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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:

<table>
<tr><th>Key audit matter</th><th>Why considered most significant</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Expected Credit Loss allowance against financing and advances</td><td>
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.
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 judgment needed to determine the ECL under the requirements of IFRS 9 – Financial Instruments ("IFRS 9"). The key areas of judgement include:
1. Categorisation of financing and advances into Stages 1, 2 and 3 based on the identification of:
(a) exposures that have a significant increase in credit risk ("SICR") since their origination; and
(b) individually impaired/defaulted exposures.
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').
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.
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.
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.
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.
</td><td>
• 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:
– 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:
– 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.
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 deferal of instatlments under government support programs (with specific focus on customers operating in sectors most affected by the Covid-19 pandemic).
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.
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.
We tested the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2020.
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.
We assessed the adequacy of related disclosures in the consolidated financial statements.
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Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

<table>
<tr><th>Key audit matter</th><th>Why considered most significant</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Classification of investments</td><td>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.

In accordance with the requirements of IFRS 9, the Group classifies its investments into the following categories: measured at amortized cost ("IAC"), measured at fair value through other comprehensive income ("FVOCI") and measured at fair value through income statement ("FVIS"). These classifications are generally based on (except equity instruments and derivatives) the characteristics of contractual cash flows and the business models under which they are held.

The classification of investments is considered a key audit matter considering the fact that IFRS 9 requires significant judgment in performing the contractual cash flow characteristics test and the business model assessment.

Refer to note 2.5(i) to the consolidated financial statements for significant judgments applied in the determination of classification of investments and note 3.4 for significant accounting policies pertaining to classification.</td><td>Our audit procedures in response to the significant risk associated with the classification of Group's investments covered assessing the appropriateness and adequacy of the classification criteria and we have performed the below procedures.

• We have checked the Group's investment classification policy and compared it with the requirements of IFRS 9.

• For sample of investments classified as amortized cost, we checked the appropriateness of the classification by verifying that each financial asset meets both of the following conditions and is not designated as FVIS:
– the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

• 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:
– 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.</td></tr>
<tr><td>Impairment for credit losses on debt investments held at IAC and FVOCI</td><td>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, qausi 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.

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.</td><td>Our audit procedures in response to the significant risk associated with the impairment charge for credit losses on Group's debt investments held at IAC and FVOCI covered assessing the appropriateness and adequacy of the corresponding impairment allowances and we have performed following procedures.

• We 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.</td></tr>
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Key audit matter	Why considered most significant	How our audit addressed the key audit matter
Impairment for credit losses on debt investments held at IAC and FVOCI (continued)	In accordance with the requirements of IFRS 9, the Group measures ECL based on the credit losses expected to arise over the next twelve months ('12 month ECL'), unless there has been a significant increase in credit risk since origination or default, in which case, the allowance is based on the ECL expected to arise over the life of the investments ('Lifetime ECL'). Moreover, 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. 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. 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. *Refer to notes 2.5(h) to the consolidated financial statements for significant judgments applied in the determination of expected credit losses, note 6.2 for movement in ECL during the year ended 31 December 2020, note 33 for credit risk management strategy and credit quality analysis in respect of investments.*	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. Where relevant, we used specialists including IT specialists and financial risk modelling experts to gain comfort on model recalibration, resultant ECL calculations and data integrity. We assessed the adequacy of related disclosures in the consolidated financial statements. There were no exposures determined to be individually impaired classified as stage 3 as at 31 December 2020.
Valuation of unquoted derivative and non-derivative financial instruments carried at fair value	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. 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. Estimation uncertainty exists for those instruments not traded in an active market (i.e. unquoted) and where the internal modelling techniques use: • significant observable valuation inputs (i.e. level 2 investments); and • significant unobservable valuation inputs (i.e. level 3 investments) 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.	• 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 on the Audit of the Consolidated Financial Statements (continued)

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
Valuation of unquoted derivative and non-derivative financial instruments carried at fair value (continued)	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. *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.*	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. In addition to independently testing the valuation of derivatives, we have also checked the valuation of selected samples against counterparty valuation statements. • We assessed the adequacy of the financial instrument hierarchy and also considered IFRS 9 related disclosures in the consolidated financial statements.
SAMA support program and related government grant	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. 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"). We considered the accounting for the deposits received under SAMA support programme as a key audit matter because: • these deposis 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: – 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. *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 programms and details of the government grant received over the year from SAMA.*	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 recogntion of government grant) by the Group. We checked the accuracy of the government grant computation (including discount rate used) and assessed the appropriateness of the timing of recognition of the goverment grant by the Group. We assessed the appropriateness of related disclosures in the consolidated financial statements.

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 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.

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