	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. As at the end of the year, TFKB fully owns the issued share capital of TF Varlık Kiralama AŞ. (TFVK) and TFKB Varlık 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 The Kingdom of Saudi Arabia. On 7 July 2020, Saudi Central Bank "SAMA" issued rules governing banc assurance activities decision whereby banc assurance activities i.e. distribution and marketing of Islamic products shall be practiced directly through the Bank. Therefore, the company resolved to liquidate the operations with immediate effect. The regulatory procedures to liquidate the company are in process.
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 Inc. The Fund's investment objective is to generate returns via investments in Shariah 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); as collectively referred to IFRSs that are endorsed in KSA.
- 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.

(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 the 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 primarily consistent with those applied to the annual consolidated financial statements for the year ended 31 December 2019, except for judgments and assumptions used in the application of accounting policies as disclosed in note 3.3 and note 43.

The group has exercised judgement in the assessment/determination of the impact of covid 19 on ECL as well as analysis of the financial reporting impacts of SAMA support programmes.

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 measurement date. The fair value measurement is based on the presumption 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 37).

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.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2020 and 2019

2. BASIS OF PREPARATION (continued)

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

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

For the purpose of impairment testing, 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.

When subsidiaries are sold, the difference between the selling price and the net assets plus any 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 exist 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, and right of use assets

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 2019 except for the 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 or 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) New standards, interpretations and amendments promulgated by International Accounting Standard Board (IASB) and adopted by the Group:

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after 1 January 2020. The management has assessed that the amendments have no significant impact on the Group's consolidated financial statements.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies 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. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states, "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, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any significant future impact to the Group.

Amendments to References to the Conceptual Framework in IFRS Standards

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") was engaged in a two-phase process of amending its guidance to assist in a smoother transition away from Inter Bank Offered Rates (IBOR).

Phase (1) – The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from 1 January 2020 and are mandatory for all hedge relationships directly affected by IBOR reform. The bank has adopted these amendments along with the hedging relief for pre-replacement hedges.

Phase (2) – The second phase relates to the replacement of benchmark rates (IBOR) with alternative risk-free rates (RFR) which were issued in August 2020. The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021 and early application is permitted. The Bank has already completed its assessment of the accounting implications of the scenarios it expects to encounter as the transition from IBORs to RFRs in order to accelerate its programmes to implement the new requirements. The Phase 2 Amendments introduce new areas of judgement and the Bank needs to ensure it has appropriate accounting policies and governance in place before the transition. For the additional disclosures, the Bank will have to assess and implement required updates in the financial reporting systems and processes to gather and present the information required.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.3) New standards, interpretations and amendments promulgated by International Accounting Standard Board (IASB) and adopted by the Group: (continued)

Assessment of the fee income recognition on financing and advances

In 2019, the Bank carried out a reassessment of the timing of the recognition of fee received in connection with its financing and advances, analyzing 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 identified certain fees to be adjusted in the amortised cost of the related financing and advances. The impact of such adjustment in prior periods was determined to be insignificant in relation to the financial statements as a whole and therefore 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. In furtherance thereof, during the financial year 2020, management has identified certain fees having similar nature as the foregoing, and accordingly, the previously reported balances of financing and advances as at 1 January 2019 and 31 December 2019 (SAR 282,289 million and SAR 281,843 million respectively) and of retained earnings (SAR 6,622 million and SAR 6,176 million respectively) have been adjusted by SAR 445 million. No adjustment has been made to the comparative statement of income, as the effect was not identified to be significant.

Adoption of IFRS 16

Upon adoption of IFRS 16 on 1 January 2019, the Group 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 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. As of 1 January 2019, the right of use assets and lease liabilities amounting to SAR 1,797 million and SAR 1,939 million, respectively were recognised.

(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.

(3.5) 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 risks 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.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(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.

(3.9.5) 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.

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-and-repurchase 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 together with the account that most closely relates to the underlying reason for the modification.

(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.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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), Real Estate Development Company (REDCO), AlAhli Insurance Service Marketing Company, Saudi NCB Markets Limited and AlAhli Outsourcing Company is Saudi Arabian 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 a 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 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.

(3.14.2) 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. These assets are continued to be measured 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 Saudi Central Bank "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.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.16) Business combinations (continued)

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 credit losses is deducted from financing and advances.

(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 11 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.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.22) Leases

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.

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.

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).

(3.23) 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.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss.

(3.24) 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.

(3.25) 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. If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance charges.

(3.26) 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.

(3.27) 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.

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.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.28) 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.

(3.29) 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.

The Financing and advances that have 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 financing and advances 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.

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.

(3.30) Write-off

Financing, Advances 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.

(3.31) 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.

(3.32) 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.

(3.33) 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.

(3.34) 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.

(3.35) Banking products that comply with Shariah rules

Beside conventional banking products, the Group offers certain banking products that comply with Shariah rules. These products are approved and overseen by respective Shariah Boards and Shariah advisor at the Bank and its subsidiaries. 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:

(3.35.1) 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.

(3.35.2) 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.

(3.35.3) Ijara

The bank has two types of Ijara forms based on the lease contract. Ijara 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.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(3.35.4) 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.

(3.35.5) 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.

(3.36) Shariah-compliant deposit products

The Group offers its customers certain deposit products that comply with Shariah rules. These are approved and overseen by respective Shariah Boards at the Bank and its subsidiaries

(3.36.1) AIKhairaat

AIKhairaat 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.

(3.36.2) Structured AIKhairaat

This product is an enhanced deposit product which provides a Shariah compliant alternative to structured deposits. It combines a AIKhairaat 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.

(3.37) Shariah-compliant treasury products

The Group offers its customers certain treasury products that comply with Shariah rules. These products are approved and overseen by respective Shariah Boards and Shariah advisor at the Bank and its subsidiaries.

(3.37.1) 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.

(3.37.2) Structured Investment Products

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

(3.37.3) 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.

(3.37.4) 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.

(3.38) 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.

(3.39) 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.

(3.40) 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, local statutory requirements of the foreign branches and subsidiaries 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:

(3.40.1) 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.

(3.40.2) 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 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 Plan

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.

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.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2020 and 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.40) Staff compensation (continued)

(3.40.2) Variable Compensation (continued)

(b) Share Based Payment Plan (continued)

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 Bank 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 Group passes to the employees, the unallocated/non-vested shares are treated as treasury shares.

(3.41) 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.

(3.42) Government grant

The Bank recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Bank will comply with the conditions associated with the grant. The benefit of a government loan at a below-market rate of interest is treated as a government grant related to income. The below-market rate loan is recognised and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20 "Accounting for government grants and disclosure of government assistance". Government grant is recognised in statement of income on a systematic basis over the periods in which the bank recognises related costs for which the grant is intended to compensate.

4. CASH AND BALANCES WITH SAMA

	2020 SAR '000	2019 SAR '000
Cash in hand	7,540,843	9,521,562
Balances with SAMA:		
Statutory deposit	23,045,358	19,728,953
Money market placements and current accounts	26,237,476	16,131,694
Cash and balances with SAMA	56,823,677	45,382,209

In accordance with article (7) of the Banking Control Law and regulations issued by 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 35). 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.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

	2020 SAR '000	2019 SAR '000
Current accounts	6,637,388	5,989,350
Money market placements	6,066,557	9,641,305
Reverse repos (note 32(d))	936,315	938,822
Expected credit loss allowance	(3,438)	(4,183)
Due from banks and other financial institutions, net	13,636,822	16,565,294

6. INVESTMENTS, NET

(6.1) Investments are classified as follows:

	SAR '000		
	Domestic	International	Total
2020			
Fixed rate securities	26,183	1,683,247	1,709,430
Equity instruments	306,581	36,933	343,514
Mutual Funds, Hedge Funds and Others	2,078,897	4,824,749	6,903,646
Held at FVIS	2,411,661	6,544,929	8,956,590
Fixed rate securities	19,409,294	23,431,890	42,841,184
Floating rate securities	7,143,131	8,589,730	15,732,861
Equity instruments	2,500,205	266,062	2,766,267
Held at FVOCI, net	29,052,630	32,287,682	61,340,312
Fixed rate securities	42,344,655	7,565,358	49,910,013
Floating rate securities	23,275,743	1,436,649	24,712,392
Expected credit loss allowance	(5,144)	(61,468)	(66,612)
Held at amortised cost, net	65,615,254	8,940,539	74,555,793
Investments, net	97,079,545	47,773,150	144,852,695
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

(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			Total
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
2020				
Balance as at 1 January 2020	75,693	102,562	-	178,255
Net ECL charge/(reversal)	19,251	(18,051)	-	1,200
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(174)	174	-	-
Transfer to stage 3	-	-	-	-
Foreign currency translation and other adjustments	(149)	-	-	(149)
Balance as at 31 December 2020	94,621	84,685	-	179,306

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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)

2019	SAR '000			Total
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
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

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

2020	SAR '000		
	Quoted	Unquoted	Total
Fixed rate securities	87,032,293	7,428,334	94,460,627
Floating rate securities	29,495,100	10,950,153	40,445,253
Equity instruments, Mutual Funds, Hedge Funds and Others	4,453,548	5,559,879	10,013,427
Expected credit loss allowance	(61,510)	(5,102)	(66,612)
Investments, net	120,919,431	23,933,264	144,852,695

2019	SAR '00		
	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

(a) Investments held at amortised cost include investments amounting to SAR 4,145 million (2019: SAR 4,654 million) which are held under a fair value hedge relationship. As at 31 December 2020, the fair value of these investments amounts to SAR 4,976 million (2019: SAR 5,078 million).

(b) Investments, net, include securities that are issued by the Ministry of Finance of Saudi Arabia amounting to SAR 75,471 million, (2019: SAR 69,154 million) and also include investment in Sukuks amounting to SAR 21,299 million, (2019: SAR 19,943 million).

(c) Dividend income recognized during 2020 for FVOCI investments amount to SAR 94 million (2019: SAR 96 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 2020, securities amounting to SAR 4,488 million (2019: SAR 1,115 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

2020	SAR '000			Fair value
	Carrying value	Gross unrealised gain	Gross unrealised loss	
Fixed rate securities	49,910,013	1,665,223	(82,948)	51,492,288
Floating rate securities	24,712,392	21,819	(110,521)	24,623,690
Expected credit loss allowance	(66,612)	-	-	(66,612)
Total investments held at amortised cost, net	74,555,793	1,687,042	(193,469)	76,049,366

2019	SAR '000			
	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

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

	2020 SAR '000	2019 SAR '000
Government and Quasi Government	118,806,193	113,895,665
Corporate	14,018,094	10,618,782
Banks and other financial institutions	12,028,408	9,562,125
Investment, net	144,852,695	134,076,572

7. FINANCING AND ADVANCES, NET

(7.1) Financing and advances, net

2020	SAR '000				
	Consumer & Credit card	Corporate	International	Others	Total
Performing financing and advances	174,645,382	134,586,755	22,204,583	17,934,360	349,371,080
Non-performing financing and advances	585,384	4,205,720	1,337,331	-	6,128,435
Total financing and advances	175,230,766	138,792,475	23,541,914	17,934,360	355,499,515
Allowance for financing losses (ECL allowance) (note 7.2)	(1,428,589)	(6,098,780)	(1,209,709)	(54,299)	(8,791,377)
Financing and advances, net	173,802,177	132,693,695	22,332,205	17,880,061	346,708,138

2019	SAR '000				
	Consumer & Credit card	Corporate	International	Others	Total
Performing financing and advances	123,710,750	129,824,697	18,884,948	11,455,493	283,875,888
Non-performing financing and advances	599,336	3,051,591	1,678,469	-	5,329,396
Total financing and advances	124,310,086	132,876,288	20,563,417	11,455,493	289,205,284
Allowance for financing losses (ECL allowance) (note 7.2)	(1,658,004)	(4,623,323)	(1,039,418)	(41,207)	(7,361,952)
Financing and advances, net	122,652,082	128,252,965	19,523,999	11,414,286	281,843,332

Others includes financing to financial institutions.

Special commission income relating to non-performing financing and advances is SAR 238 million (2019: SAR 178 million).

Below is a breakdown by financing products, included in financing and advances, net, in compliance with Shariah rules:

	2020 SAR '000	2019 SAR '000
Murabaha	55,478,114	33,117,063
Tawarooq	198,850,302	158,595,955
Ijara	43,534,646	44,090,105
Other Islamic Products	13,982,821	9,609,592
Total Gross Financing	311,845,883	245,412,715
Allowance for financing losses (ECL allowance)	(8,514,627)	(6,973,246)
Financing and advances, net (in compliance with Shariah rules)	303,331,256	238,439,469

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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:

2020	SAR '000			Total
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Consolidated				
Balance as at 1 January 2020	1,715,623	1,581,526	4,064,803	7,361,952
Net impairment charge/(reversal)	375,134	875,565	1,504,696	2,755,395
Transfer to stage 1	53,850	(33,103)	(20,747)	-
Transfer to stage 2	(295,007)	318,300	(23,293)	-
Transfer to stage 3	(29,498)	(270,507)	300,005	-
Bad debts written off	-	-	(1,088,674)	(1,088,674)
Foreign currency translation adjustment	(12,332)	(23,857)	(201,107)	(237,296)
Balance as at 31 December 2020	1,807,770	2,447,924	4,535,683	8,791,377

2019	SAR '000			Total
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
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

2020	SAR '000			Total
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Consumer and Credit card				
Balance as at 1 January 2020	1,233,577	165,943	258,484	1,658,004
Net impairment charge/(reversal)	(329,526)	80,708	948,931	700,113
Transfer to stage 1	46,982	(28,710)	(18,272)	-
Transfer to stage 2	(73,749)	84,075	(10,326)	-
Transfer to stage 3	(21,318)	(15,808)	37,126	-
Bad debts written off	-	-	(928,553)	(928,553)
Others	-	-	(975)	(975)
Balance as at 31 December 2020	855,966	286,208	286,415	1,428,589

2019	SAR '000			Total
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Consumer and Credit card				
Balance as at 1 January 2019	1,188,157	186,867	300,289	1,675,313
Net impairment charge/(reversal)	26,667	2,525	988,014	1,017,206
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)
Others	(21,484)	-	(7,322)	(28,806)
Balance as at 31 December 2019	1,233,577	165,943	258,484	1,658,004

2020	SAR '000			Total
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Corporate				
Balance as at 1 January 2020	397,225	1,330,309	2,895,789	4,623,323
Net impairment charge/(reversal)	663,375	656,664	260,838	1,580,877
Transfer to stage 1	5,763	(3,288)	(2,475)	-
Transfer to stage 2	(220,038)	233,005	(12,967)	-
Transfer to stage 3	(8,180)	(250,443)	258,623	-
Bad debts written off	-	-	(106,395)	(106,395)
Others	-	-	975	975
Balance as at 31 December 2020	838,145	1,966,247	3,294,388	6,098,780

2019	SAR '000			Total
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Corporate				
Balance as at 1 January 2019	1,261,793	724,243	2,598,357	4,584,393
Net impairment charge/(reversal)	(760,629)	543,445	905,412	688,228
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)
Others	21,484	-	7,322	28,806
Balance as at 31 December 2019	397,225	1,330,309	2,895,789	4,623,323

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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)

2020	SAR '000			Total
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
International				
Balance as at 1 January 2020	50,855	78,033	910,530	1,039,418
Net impairment charge/(reversal)	20,976	145,410	294,927	461,313
Transfer to stage 1	1,105	(1,105)	-	-
Transfer to stage 2	(1,220)	1,220	-	-
Transfer to stage 3	-	(4,256)	4,256	-
Bad debts written off	-	-	(53,726)	(53,726)
Foreign currency translation adjustment	(12,332)	(23,857)	(201,107)	(237,296)
Balance as at 31 December 2020	59,384	195,445	954,880	1,209,709

2019	SAR '000			Total
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
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

2020	SAR '000			Total
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Others				
Balance as at 1 January 2020	33,966	7,241	-	41,207
Net impairment charge/(reversal)	20,309	(7,217)	-	13,092
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Bad debts written off	-	-	-	-
Balance as at 31 December 2020	54,275	24	-	54,299

2019	SAR '000			Total
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
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	-	-	-	-
Balance as at 31 December 2019	33,966	7,241	-	41,207

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

2020	SAR '000			Total
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Net impairment (reversal)/charge	375,135	875,565	1,504,695	2,755,395
Provision/(reversal) against indirect facilities (included in other liabilities)	29,008	(1,627)	19,935	47,316
Recoveries of debts previously written-off	-	-	(708,228)	(708,228)
Direct write-off	-	25,000	24,447	49,447
Others	(194,695)	452	-	(194,243)
Net charge for the year	209,448	899,390	840,849	1,949,687

2019	SAR '000			Total
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
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)	(24,076)	71,825	(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)	584,200	1,652,642	1,447,164

(7.4) The following table further explains changes in gross carrying amount of the Financing and advances to help explain their significance to the changes in the loss allowance for the same portfolio.

2020	SAR '000			Total
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Gross carrying amount as at 1 January 2020	266,859,904	17,015,984	5,329,396	289,205,284
Transfer from Stage 1 to Stage 2	(5,960,743)	5,960,743	-	-
Transfer from Stage 1 to Stage 3	(702,236)	-	702,236	-
Transfer from Stage 2 to Stage 3	-	(1,184,782)	1,184,782	-
Transfer from Stage 3 to Stage 2	-	97,419	(97,419)	-
Transfer from Stage 2 to Stage 1	693,674	(693,674)	-	-
Transfer from Stage 3 to Stage 1	35,432	-	(35,432)	-
Net increase/(decrease) during the year	74,390,349	(2,899,287)	470,830	71,961,892
Write-offs	-	(1,088,674)	(1,088,674)	-
Foreign exchange and other movements	(3,746,408)	(495,295)	(337,284)	(4,578,987)
Gross carrying amount as at 31 December 2020	331,569,972	17,801,108	6,128,435	355,499,515

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7. FINANCING AND ADVANCES, NET (continued)

(7.4) The following table further explains changes in gross carrying amount of the Financing and advances to help explain their significance to the changes in the loss allowance for the same portfolio. (continued)

	SAR '000			Total
	Stage 1	Stage 2	Stage 3	
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
2019				
Gross carrying amount as at 1 January 2019	255,575,635	11,921,545	5,247,904	272,745,084
Transfer from Stage 1 to Stage 2	(8,709,422)	8,709,422	-	-
Transfer from Stage 1 to Stage 3	(875,613)	-	875,613	-
Transfer from Stage 2 to Stage 3	-	(837,468)	837,468	-
Transfer from Stage 3 to Stage 2	-	35,030	(35,030)	-
Transfer from Stage 2 to Stage 1	628,822	(628,822)	-	-
Transfer from Stage 3 to Stage 1	50,061	-	(50,061)	-
Net increase/(decrease) during the year	22,174,566	(1,828,328)	704,470	21,050,708
Write-offs	-	-	(2,068,052)	(2,068,052)
Foreign exchange and other movements	(1,984,145)	(355,395)	(182,916)	(2,522,456)
Gross carrying amount as at 31 December 2019	266,859,904	17,015,984	5,329,396	289,205,284

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

	Gross financing and advances SAR' 000	ECL allowance SAR' 000	Financing and advances, net SAR' 000
2020			
Government and Quasi Government	6,605,847	(16,632)	6,589,215
Banks and other financial institutions	11,599,264	(40,746)	11,558,518
Agriculture and fishing	514,144	(29,587)	484,557
Manufacturing	32,218,477	(1,548,094)	30,670,383
Mining and quarrying	8,046,163	(41,534)	8,004,629
Electricity, water, gas and health services	19,507,642	(94,823)	19,412,819
Building and construction	14,344,103	(1,933,797)	12,410,306
Commerce	39,352,732	(3,072,633)	36,280,099
Transportation and communication	11,453,481	(103,935)	11,349,546
Others services	36,626,894	(481,007)	36,145,887
Consumers	175,230,768	(1,428,589)	173,802,179
Financing and advances, net	355,499,515	(8,791,377)	346,708,138

	Gross financing and advances SAR' 000	ECL allowance SAR' 000	Financing and advances, net SAR' 000
2019			
Government and Quasi Government	4,278,827	(17,623)	4,261,204
Banks and other financial institutions	7,647,292	(24,499)	7,622,793
Agriculture and fishing	339,870	(22,982)	316,888
Manufacturing	31,551,874	(1,572,403)	29,979,471
Mining and quarrying	7,316,487	(29,170)	7,287,317
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	38,239,775	(2,347,551)	35,892,224
Transportation and communication	10,584,405	(73,648)	10,510,757
Others services	33,007,480	(337,779)	32,669,701
Consumers	124,310,085	(1,658,004)	122,652,081
Financing and advances, net	289,205,284	(7,361,952)	281,843,332

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

	2020 SAR '000	2019 SAR '000
Gross finance lease receivables:		
Less than 1 year	3,395,779	1,996,118
1 to 5 years	13,392,562	15,182,247
Over 5 years	34,753,809	35,379,002
Total	51,542,150	52,557,367
Unearned finance income on finance leases		
Less than 1 year	(88,559)	(86,349)
1 to 5 years	(2,402,446)	(2,937,836)
Over 5 years	(7,823,777)	(8,735,247)
Total	(10,314,782)	(11,759,432)
Net finance lease receivables:		
Less than 1 year	3,307,220	1,909,769
1 to 5 years	10,990,116	12,244,411
Over 5 years	26,930,032	26,643,755
Total	41,227,368	40,797,935

Allowance for uncollectable finance lease receivables included in the allowance for expected credit losses is SAR 423 million (2019: SAR 502 million).

8. INVESTMENTS IN ASSOCIATES, NET

	2020 SAR '000	2019 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	(575,517)	(566,629)
Share of results in associates	3,131	2,560
Dividends	-	(11,448)
At 31 December	(572,386)	(575,517)
Investment in associates, net	441,614	438,483

Investment in associates primarily consists of a 60% (2019: 60%) ownership interest in the Commercial Real Estate Markets Company and 29.9% (2019: 29.9%) ownership interest in Al-Ahli Takaful Company, which are both registered in the Kingdom of Saudi Arabia.

As of 31 December 2020, the quoted share price of Alahli Takaful Company was SAR 34.90 (31 December 2019: SAR 25.25). Commercial Real Estate Markets Company is not listed on any stock exchange.

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9. PROPERTY, EQUIPMENT AND SOFTWARE, NET

	2020					2019				
	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	5,649,674	3,208,591	2,278,971	574,181	11,711,417	5,480,395	3,053,966	2,120,719	384,287	11,039,367
Foreign currency translation adjustment	(114,316)	(46,049)	(42,284)	(2,015)	(204,664)	(58,201)	(24,996)	(22,470)	(634)	(106,301)
Additions	181,664	135,166	39,333	752,325	1,108,488	90,350	126,915	30,614	564,636	812,515
Disposals and retirements	(623)	(3,135)	(6,764)	(168)	(10,690)	(1,000)	(31,598)	(1,505)	(61)	(34,164)
Transfer from capital work in progress	-	220,750	303,960	(524,710)	-	138,130	84,304	151,613	(374,047)	-
As at 31 December	5,716,399	3,515,323	2,573,216	799,613	12,604,551	5,649,674	3,208,591	2,278,971	574,181	11,711,417
Accumulated depreciation/amortisation:										
At beginning of the year	2,429,063	2,446,284	1,339,494	-	6,214,841	2,243,226	2,135,309	1,313,220	-	5,691,755
Foreign currency translation adjustment	(11,913)	(25,080)	(33,574)	-	(70,567)	(7,211)	(12,768)	(19,413)	-	(39,392)
Charge for the year	193,269	243,468	184,543	-	621,280	193,897	354,808	45,888	-	594,593
Disposals and retirements	(599)	(2,728)	(130)	-	(3,457)	(849)	(31,065)	(201)	-	(32,115)
As at 31 December	2,609,820	2,661,944	1,490,333	-	6,762,097	2,429,063	2,446,284	1,339,494	-	6,214,841
Net book value:										
As at 31 December	3,106,579	853,379	1,082,883	799,613	5,842,454	3,220,611	762,307	939,477	574,181	5,496,576

10. RIGHT OF USE ASSETS, NET

	2020 SAR '000	2019 SAR '000
Cost:		
At beginning of the year (note 3.3)	1,931,697	1,796,913
Additions	194,276	200,871
Terminations	(36,347)	(46,132)
Foreign currency translation adjustment	(42,730)	(19,955)
As at 31 December	2,046,896	1,931,697
Accumulated depreciation		
At beginning of the year	261,872	-
Charge for the year	279,239	271,342
Terminations	(10,340)	(7,513)
Foreign currency translation adjustment	(9,161)	(1,957)
As at 31 December	521,610	261,872
Right of use assets, net	1,525,286	1,669,825

11. OTHER ASSETS

(11.1) Other Assets

	2020 SAR '000	2019 SAR '000
Assets purchased under Murabaha arrangements	2,729,125	2,913,428
Prepayments and advances	946,354	1,024,032
Margin deposits against derivatives and repos	12,232,028	7,807,805
Other real estate, net (note 11.2)	964,562	1,283,387
Others	4,845,147	3,041,764
Total	21,717,216	16,070,416

(11.2) Other Real Estate, Net

	2020 SAR '000	2019 SAR '000
Cost:		
At beginning of the year	1,463,342	1,282,268
Additions	137,189	270,489
Disposals	(200,305)	(89,415)
At 31 December	1,400,226	1,463,342
Provision and foreign currency translation:		
Foreign currency translation adjustment	(195,702)	(124,054)
Provision for impairment	(239,962)	(55,901)
At 31 December	(435,664)	(179,955)
Other real estate, net	964,562	1,283,387

12. 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) 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.

(d) 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.

(12.1) 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.

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12. DERIVATIVES (continued)

(12.2) Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk (see note 33 – credit risk, note 34 – market risk and note 35 – 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.

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.

2020	Positive fair value	Negative fair value	SAR '000 Notional amounts by term to maturity					Monthly average
			Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	
<i>Held for trading:</i>								
Special commission rate instruments	6,991,247	(6,786,101)	256,078,981	7,468,087	32,097,108	142,723,012	73,790,774	278,300,894
Forward foreign exchange contracts	570,598	(304,118)	134,838,083	59,740,076	30,733,795	44,364,212	-	107,375,512
Options	86,211	(11,948)	2,136,745	186,744	1,852,953	97,049	-	1,223,842
<i>Held as fair value hedges:</i>								
Special commission rate instruments	72,541	(2,544,851)	11,178,835	-	-	2,976,211	8,202,624	11,653,647
<i>Held as cash flow hedges:</i>								
Special commission rate instruments	177,499	(97,425)	10,406,260	-	1,620,000	8,786,260	-	8,866,625
Total	7,898,096	(9,744,443)	414,638,904	67,394,907	66,303,856	198,946,744	81,993,398	

2019	Positive fair value	Negative fair value	SAR '000 Notional amounts by term to maturity					Monthly average
			Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	
<i>Held for trading:</i>								
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	11,292	(12,908)	377,245	163,027	214,218	-	-	1,273,215
<i>Held as fair value hedges:</i>								
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
<i>Held as cash flow hedges:</i>								
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	

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.

2020	SAR '000					
	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
Description of hedged items						
Fixed rate instruments	13,894,323	11,533,844	Fair value	Special commission rate instruments	72,541	(2,544,851)
Fixed rate and floating rate instruments	10,720,066	10,428,740	Cash flow	Special commission rate instruments	177,499	(97,425)
2019						
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)

Approximately 56% (2019: 56%) of the positive fair value of the Group's derivatives are entered into with financial institutions and 44% (2019: 44%) 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:

2020	SAR' 000			
	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	170,535	163,060	46,738	-
Cash outflows (liabilities)	(131,505)	(184,845)	(57,786)	-
Net cash inflows (outflows)	39,030	(21,785)	(11,048)	-

2019	SAR' 000			
	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

13. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2020 SAR '000	2019 SAR '000
Current accounts	4,456,847	6,013,422
Money market deposits	48,017,832	18,975,537
Repos (note 32 (a))	22,553,478	37,197,085
Total	75,028,157	62,186,044

14. CUSTOMERS' DEPOSITS

	2020 SAR '000	2019 SAR '000
Current and call accounts	319,375,606	250,700,137
Time	82,930,812	90,023,429
Others	14,112,303	12,665,749
Total	416,418,721	353,389,315

Other customers' deposits include SAR 3,577 million (2019: SAR 3,685 million) of margins held for irrevocable commitments and contingencies.

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14. CUSTOMERS' DEPOSITS (continued)

International segment deposits included in customers' deposits comprise of:

	2020 SAR '000	2019 SAR '000
Current and call accounts	14,527,235	9,450,761
Time	14,396,398	15,685,172
Others	878,556	471,915
Total	29,802,189	25,607,848

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

	2020 SAR '000	2019 SAR '000
Current and call accounts	24,532,230	14,064,240
Time	24,582,618	38,004,033
Others	1,321,446	896,370
Total	50,436,294	52,964,643

15. DEBT SECURITIES ISSUED

Issuer	Year of issue	Tenure	Particulars	2020 SAR '000	2019 SAR '000
Türkiye Finans Katılım Bankası A.Ş.	2015	5 years	Non-convertible unlisted sukuk, carrying profit at a fixed rate payable semi-annually.	-	332,513
	2019	2 months	Non-convertible listed sukuk on the Borsa Istanbul, carrying profit at a fixed rate.	-	69,745
	2020	6 months	Non-convertible listed sukuk on the Borsa Istanbul, carrying profit at a fixed rate.	484,180	-
	2020	5 months	Non-convertible listed sukuk on the Borsa Istanbul, carrying profit at a fixed rate.	250,507	-
	2020	3 months	Non-convertible listed sukuk on the Borsa Istanbul, carrying profit at a fixed rate.	302,327	613,843
	2020	7 months	Non-convertible listed sukuk on the Borsa Istanbul, carrying profit at a fixed rate.	735,676	-
Total				1,772,690	1,016,101

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

	2020 SAR '000	2019 SAR '000
Balance at beginning of the year	1,016,101	9,430,907
Debt securities issued	4,758,601	5,312,980
Debt securities payment	(3,816,939)	(13,244,516)
Foreign currency translation adjustment	(185,073)	(483,270)
Balance at the end of the year	1,772,690	1,016,101

16. OTHER LIABILITIES

	2020 SAR '000	2019 SAR '000
Zakat payable including subsidiaries (see note 16.1)	1,413,568	1,457,474
Staff-related payables	1,097,927	1,228,715
Accrued expenses and accounts payable	4,534,385	4,690,874
Allowances for indirect facilities	337,663	300,216
Employee benefit obligation (note 26)	1,426,694	1,203,645
Lease liabilities	1,754,951	1,825,149
Others	5,701,818	4,096,784
Total	16,267,006	14,802,857

(16.1) 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 Consolidated statement of income.

The Bank has calculated Zakat accruals for the year 2020 based on the applicable Zakat rules for financing institutions.

The Bank has submitted its Zakat return for the year ended 31 December 2019, and obtained the unrestricted Zakat certificate. The GAZT did not finalize the study of the said year upto date.

17. 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 2019: 3,000,000,000 shares of SAR 10 each). The share capital of the Bank excluding treasury shares (refer to note 25.2) consists of 2,990,418,206 shares of SAR 10 each (31 December 2019: 2,991,171,957 shares of SAR 10 each).

18. 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 minimum 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 income tax to statutory reserve.

The statutory reserves are not currently available for distribution.

19. OTHER RESERVES (CUMULATIVE CHANGES IN FAIR VALUES)

Other reserves represent the net unrealised revaluation gains (losses) of cash flow hedges (effective portion) and FVOCI equity 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.

20. COMMITMENTS AND CONTINGENCIES

(20.1) Capital and other non-credit related commitments

As at 31 December 2020 the Bank had capital commitments of SAR 1,156 million (2019: SAR 1,305 million) in respect of building, equipment and software purchases and capital calls on private equity funds.

(20.2) 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.

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20. COMMITMENTS AND CONTINGENCIES (continued)

(20.2) Credit-related commitments and contingencies (continued)

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

2020	SAR '000				Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	
Letters of credit	5,724,191	3,302,303	382,022	20,274	9,428,790
Guarantees	6,860,120	14,662,454	7,341,464	1,798,062	30,662,100
Acceptances	1,138,357	707,081	69,743	8,355	1,923,536
Irrevocable commitments to extend credit	-	334,531	4,080,674	5,959,860	10,375,065
Total	13,722,668	19,006,369	11,873,903	7,786,551	52,389,491

2019	SAR '000				Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	
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

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

	2020 SAR '000	2019 SAR '000
Government and Quasi Government	5,309,745	6,681,859
Corporate and establishment	36,736,390	34,880,613
Banks and other financial institutions	10,071,094	11,941,194
Others	272,262	331,923
Total	52,389,491	53,835,589

21. NET SPECIAL COMMISSION INCOME

	2020 SAR '000	2019 SAR '000
Special commission income:		
Investments – FVOCI	1,955,295	1,236,824
Investments held at amortised cost	1,899,496	2,667,461
Sub total – investments	3,854,791	3,904,285
Due from banks and other financial institutions	356,676	648,473
Financing and advances	15,229,586	16,564,632
Total	19,441,053	21,117,390
Special commission expense:		
Due to banks and other financial institutions	711,894	1,396,881
Customers' deposits	1,850,539	2,897,310
Debt securities issued	191,971	440,746
Total	2,754,404	4,734,937
Net special commission income	16,686,649	16,382,453

22. FEE INCOME FROM BANKING SERVICES, NET

	2020 SAR '000	2019 SAR '000
Fee income:		
Shares brokerage	762,467	239,835
Investment management services	626,306	583,668
Financing and advances	158,630	225,040
Credit cards	752,417	724,031
Trade finance	351,764	387,619
Others	403,728	483,603
Total	3,055,312	2,643,796
Fee expenses:		
Shares brokerage	(268,335)	(93,557)
Investment management services	(3,812)	(5,055)
Credit cards	(613,877)	(621,296)
Others	90,352	(4,150)
Total	(795,672)	(724,058)
Fee income from banking services, net	2,259,640	1,919,738

23. INCOME FROM FAIR VALUE THROUGH INCOME STATEMENT (FVIS) FINANCIAL INSTRUMENTS, NET

	2020 SAR '000	2019 SAR '000
Investments held at FVIS	788,539	651,376
Derivatives	27,428	288,376
Total	815,967	939,752

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

	2020 SAR '000	2019 SAR '000
Gains on disposal of non-FVIS financial instruments	872,968	374,384
Dividend income from non-FVIS financial instruments	100,465	95,872
Total	973,433	470,256

25. SHARE BASED PAYMENTS RESERVE

Employees' share based payment plan and Treasury shares:

(25.1) 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. 2020 and Dec. 2022
Total number of shares granted	7,862,224
Vesting period	3 years
Method of settlement	Equity
Fair value per share on grant date	Average SAR 51.32

(25.2) Treasury shares:

During the year ended 31 December 2020, the Bank acquired further treasury shares amounting to SAR 146 million (2019: SAR 125 million) in connection with its employee share based payment plan (note 17), which has been duly approved by the board of directors and concerned regulatory authorities.

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26. EMPLOYEE BENEFIT OBLIGATION

(26.1) 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 and applicable laws for overseas branches and subsidiaries. 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 159 million (2019: SAR 152 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 16.

(26.2) 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.

Critical assumptions used:

	2020	2019
Discount rate	2.8%	3.0%
Average age (years)	35	35

Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the end of service valuation as at 31 December 2020 and 2019:

	2020 SAR '000	2019 SAR '000
Discount rate +1%	135,411	82,800
Discount rate -1%	(160,917)	(88,800)

27. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2020 and 31 December 2019 is calculated by dividing the net income attributable to common equity holders of the Bank (adjusted for Tier 1 sukuk costs) for the period by the weighted average number of shares outstanding during the period.

Diluted earnings per share for the years ended 31 December 2020 and 31 December 2019 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 is 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	
	2020	2019	2020	2019
Weighted-Average number of shares outstanding (in thousands)	2,991,996	2,991,580	2,996,179	2,995,278
Earnings per share (in SAR)	3.68	3.68	3.67	3.67

28. TIER 1 SUKUK

During 2020, the Bank through a Shariah compliant arrangement (“the arrangement”) issued additional Tier 1 Sukuk (the “Sukuk”), amounting to SAR 4.2 billion. Further, the Bank also exercised the call option on its existing Tier 1 sukuk amounting to SAR 1 billion. These arrangements were approved by the board of directors of the Bank and regulatory authorities.

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.

Additionally, subsequent to the year end, the Bank has completed the issuance of additional cross border Tier 1 Sukuk denominated in US Dollars, amounting to SAR 4.69 billion.

29. DIVIDEND

On 25 December 2019, the Board of Directors has recommended the distribution of final dividend of SAR 3,600 million (SAR 1.20 per share) and accordingly, was paid in full during April 2020.

On 28 July 2019, the Board of Directors approved the distribution of interim dividend of SAR 3,300 million (SAR 1.10 per share) and accordingly, was paid in full during August 2019.

On 10 April 2019, the General Assembly approved the distribution of final dividend of SAR 3,293 million (SAR 1.10 per share) and accordingly, was paid in full during April 2019.

30. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following:

	2020 SAR '000	2019 SAR '000
Cash and balances with SAMA excluding statutory deposit (note 4)	33,778,319	25,653,256
Due from banks and other financial institutions with original maturity of three months or less	8,113,501	7,021,487
Total	41,891,820	32,674,743

31. 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 TFKB.

Transactions between the operating segments are recorded as per the Bank and its subsidiaries' transfer pricing policy.

The supports and Head Office expenses are allocated to segments using activity-based costing.

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31. OPERATING SEGMENTS (continued)

(31.1) 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:

2020	SAR '000					
	Retail	Corporate	Treasury	Capital Market	International	Total
Total assets	204,641,952	139,448,073	211,401,228	3,165,814	40,788,931	599,445,998
Total liabilities	248,452,914	142,681,923	90,551,866	415,227	37,129,087	519,231,017
- Customers' deposits	237,363,925	140,539,058	8,709,339	4,210	29,802,189	416,418,721
Total operating income from external customers	8,872,544	4,934,069	4,839,385	1,137,046	1,674,888	21,457,932
- Intersegment operating income (expense)	1,157,011	(849,988)	(230,604)	(4,019)	(72,400)	-
Total operating income	10,029,554	4,084,081	4,608,781	1,133,028	1,602,488	21,457,932
of which:						
<i>Net special commission income</i>	9,480,070	3,645,854	2,280,580	18,833	1,261,312	16,686,649
<i>Fee income from banking services, net</i>	500,907	439,684	93,046	1,083,977	142,026	2,259,640
Total operating expenses	4,227,747	2,380,717	363,402	316,559	1,159,414	8,447,839
of which:						
- Depreciation/amortisation of property, equipment, software and ROU assets	626,866	89,265	65,852	19,896	98,640	900,519
- Net impairment charge for expected credit losses	58,417	1,437,735	14,212	-	440,523	1,950,887
Other non-operating (expenses)/income, net	(36,844)	(24,514)	(47,716)	-	32,304	(76,770)
<i>Net income for the period before Zakat and income tax</i>	<i>5,764,967</i>	<i>1,678,848</i>	<i>4,197,662</i>	<i>816,468</i>	<i>475,378</i>	<i>12,933,323</i>

2019	SAR '000					
	Retail	Corporate	Treasury	Capital Market	International	Total
Total assets	154,249,478	132,099,977	185,601,239	2,090,983	32,777,069	506,818,746
Total liabilities	221,023,704	109,249,057	77,990,192	365,403	28,847,541	437,475,897
- Customers' deposits	209,904,859	107,423,978	10,449,207	3,423	25,607,848	353,389,315
Total operating income from external customers	7,775,407	6,842,954	3,616,913	786,908	1,552,498	20,574,680
- Intersegment operating income (expense)	1,932,337	(2,131,932)	291,317	(123)	(91,599)	-
Total operating income	9,707,744	4,711,022	3,908,230	786,785	1,460,899	20,574,680
of which:						
<i>Net special commission income</i>	8,960,001	4,210,000	1,970,208	18,221	1,224,023	16,382,453
<i>Fee income from banking services, net</i>	443,404	501,303	83,703	715,112	176,216	1,919,738
Total operating expenses	4,378,584	1,422,090	388,451	327,663	1,201,761	7,718,549
of which:						
- Depreciation/amortisation of property, equipment, software and ROU assets	586,856	90,475	60,327	19,084	109,193	865,935
- Net impairment charge (reversal) for expected credit losses	449,121	552,170	(56,387)	-	475,026	1,419,930
Other non-operating (expenses)/income, net	68,657	(16,753)	(23,201)	198	33,546	62,447
<i>Net income for the period before Zakat and income tax</i>	<i>5,397,818</i>	<i>3,272,179</i>	<i>3,496,577</i>	<i>459,320</i>	<i>292,684</i>	<i>12,918,578</i>

(31.2) The Group's credit risk exposure, by business segments, is as follows:

2020	SAR '000					
	Retail	Corporate	Treasury	Capital Market	International	Total
Statement of financial position assets	175,394,455	132,693,694	176,143,610	822,161	28,617,614	513,671,534
Commitments and contingencies (credit equivalent)	1,021,655	23,323,489	6,135,323	-	2,575,636	33,056,103
Derivatives (credit equivalent)	-	-	25,590,261	-	155,779	25,746,040

2019	SAR '000					Total
	Retail	Corporate	Treasury	Capital Market	International	
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

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.

32. COLLATERAL AND OFFSETTING

Following are the details of collaterals held/received by the Group and offsetting carried out as at 31 December 2020:

(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:

	2020 SAR '000		2019 SAR '000	
	Carrying amount	Fair value	Carrying amount	Fair value
Held at FVOCI	19,513,081	19,513,081	29,374,177	29,374,177
Investments held at amortised cost	5,145,407	5,516,630	10,733,238	10,987,799
Total	24,658,488	25,029,711	40,107,415	40,361,976

(a) The Bank has placed a margin deposit of SAR 1,824 million (2019: SAR 591 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 2020 and 31 December 2019.

(c) For details of margin deposits held for the irrevocable commitments and contingencies, please refer note 14 and for details of margin deposits against derivatives and repos, (refer note 11.1).

(d) Securities pledged with the Group in respect of reverse repo transactions comprise of SAR 936 million (2019: SAR 939 million). The Group is allowed to sell or repledge these securities in the event of default by the counterparty.

(e) All significant financial assets and liabilities where the Group has a legal enforceable right and intention to settle on a net basis have been offset and presented net in these consolidated financial statements.

33. 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 to borrowers, the Group assesses the probability of default of counterparties using internal rating models. For investments, due from banks and other financial institutions and off-statement of financial position financial instruments held with international counterparties, the Group uses external ratings by 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.

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33. 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 (12) and for commitments and contingencies in note (20). The information on the Group's total maximum credit exposure is given in note (33.1).

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.

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.

(33.1) Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2020 SAR '000	2019 SAR '000
Assets		
Due from banks and other financial institutions (note 5)	13,636,822	16,565,294
Investments (note 33.2 (a))	133,196,450	123,571,525
Financing and advances, net (note 7.1)	346,708,138	281,843,332
Other assets – margin deposits against derivatives and repos (note 11.1)	12,232,028	7,807,805
Total assets	505,773,438	429,787,956
Contingent liabilities and commitments, net (notes 16 and 20)	48,475,245	50,439,228
Derivatives – positive fair value, net (note 12)	7,898,096	5,276,039
Total maximum credit exposure	562,146,779	485,503,223

(33.2) 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 financing 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)

2020	SAR '000 Gross carrying amount			Total
	Stage 1	Stage 2	Stage 3	
Due from Bank and Other financial institutions				
Investment grade	6,100,134	-	-	6,100,134
Non-investment grade	6,317,847	-	-	6,317,847
Unrated	1,222,279	-	-	1,222,279
Gross carrying amount	13,640,260	-	-	13,640,260
Financing and advances				
Investment Grade	55,944,408	2,676	-	55,947,084
Corporate	42,967,428	-	-	42,967,428
International	4,153,250	2,676	-	4,155,926
Others	8,823,730	-	-	8,823,730
Non-investment Grade	100,182,214	15,507,299	-	115,689,513
Retail	988,294	10,462	-	998,756
Corporate	78,652,503	12,952,440	-	91,604,943
International	12,620,846	2,077,991	-	14,698,837
Others	7,920,571	466,406	-	8,386,977
Unrated	175,443,350	2,291,133	-	177,734,483
Retail	171,414,332	2,232,292	-	173,646,624
Corporate	14,385	-	-	14,385
International	3,290,979	58,841	-	3,349,820
Others	723,654	-	-	723,654
Individually impaired	-	-	6,128,435	6,128,435
Retail	-	-	585,384	585,384
Corporate	-	-	4,205,720	4,205,720
International	-	-	1,337,331	1,337,331
Gross carrying amount	331,569,972	17,801,108	6,128,435	355,499,515
Debt investment securities at amortised cost				
Saudi Government Bonds, Sukuk and Treasury Bills	50,717,114	-	-	50,717,114
Investment Grade	18,956,835	1,217,187	-	20,174,022
Non-investment Grade	3,568,541	162,728	-	3,731,269
Gross carrying amount	73,242,490	1,379,915	-	74,622,405
Debt investment securities at FVOCI				
Saudi Government Bonds, Sukuk and Treasury Bills	24,754,679	-	-	24,754,679
Investment Grade	25,911,733	1,148,661	-	27,060,394
Non-investment Grade	6,648,913	110,059	-	6,758,972
Gross carrying amount	57,315,325	1,258,720	-	58,574,045
Commitment and contingencies				
Investment Grade	17,680,789	29,255	-	17,710,044
Non-investment Grade	29,134,396	3,186,248	889,225	33,209,869
Unrated	1,468,166	1,412	-	1,469,578
Total	48,283,351	3,216,915	889,225	52,389,491

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33. CREDIT RISK (continued)

(33.2) Financial Risk Management (continued)

(a) Credit quality analysis (continued)

2019	SAR '000 Gross carrying amount			Total
	Stage 1	Stage 2	Stage 3	
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
Gross carrying amount	16,569,477	-	-	16,569,477
Financing and advances				
Investment Grade	52,691,077	4,621	-	52,695,698
Corporate	49,136,488	-	-	49,136,488
International	1,812,682	4,621	-	1,817,303
Others	1,741,907	-	-	1,741,907
Non-investment Grade	89,466,486	15,129,205	-	104,595,691
Retail	513,434	-	-	513,434
Corporate	70,719,931	9,968,278	-	80,688,209
International	11,962,226	2,205,540	-	14,167,766
Others	6,270,895	2,955,387	-	9,226,282
Unrated	124,702,341	1,882,158	-	126,584,499
Retail	121,754,731	1,442,585	-	123,197,316
Corporate	-	-	-	-
International	2,460,306	439,573	-	2,899,879
Others	487,304	-	-	487,304
Individually impaired	-	-	5,329,396	5,329,396
Retail	-	-	599,336	599,336
Corporate	-	-	3,051,591	3,051,591
International	-	-	1,678,469	1,678,469
Gross carrying amount	266,859,904	17,015,984	5,329,396	289,205,284
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

(ii) The table below details the aging of the performing financing and advances:

2020	SAR '000 Financing and advances				Total
	Consumer & Credit card	Corporate	International	Others	
Neither past due nor impaired	170,767,104	133,021,559	20,065,075	17,934,360	341,788,098
Past due but not impaired					
Less than 30 days	2,582,161	321,251	132,680	-	3,036,092
30-59 days	864,091	227,667	42,603	-	1,134,361
60-89 days	432,026	1,016,278	1,964,225	-	3,412,529
Total past due not impaired	3,878,278	1,565,196	2,139,508	-	7,582,982
Total performing financing and advances	174,645,382	134,586,755	22,204,583	17,934,360	349,371,080

2019	SAR '000 Financing and advances				Total
	Consumer & Credit card	Corporate	International	Others	
Neither past due nor impaired	119,649,043	127,282,547	16,196,293	11,455,493	274,583,376
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	123,710,750	129,824,697	18,884,948	11,455,493	283,875,888

(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.

Consideration due to Covid-19:

In response to the impacts of Covid-19, various support programmes have been offered to the customers either voluntarily by the Bank or on account of SAMA initiatives, such as customers eligible under Deferred Payments Program (refer to note 43 for further details). The exercise of the deferment option by a customer, in its own, is not considered by the Bank as triggering SICR and as a consequence impact on ECL for those customers were determined based on their existing staging. However, as part of the Bank's credit evaluation process especially given the current economic situation due to after effects of lock down, the Bank obtained further information from the customers to understand their financial position and ability to repay the amounts and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

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.

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33. CREDIT RISK (continued)

(33.2) Financial Risk Management (continued)

(b) Amounts arising from ECL – significant increase in credit risk (continued)

The monitoring of exposures involves use of the following data:

Corporate exposures	Retail exposures	All exposures
<ul style="list-style-type: none">• 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.	<ul style="list-style-type: none">• Internally collected data and customer behavior – e.g. utilization of credit card facilities.	<ul style="list-style-type: none">• 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 forecasted 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 including GDP growth, benchmark interest rates, unemployment, etc.

Based on inputs from Group's Economics Department and consideration of a variety of external actual and forecasted 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 forecasted scenarios (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

(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.

The forbearance activities did not have any material impact on the consolidated financial statements of the Bank for the year ended 31 December 2020.

(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 forecasted 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 forecasted 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. Moreover, a sensitivity analysis has been conducted on the macro-economic impact, 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.

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33. CREDIT RISK (continued)

(33.2) Financial Risk Management (continued)

(b) Amounts arising from ECL – Significant increase in credit risk (continued)

(vi) Measurement of ECL (continued)

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.

(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 are generally only considered as a secondary source for repayment.

34. 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.

(34.1) 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 held at FVIS portfolio:

2020	SAR '000 Held at FVIS			Overall risk
	Foreign exchange risk	Special commission risk	Equity Price Risk	
End of year VaR	3,517	6,735	13,693	23,945
Average VaR	4,536	6,794	10,516	21,846

2019	SAR '000 Held at FVIS			Overall risk
	Foreign exchange risk	Special commission risk	Equity Price Risk	
End of year VaR	1,416	9,860	10,803	22,079
Average VaR	1,750	8,236	1,618	11,604

(34.2) Market risk – Banking book

Market risk on banking book positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

(34.2.1) 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 2020, 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 2020 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.

2020	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	± 162,989	–	–	± 5,747	± 89,378	± 95,125
USD	± 10	± 8,598	± 40	± 968	± 27,845	± 87,158	± 116,011

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

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34. MARKET RISK (continued)

(34.2) Market risk – Banking book (continued)

(34.2.1) Special commission rate risk (continued)

(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.

The table below summarizes the Group's exposure to special commission rate risks:

2020	SAR '000					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-special commission bearing	
Assets						
Cash and balances with SAMA	26,237,293	-	-	-	30,586,384	56,823,677
Due from banks and other financial institutions, net	1,000,131	738,545	1,076,169	-	10,821,977	13,636,822
Investments, net	8,843,967	6,141,531	47,992,904	71,860,866	10,013,427	144,852,695
- Held at FVIS	373,197	769,592	133,698	432,943	7,247,160	8,956,590
- Held at FVOCI	1,214,402	2,522,119	18,860,993	35,976,531	2,766,267	61,340,312
- Investments held at amortised cost	7,256,368	2,849,820	28,998,213	35,451,392	-	74,555,793
Financing and advances, net	72,643,103	128,281,331	74,427,589	71,267,240	88,875	346,708,138
- Consumer & Credit Card	8,548,133	33,626,852	62,153,320	69,473,872	-	173,802,177
- Corporate	49,813,145	76,867,018	5,001,160	1,012,372	-	132,693,695
- International	4,732,010	9,665,230	7,153,275	780,996	694	22,332,205
- Others	9,549,815	8,122,231	119,834	-	88,181	17,880,061
Positive fair value of derivatives, net	4,328,277	2,085,464	718,154	-	766,201	7,898,096
Total financial assets	113,052,771	137,246,871	124,214,816	143,128,106	52,276,864	569,919,428
Liabilities						
Due to banks and other financial institutions	46,642,352	15,447,492	8,999,079	-	3,939,234	75,028,157
Customers' deposits	60,609,088	29,154,395	162,386	-	326,492,852	416,418,721
- Current and call accounts	6,116,384	-	-	-	313,259,222	319,375,606
- Time	53,614,031	29,154,395	162,386	-	-	82,930,812
- Others	878,673	-	-	-	13,233,630	14,112,303
Debt securities issued	720,771	682,308	-	369,611	-	1,772,690
Negative fair value of derivatives, net	5,016,782	3,651,434	701,156	-	375,071	9,744,443
Total financial liabilities	112,988,993	48,935,629	9,862,621	369,611	330,807,157	502,964,011
On-statement of financial position gap	63,778	88,311,242	114,352,195	142,758,495	(278,530,293)	
Off-statement of financial position gap	7,774,075	11,766,519	(6,328,619)	(13,154,653)	-	
Total special commission rate sensitivity gap	7,837,853	100,077,761	108,023,576	129,603,842	(278,530,293)	
Cumulative special commission rate sensitivity gap	7,837,853	107,915,614	215,939,190	345,543,032	67,012,739	

2019	SAR '000					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-special commission bearing	
Assets						
Cash and balances with SAMA	15,942,001	-	-	-	29,440,208	45,382,209
Due from banks and other financial institutions, net	4,656,899	1,869,745	969,095	-	9,069,555	16,565,294
Investments, net	34,622,875	16,391,204	35,410,767	38,154,905	9,496,821	134,076,572
- Held at FVIS	1,084	934,748	164,985	-	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	63,823,608	38,550,724	498,147	281,843,332
- Consumer & Credit Card	8,113,455	23,008,983	55,386,281	36,133,682	9,681	122,652,082
- Corporate	57,356,620	66,467,113	2,434,646	1,994,586	-	128,252,965
- 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	120,724,678	100,689,543	76,721,923	49,087,045	483,143,446
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 and call accounts	6,130,837	-	-	-	244,569,300	250,700,137
- Time	66,787,201	21,870,625	1,365,603	-	-	90,023,429
- Others	472,033	-	-	-	12,193,716	12,665,749
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	90,203,849	98,787,354	76,711,499	(211,643,855)	
Off-statement of financial position gap	6,656,420	868,227	(833,313)	(6,678,164)	-	
Total special commission rate sensitivity gap	13,067,979	91,072,076	97,954,041	70,033,335	(211,643,855)	
Cumulative special commission rate sensitivity gap	13,067,979	104,140,055	202,094,096	272,127,431	60,483,576	

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.

(34.2.2) 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.

At the year end, the Group had the following significant net exposures denominated in foreign currencies:

Currency	2020 SAR '000 Long (short)	2019 SAR '000 Long (short)
US Dollar	893,612	608,741
TRY	2,161,726	2,060,257

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.

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34. MARKET RISK (continued)

(34.2) Market risk – Banking book (continued)

(34.2.2) Currency risk (continued)

The table below indicates the extent to which the Group was exposed to currency risk at 31 December 2020 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.

Currency	2020 SAR '000			2019 SAR '000		
	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%	± 24,398	± 280,615	± 10%	± 16,708	± 307,053

(34.2.3) 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 2020 and 31 December 2019 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:

Market index – (Tadawul)	2020 SAR '000		2019 SAR '000	
	Increase/ decrease in market prices %	Effect on equity (other reserves)	Increase/ decrease in market prices %	Effect on equity (other reserves)
Impact of change in market prices	± 10%	± 237,202	± 10%	± 191,260

(34.3) Interest rate benchmark reform

The Bank has established a committee to oversee NCB's IBOR transition journey supported by working group. The committee is updated on monthly basis on the overall progress of the project including key achievements. The transition project will include changes to systems, processes and models, as well as managing related tax and accounting implications. Further, the Bank currently anticipates that the areas of significant change will be amendments to the contractual terms of LIBOR-referenced floating-rate debt, derivatives and update of hedge designations. Further, the project will also manage the timely and comprehensive communication of the IBOR transition with the customers and assisting them in taking informed and timely decision.

IBOR reforms exposes the Bank to various risk which are managed and monitored closely. Some of the key risks which the Bank is exposed to include the following:

- Conduct risk arising on account of discussion with the client for repapering of existing contacts that extends beyond Dec 2021;
- Financial risk that may transpires at the time of transition to RFR's; and
- Operational risk on account of changes in the systems, models and process.

The table below shows the Bank's exposure at the year end to significant IBORs subject to reforms that are yet to transition to risk free rates. These exposures will remain outstanding until the IBOR ceases and will therefore transition to the reference rate in future, e.g., the table excludes exposures to IBOR that will expire before transition is required.

	2020 SAR '000		
	Non-Derivative Financial Assets	Non-Derivative Financial Liabilities	Derivatives Nominal amount
LIBOR USD	26,866,112	5,137,500	140,727,683
LIBOR JPY	-	1,080,000	1,080,000
Total	26,866,112	6,217,500	141,807,683

35. 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 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.

(35.1) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2020 and 31 December 2019 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 (35.2) 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.

Financial liabilities	SAR '000					Total
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	
2020						
Due to banks and other financial institutions	2,787,788	40,290,640	15,813,326	16,619,599	1,694,573	77,205,926
Customers' deposits	341,081,203	52,646,991	29,193,405	1,495,861	24,852	424,442,312
- Current and call accounts	319,435,217	-	-	-	-	319,435,217
- Time	7,533,683	52,646,991	29,193,405	1,495,861	24,852	90,894,792
- Others	14,112,303	-	-	-	-	14,112,303
Debt securities issued	-	738,301	1,190,912	-	-	1,929,213
Derivative financial instruments (gross contractual amounts payable)	-	56,380,121	32,695,914	47,091,320	9,353,832	145,521,187
Lease Liabilities	-	215,886	638,274	2,568,023	1,384,489	4,806,672
Total undiscounted financial liabilities	343,868,991	150,271,939	79,531,831	67,774,803	12,457,746	653,905,310

Financial liabilities	SAR '000					Total
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	
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 and call accounts	250,751,836	-	-	-	-	250,751,836
- Time	1,260,359	65,968,349	22,822,940	2,607,290	58,782	92,717,720
- Others	12,665,749	-	-	-	-	12,665,749
Debt securities issued	-	818,920	603,830	-	-	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	-	76,849	220,858	1,009,264	815,794	2,122,765
Total undiscounted financial liabilities	274,262,984	151,509,323	50,325,036	48,299,506	12,282,756	536,679,605

The contractual maturity structure of the credit-related and commitments and contingencies are shown under note (20.2(a)).

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35. LIQUIDITY RISK (continued)

(35.2) 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 (35.1) above for the contractual undiscounted financial liabilities.

2020	SAR '000			Total
	Less than 1 year	Over 1 year	No-fixed maturity	
Assets				
Cash and balances with SAMA	37,226,309	12,049,319	7,548,049	56,823,677
Due from banks and other financial institutions, net	7,858,753	139,854	5,638,215	13,636,822
Investments, net	14,783,918	119,304,728	10,764,049	144,852,695
- Held at FVIS	825,288	133,698	7,997,604	8,956,590
- Held at FVOCI	3,873,150	54,700,717	2,766,445	61,340,312
- Held at amortized cost	10,085,480	64,470,313	-	74,555,793
Financing and advances, net	2,888,187	343,819,951	-	346,708,138
- Consumer & Credit Card	1,990,394	171,811,783	-	173,802,177
- Corporate	261,409	132,432,286	-	132,693,695
- International	-	22,332,205	-	22,332,205
- Others	636,384	17,243,677	-	17,880,061
Positive fair value of derivatives, net	117,710	7,780,386	-	7,898,096
Investments in associates, net	-	-	441,614	441,614
Property, equipment and software, net	-	-	5,842,454	5,842,454
Right of use assets, net	33,501	122,611	1,369,174	1,525,286
Other assets	-	-	21,717,216	21,717,216
Total assets	62,908,378	483,216,849	53,320,771	599,445,998
Liabilities				
Due to banks and other financial institutions	58,440,002	16,588,155	-	75,028,157
Customers' deposits	199,742,271	212,318,303	4,358,147	416,418,721
- Current and call accounts	102,841,777	212,175,682	4,358,147	319,375,606
- Time	82,924,955	5,857	-	82,930,812
- Others	13,975,539	136,764	-	14,112,303
Debt securities issued	1,164,918	607,772	-	1,772,690
Negative fair value of derivatives, net	164,824	9,579,619	-	9,744,443
Other liabilities	184,166	-	16,082,840	16,267,006
Total liabilities	259,696,181	239,093,849	20,440,987	519,231,017

2019	SAR '000			Total
	Less than 1 year	Over 1 year	No-fixed maturity	
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, net	10,288,342	405,273	5,871,679	16,565,294
Investments, net	12,440,844	111,831,534	9,804,194	134,076,572
- Held as 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	57,698,821	-	65,012,107
Financing and advances, net	3,790,686	278,052,646	-	281,843,332
- Consumer & Credit Card	2,127,604	120,524,478	-	122,652,082
- Corporate	1,283,974	126,968,991	-	128,252,965
- 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
Property, equipment and software, net	-	-	5,496,576	5,496,576
Right of use assets, net	-	-	1,669,825	1,669,825
Other assets	-	-	16,070,416	16,070,416
Total assets	52,304,139	405,452,178	49,062,429	506,818,746
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 and call accounts	76,961,990	170,902,946	2,835,201	250,700,137
- Time	90,019,354	4,075	-	90,023,429
- Others	12,533,656	132,093	-	12,665,749
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	-	14,606,367	14,802,857
Total liabilities	239,335,334	180,698,995	17,441,568	437,475,897

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36. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

(36.1) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure at year end is as follows:

2020	SAR '000					Total
	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	
Assets						
Cash and balances with SAMA	54,989,188	57,896	237,280	1,202,508	336,805	56,823,677
Due from banks and other financial institutions, net	1,423,983	449,535	1,490,717	6,171,950	4,100,637	13,636,822
Investments, net	97,081,082	14,918,406	5,934,469	6,539,296	20,379,442	144,852,695
- Held at FVIS	2,411,708	773,490	1,509,404	1,010,419	3,251,569	8,956,590
- Held at FVOCI	29,052,636	9,736,504	3,417,981	4,044,918	15,088,273	61,340,312
- Held at amortised cost	65,616,738	4,408,412	1,007,084	1,483,959	2,039,600	74,555,793
Financing and advances, net	303,304,668	13,082,874	-	27,137,576	3,183,020	346,708,138
- Consumer & Credit Card	173,802,177	-	-	-	-	173,802,177
- Corporate	112,328,453	12,414,253	-	4,767,969	3,183,020	132,693,695
- International	-	-	-	22,332,205	-	22,332,205
- Others	17,174,038	668,621	-	37,402	-	17,880,061
Positive fair value of derivatives, net	3,726,094	1,245,109	2,809,183	117,710	-	7,898,096
Investments in associates, net	439,440	-	-	-	2,174	441,614
Total	460,964,455	29,753,820	10,471,649	41,169,040	28,002,078	570,361,042
Liabilities						
Due to banks and other financial institutions	26,125,269	20,096,737	18,378,827	4,749,002	5,678,322	75,028,157
Customers' deposits	385,958,795	516,800	31,328	29,802,189	109,609	416,418,721
- Current and call accounts	304,228,692	505,720	4,467	14,527,235	109,492	319,375,606
- Time	68,507,553	-	26,861	14,396,398	-	82,930,812
- Others	13,222,550	11,080	-	878,556	117	14,112,303
Debt securities issued	-	-	-	1,772,690	-	1,772,690
Negative fair value of derivatives, net	478,806	84,996	9,015,817	164,824	-	9,744,443
Total	412,562,870	20,698,533	27,425,972	36,488,705	5,787,931	502,964,011
Commitments and contingencies (note 20.2)	38,227,304	3,380,614	921,755	4,530,258	5,329,560	52,389,491
- Letters of credit	5,779,321	1,013,247	173,559	535,918	1,926,745	9,428,790
- Guarantees	21,367,435	1,401,726	699,710	3,803,814	3,389,415	30,662,100
- Acceptances	1,524,096	147,028	48,486	190,526	13,400	1,923,536
- Irrevocable commitments to extend credit	9,556,452	818,613	-	-	-	10,375,065
Credit exposure (credit equivalent) (note 31.2):						
Commitments and contingencies	24,772,168	2,286,808	645,624	2,575,636	2,775,867	33,056,103
Derivatives	7,601,945	4,887,446	12,243,417	155,779	857,453	25,746,040

2019	SAR '000					Total
	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	
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, net	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	242,758,524	9,023,646	-	24,444,074	5,617,088	281,843,332
- Consumer & Credit Card	122,652,082	-	-	-	-	122,652,082
- Corporate	109,816,352	8,349,663	-	4,749,730	5,337,220	128,252,965
- 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	382,559,855	29,026,086	4,784,648	35,613,165	31,598,175	483,581,929
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 and call accounts	240,281,176	954,051	-	9,450,761	14,149	250,700,137
- Time	74,104,085	207,561	26,611	15,685,172	-	90,023,429
- Others	12,193,716	-	-	471,916	117	12,665,749
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 20.2)	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 31.2):						
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

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

(36.2) The distribution by geographical concentration of non-performing financing and advances and corresponding ECL allowances are as follows:

2020	SAR '000		
	The Kingdom of Saudi Arabia	Turkey	Total
Non performing financing and advances	4,791,104	1,337,331	6,128,435
ECL allowances (stage 3)	(3,580,803)	(954,880)	(4,535,683)
Net	1,210,301	382,451	1,592,752
2019			
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

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37. 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:

2020	SAR '000			Total
	Level 1	Level 2	Level 3	
Financial assets				
Derivative financial instruments	-	7,898,096	-	7,898,096
Financial assets held at FVIS	1,804,947	4,983,767	2,167,876	8,956,590
Financial assets held at FVOCI	41,161,033	20,028,175	151,104	61,340,312
Investments held at amortized cost, net – fair value hedged (note 6.3 a)	-	4,975,557	-	4,975,557
Total	42,965,980	37,885,595	2,318,980	83,170,555
Financial liabilities				
Derivative financial instruments	-	9,744,443	-	9,744,443
Total	-	9,744,443	-	9,744,443

2019	SAR '000			Total
	Level 1	Level 2	Level 3	
Financial assets				
Derivative financial instruments	-	5,276,039	-	5,276,039
Financial assets held as 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 liabilities				
Derivative financial instruments	-	6,081,580	-	6,081,580
Total	-	6,081,580	-	6,081,580

(b) Fair value information for financial instruments not measured at fair value

The fair value of financing and advances, net amounts to SAR 356,408 million (2019: SAR 290,470 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 2020, 31 December 2019 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 managers 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 2020 (31 December 2019: 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:

	2020 SAR '000	2019 SAR '000
Balance at beginning of the year	1,911,461	920,695
Total gains (realised and unrealised) in consolidated statement of income	52,337	237,076
Purchases	1,004,951	897,208
(Sales) and other adjustments	(649,769)	(143,518)
Balance at end of the year	2,318,980	1,911,461

(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 2020 and the impact of the sensitivity is not material.

38. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. The related party transactions are governed by the limits set by the Banking Control Law and the regulations issued by SAMA and approved by the board of directors and management. Related party balances include the balances resulting from transactions with Governmental shareholders.

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 affiliated entities where they have control, joint control or significant influence over these entities.

(38.1) The balances as at 31 December included in the consolidated financial statements are as follows:

	2020 SAR '000	2019 SAR '000
Bank's Board of Directors and Senior Executives:		
Financing and advances	1,011,859	963,372
Customers' deposits	136,134	237,188
Commitments and contingencies	7,741	12,527
Investments (Assets under Management)	153,342	55,880
Other liabilities – end of service benefits	42,274	36,115
Balances of companies and institutions owned by 5% or more by related parties:		
Financing and advances	13,611,530	6,634,387
Customers' deposits	9,374,747	7,339,076
Commitment and contingencies	2,571,151	1,433,776
Investments	4,345,473	1,083,142
Major shareholders:		
Customers' deposits	36,401,171	26,357,463
Group's investment fund		
Investment	1,320,085	718,580

(38.2) Income and expenses pertaining to transactions with related parties included in the consolidated financial statements are as follows:

	2020 SAR '000	2019 SAR '000
Special commission income	1,004,451	378,808
Special commission expense	269,057	244,832
Fees and commission income and expense, net	469,592	368,449

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38. RELATED PARTY TRANSACTIONS (continued)

(38.3) The total amount of compensation paid to the Group's Board of Directors and key management personnel during the year is as follows:

	2020 SAR '000	2019 SAR '000
Directors' compensation	9,975	10,710
Short-term employee benefits	80,475	78,197
End of service benefits	4,108	1,867

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 39).

39. 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 2020 and 2019, and the forms of such payments:

Categories of employees	2020			2019		
	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	30,166	95,239	20	31,247	124,582
Employees engaged in risk taking activities	587	276,576	178,762	588	271,224	180,111
Employees engaged in control functions	582	212,438	89,333	596	208,358	86,878
Other employees	6,191	1,163,511	249,049	6,295	1,162,961	230,006
Other employee related benefits	-	413,085	-	-	395,853	-
Subsidiaries	5,955	608,284	160,601	5,384	603,057	147,281
Group total	13,334	2,704,060	772,984	12,883	2,672,700	768,858

All forms of payment for fixed and variable compensation are either in cash or shares in NCB.

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 2020 is SAR 846 million (2019: SAR 877 million).

40. 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	
	2020 SAR '000	2019 SAR '000
Credit risk	377,284,842	336,884,053
Operational risk	37,739,086	36,073,511
Market risk	10,415,366	17,039,531
Total Pillar-1 – risk weighted assets	425,439,294	389,997,095
Core capital (Tier 1)	81,916,210	69,723,480
Supplementary capital (Tier 2)	4,548,388	3,014,128
Core and supplementary capital (Tier 1 and Tier 2)	86,464,598	72,737,608
Capital Adequacy Ratio (Pillar 1):-		
Core capital (Tier 1 ratio)	19.3%	17.9%
Core and supplementary capital (Tier 1 and Tier 2 ratios)	20.3%	18.7%

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.

41. GROUP'S INTEREST IN OTHER ENTITES

(41.1) 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 SAR 40,496 million and SAR 38,055 million, respectively (2019: SR 32,518 million and SR 29,790 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).

	2020 SAR '000	2019 SAR '000
Summarised statement of financial position		
Financing and advances, net	22,332,206	19,523,998
Other assets	18,164,092	12,993,859
Liabilities	38,055,036	29,790,253
Net assets	2,441,262	2,727,604
Carrying amount of NCI	804,885	899,291
Summarised statement of income		
Total operating income	1,597,255	1,482,819
Net income	363,987	249,267
Total comprehensive income (loss)	(286,354)	21,971
Total comprehensive income (loss) attributable to NCI	(94,410)	7,244
Summarised cash flow statement		
Net cash from operating activities	632,051	4,515,121
Net cash (used in) investing activities	(2,328,199)	(2,044,672)
Net cash from financing activities	1,005,859	(3,001,567)
Net (decrease) in cash and cash equivalents	(690,289)	(531,118)

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41. GROUP'S INTEREST IN OTHER ENTITIES (continued)

(41.2) 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, realised 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.

	2020 SAR '000	2019 SAR '000
Hedge funds	323,831	302,066
Private equity funds	260,680	217,635
Total	584,511	519,701

The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. At 31 December 2020, the Group holds an interest in all structured entities it has sponsored.

42. COMPARATIVE FIGURES

Except as disclosed in note 3.3, there have been no reclassifications which are material to the consolidated financial statements.

43. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS

The Coronavirus ("Covid-19") pandemic continues to disrupt global markets as many geographies are beginning to experience a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

The Bank continues to be cognisant of both the micro and macroeconomic challenges that Covid-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. This has entailed reviewing specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required.

The Bank has also revised certain inputs and assumptions used for the determination of expected credit losses ("ECL"). The revisions mainly revolved around:

- adjusting macroeconomic factors/inputs used by the Bank in its ECL model including observed default rates;
- revisions to the scenario probabilities; and
- refinement of staging criteria in light of the SAMA support measures and to effectively identify exposures where lifetime ECL losses may have been triggered despite repayment holidays."

The Bank's ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its business as usual model refinement exercise. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected.

The Bank continues to monitor the lending portfolios closely and reassess the provisioning levels as the situation around Covid-19 evolves; however, the aggregate impact of various Covid-19 related adjustments contributed an additional ECL of SAR 884 million during the year 2020.

SAMA support programs and initiatives

Private Sector Financing Support Program ("PSFSP")

In response to Covid-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises (MSME) as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP encompasses mainly the following programs:

- Deferred payments program;
- Facility Guarantee program;
- Point of sale ("POS") and e-commerce service fee support program.

As part of the deferred payments program launched by SAMA, the Bank was required to defer payments for a total of nine months (original deferment for six months was followed on by a further extension of three months) on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September for a period of six months and then further deferring the instalments falling due within the period from 15 September 2020 to 14 December 2020 for a period of three months without increasing the facility tenure.

Further to the above, SAMA on 29 November 2020 extended the deferred payment program until 31 March 2021. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from 15 December 2020 to 31 March 2021 without increasing the facility tenure.

The accounting impact of the above changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses which have been presented as part of net special commission income.

As a result of the above program and related extensions, the Bank has deferred the payments of SAR 9 billion on MSMEs portfolio and accordingly, has recognised total modification losses of SAR 461 million during the year. The total exposures against these customers amounted to SAR 22 billion as at the year end.

The Bank generally considered the deferral of payments in hardship arrangements as an indication of a SICR but the deferral of payments under the current Covid-19 support packages have not, in isolation, been treated as an indication of SICR.

Moreover, due to this programme the Bank has booked SAR 195 million incremental total ECL for the MSME portfolio having total exposure of SAR 22 billion.

If the balance of the customers under Covid-19 support packages in stage 1 move to stage 2, an additional ECL provisions would be provided during 2021 based on the credit facility level assessment and the ability to repay amounts due after the deferral period ends.

As at 31 December 2020, the Bank has participated in SAMA's facility guarantee programs and the accounting impact for the period is immaterial.

Furthermore, during the year ended 31 December 2020, the Bank has recognised reimbursement from SAMA for the forgone POS and e-commerce service fee amounting to SR 269 million.

Government grant in respect to the SAMA support programs

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, the Bank has received in aggregate SAR 9.5 billion of profit free deposit in number of tranches from SAMA during the year ended 31 December 2020, with varying maturities. Management had determined based on the communication from SAMA, that the profit free deposits primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. By end of December 2020, total income of SAR 495 million has been recognised in the statement of income. The management has exercised certain judgements in the recognition and measurement of this grant income. During the year ended 31 December 2020, SAR 108 million has been charged to the statement of income relating to unwinding of the day 1 income.

Subsequently on 30 December 2020, the Bank received extension of profit free deposit whereby maturities of significant portion of the deposits were extended by further twenty one months. The extension resulted in a modification gain of SAR 286 million which has been accounted for in accordance with government grant accounting requirements, taking into consideration the related costs including fee waivers under the aforementioned SAMA support programs (namely PSFSP and liquidity support for the Saudi banking sector) and was recorded in statement of income.

SAMA liquidity support for the Saudi banking sector amounting to SAR 50 billion

In line with its monetary and financial stability mandate, SAMA injected an amount of fifty billion riyals in order to:

- enhance the liquidity in the banking sector and enable it to continue its role in providing credit facilities to private sector companies;
- restructure current credit facilities without any additional fees;
- support plans to maintain employment levels in the private sector; and
- provide relief for a number of banking fees that have been waived for customers.

Moreover, in respect to the liquidity support, the Bank received SR 7.1 billion profit free deposit with one year maturity. Management has determined that this government grant primarily relates to liquidity and fees waiver support. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 98 million, all of which has been recognised in the statement of income as at 31 December 2020.

Health care and Private sector support:

In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the Covid-19 outbreak, the Bank has decided to voluntarily postpone payments for all public and private health care workers who have credit facilities with the Bank for three months. This resulted in the Bank recognising a day 1 modification loss of SR 166 million during the year ended 31 December 2020, which was presented as part of net special commission income. SAR 38 million has been recognized in the statement of income on unwinding the discount on financing during the year.

Notes to the Consolidated Financial Statements

For the years ended 31 December 2020 and 2019

44. INVESTMENT SERVICES

The Bank offers investment management services to its customers through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors, with assets totaling of SAR 185,589 million (2019: SAR 156,009 million).

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 June 20	Amendments to IFRS 16: Leases for Covid-19 rent related concessions	The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.
1 January 23	Amendments to IAS 1 – "Classification of Liabilities as Current or Non-current"	In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify: <ul style="list-style-type: none">• What is meant by a right to defer settlement• That a right to defer must exist at the end of the reporting period• That classification is unaffected by the likelihood that an entity will exercise its deferral right• That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification The amendment is not expected to have an impact on the consolidated financial statements of the Group.
1 January 22	Reference to the Conceptual Framework – Amendments to IFRS 3	In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework. The amendments are intended to replace a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately.
1 January 22	Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.
1 January 22	Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a 'directly related cost approach'.
1 January 22	Amendments to IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities	The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

46. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 8 February 2021, corresponding to 26 Jumada al-Akhirah 1442H.



Hussein H. Eid
Acting Chief Financial Officer



Talal A. AlKhereiji
Acting Chief Executive Officer



Saeed M. Al-Ghamdi
Chairman