



Is the NCB still Saudi Arabia's Prominent Bank?

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Abstract: *As a pioneering financial institution in the Kingdom of Saudi Arabia (KSA), the National Commercial Bank (NCB) is one of the oldest, if not the first Saudi banks. Distinguished amongst the rest, its history of success spreads several decades now. The National Commercial Bank considered Islamic concepts and principles as a major source of the banking business policies within the company. It is strongly influenced by the Saudi culture, which relies on religious teachings as the main source of folkways, mores and shari'ah laws for serving customers. The application of Islamic and shari'ah administrative tools in the banking business of NCB reflects positively on its entire exemplary performances and which succeeded in gaining employees' commitment and customer loyalty towards it. The NCB is the first bank in the KSA to initiate the Corporate Social Responsibility (CSR) programs in 2004 and targeted the different sectors of the economy especially in improving the health and education sectors. It has served its clients including non-bankable ones through social institutions. It provided financial and credit facilities and loans to them, built homes for the homeless in developing countries, and sponsored humanitarian organizations to eliminate global problems emanated from global warming, destitute and child labour, as well as contributed to the growth of the KSA economy and assisted in achieving the sustainable development goals for other countries in which it operated.*

Beside its CSR records, the NCB is one of the largest Banks in the Arab world. The Bank's paid-up capital amounted to SAR 30 billion (US\$ 8 billions) and its assets at end of 2017 totaled SAR 444 billion (US\$ 118 billion). The net profit for the year 2017 totaled SAR 9,802 million (US\$ 2,614 million). Shareholders' equity at the end of 2017 totaled SAR 64,276 million (US\$ 17,140 million). Return on average shareholder's equity for the fiscal year 2017 was 17.8%. Basic earnings per share for the year 2017 amounted to SAR 4.74 (US\$ 1.26). The bank also maintained its leadership in corporate governance. A number of new programs were launched to enhance NCB's strategic partnerships and geographic coverage. Various initiatives included job opportunity programs that provided entrepreneurs with knowledge, support, and generous loans for sustainability had been introduced by NCB. Currently, despite the socio-economic crisis brought by the Covid-19 pandemic, the bank still operated 400 branches throughout the KSA. These branches are dedicated exclusively to Islamic Banking services. At the end of 2017, the Bank's clients exceeded 5.9 million and its employees throughout the KSA reached a total of 7,973 of which 95.3% were Saudis. This reflects the true sense of nationalism introduced by the KSA under the Saudisation National policy.

Keywords: *National Commercial Bank, Sustainability, CSR, Saudi Arabia*

INTRODUCTION

The Middle East is the cradle of three civilizations and three religions i.e. Islam, Christianity and Judaism. Apparently, there seems to be a strong commitment from the people of this region to comply with religious teachings. This commitment is also reflected in the performance of banking companies, institutions and governments in the Middle East. In this case study, discussion is focused on the question as to what extent the National Commercial Bank (NCB) has been affected by the teachings of the dominant religion i.e. Islam and how it paves the way on the banking business operated in the given environment. This case study tries to show how the NCB succumbed with the teachings of Islam especially the shari'ah compliance element in generating successful business performances in the banking and finance industry.

BACKGROUND

NCB is Saudi Arabia's most prominent bank and the first bank to be licensed in the Kingdom of Saudi Arabia (KSA). It is considered the largest entity in the KSA and a leading financial institution in the region. The bank initiated its business under the name of "The National Commercial Bank" following the Royal Decree on 20 Rabi-al-Thani 1373H (26 December 1953). Originally it was established in 1953 in the city of Jeddah when King Abdulaziz bin Abdul Rahman Al Saud issued a royal order to convert Saleh, Abdul Aziz Kaaki and Salem bin Mahfouz Company into a company under the name of the National Commercial Bank.

In 1999, the Government through the Public Investment Fund (PIF) acquired a majority holding in the Bank. The NCB has a 90.71% direct ownership of the NCB Capital, its premier investment arm, and owns 67.03% of the Türkiye Finans Katılım Bankası (TFKB), the leading participation bank in Turkey.

As far as financial indicators are concerned the NCB is one of the largest Banks in the Arab world. The Bank's paid-up capital was SAR 30 billion (US\$ 8 billions) and its assets at the end of 2017 totaled SAR 444 billion (US\$ 118 billion). Its Net profit for 2017 totaled SAR 9,802 million (US\$ 2,614 million). The shareholders' equity at end of 2017 stood at SAR 64,276 million (US\$ 17,140 million) whereby return on average shareholder's equity for the fiscal year 2017 was 17.8%. Basic earnings per share for 2017 amounted to SAR 4.74 (US\$ 1.26).

In 2017, the Bank operated 400 branches throughout the KSA, dedicated exclusively to Islamic Banking services. At the end of 2017, the Bank's clients exceeded 5.9 million and the Bank's employees throughout the KSA reached a total of 7,973 of which 95.3% Saudis. The Bank had operated 3,488 Automated Teller Machines (ATMs) throughout the KSA. Over 96% of clients' transactions had been successfully executed through alternative delivery channels during 2017.

The bank's administrative structure

The NCB is managed by a simple structure of Board which sets the Bank's policies while the Executives of the bank take care of the routine and daily operations. NCB is considered to be among the first Saudi companies that implemented the principle of Corporate Governance, initiated Corporate Social Responsibilities (CSR) programs and the first bank in Saudi Arabia to receive International Certification on Business Continuity Management.

The Bank also maintained its leadership in CSR. In 2004, the Board of Directors of NCB decided to establish an independent department of CSR, which was based on the mission of NCB i.e. "To provide innovative, effective, renewable and non-profit programs in support of the development of the nation and enhance the bank's social progress" (NCB 2016a). The duty of this department is to serve the community in a very pragmatic way where it identifies the needs of the community and then tries to find the suitable solutions for them. In this dimension, NCB is so progressive and enhances its partnership with governmental and non-governmental institutions. The objective is not so much to increase profits but to increase the welfare and promote sustainable development of the community. The bank's slogan is "*Awareness and commitment to social responsibilities is the key pillar of the Bank's strategy*". A number of new programs were launched to enhance NCB's strategic partnerships and geographic coverage. Various initiatives included job opportunity programs that provided entrepreneurs with knowledge, support, and generous loans were implemented. Among the most significant programs which NCB launched in 2016 were AlAhli Productive Families Program, AlAhli Entrepreneurs Program, AlAhli Orphans Program and AlAhli voluntary work program (NCB 2016b).

Meanwhile, the financial performances of the NCB for five years i.e. from 2015 to 2019 are given in the following table. There appears to be an increasing trend in terms of total assets as compared to those in 2016 and 2017.

GEOGRAPHIC ANALYSIS OF REVENUES

Geographically, NCB has branches in Bahrain, Turkey and elsewhere. Hence, the Bank's revenues are generated from its activities inside and outside the KSA. Below are the revenues for 2019.

For the Financial Year 2019				
Saudi Arabia Million	Turkey Million	Bahrain Million	Others Million	Total Million
18,692	1,483	428	4	20,607

In terms of financial performance and credit worthiness, NCB has enjoyed the 'A' rating. International credit rating agencies underscored the fact that NCB maintained a stable rating throughout 2019, reflecting the Bank's aspirations to increase profitability and liquidity. Four Rating agencies evaluated NCB's performance for 2019 and ranged it as good to very good and future expectations are generally stable (as shown in the table below).

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

Source: National Commercial Bank annual reports and National Commercial Bank website

In terms of business environment the bank had its strengths and weaknesses. Banks for that matter, like any other business always look forward to grab opportunities and avoid threats. The details of NCB’s Strength, Weakness, Opportunities and Threat (SWOT) Analysis and PESTLE Analysis are given below for the purpose of strategizing the plan for execution.

SWOT Analysis:

<p>Strengths:</p> <ul style="list-style-type: none"> ➤ The National Commercial Bank has the highest capital among Saudi banks. ➤ The National Commercial Bank has a high credit rating. ➤ The National Commercial Bank provided excellent electronic services. ➤ The National Commercial Bank has a wide regional reach and a lot of branches and cash withdrawal machines. ➤ The National Commercial Bank offers Islamic financing products. 	<p>Weaknesses:</p> <ul style="list-style-type: none"> ➤ The National Commercial Bank did not provide new and innovative financing services (it is a conventional bank). ➤ Most of the profits of the National Commercial Bank were from the interest of loans and did not achieve high profits from investment. ➤ Operating costs in the National Commercial Bank were high. ➤ Salary costs in senior departments were high.
<p>Opportunities:</p> <ul style="list-style-type: none"> ➤ The markets in which the National Commercial Bank is located were developing and emerging markets and there was an increasing demand for banking services. ➤ There is high government support in the housing finance sector. ➤ Government spending was a strong supporter of private sector growth and funding requests. ➤ The bank has a presence in the two largest economies in the Middle East (Saudi Arabia and Turkey). ➤ There was an increasing growth in demand for Islamic banking. 	<p>Threats:</p> <ul style="list-style-type: none"> ➤ The Middle East and the Arabian Gulf region were among the most tensed regions in the world. ➤ Oil price fluctuations affected the rates of government spending in the areas of activity of the National Commercial Bank. ➤ Global financial crises have negative impacts on the global economy and banking activities.

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PESTLE Analysis:

<p>Political:</p> <ul style="list-style-type: none"> ➤ The Gulf region was somehow stable politically with a minor exceptions beside there were limited conflicts, if any, in majority of countries. ➤ The Saudi government considered the banking and banking sector to be a vital and sovereign sector and maintains and monitors it. 	<p>Economic:</p> <ul style="list-style-type: none"> ➤ The National Commercial Bank was present in active and developing economies with high financial flows. ➤ Oil price fluctuations affected the rates of government spending in the areas of activity of the National Commercial Bank. ➤ Global financial crises have negative impacts on the global economy and banking activities.
<p>Social:</p> <ul style="list-style-type: none"> ➤ The National Commercial Bank provided social loans to its clients through government support programs. ➤ The National Commercial Bank contributed to providing financial support to social institutions. 	<p>Technological:</p> <ul style="list-style-type: none"> ➤ The people of the region have high usage rates for Internet applications, and the National Commercial Bank provided its services to its clients through these applications. ➤ The National Commercial Bank used high-tech equipment that helped it to achieve the highest speed, best service and maximum customer access.
<p>Legal</p> <ul style="list-style-type: none"> ➤ The National Commercial Bank was committed to the international laws and agreements that regulated the global financial sector. ➤ The National Commercial Bank complied with the laws of the countries in which it operated. 	<p>Environmental:</p> <ul style="list-style-type: none"> ➤ The National Commercial Bank provided finances for environmental activities and projects supported by government programs. ➤ The National Commercial Bank provided charitable financial donations for environmental initiatives.

Lastly, the management strategy of the National Commercial Bank is guided by the following matrix of actions based on either urgency or not so urgent to act upon.

	Urgent	Not so Urgent
Important	<ul style="list-style-type: none"> ✓ Crises ✓ Critical meetings ✓ Deadlines 	<ul style="list-style-type: none"> ✓ Planning (long and short-term) ✓ Empowering others ✓ Quran recitation
Not Important	<ul style="list-style-type: none"> ✓ Emails ✓ Projects 	<ul style="list-style-type: none"> ✓ Gossiping ✓ Trivial Issues

The Values-Based Management Practices

The KSA provides the whole idea of business environment. The following is a list of Islamic values for the management to follow and the type of environment it creates for doing business in the KSA.

Firstly, is Prayer (Solat). The majority of the people in the Middle East are Muslims. Prayer is an essential part of the daily practices of a Muslim's life. There are five times of prayers that regulate the daily activities of Muslims. At least two or three of these prayers fall within the official working hours. It is noted that the National Commercial Bank provides places of prayers for employees and customers in all of its branches and workplaces in the main and regional departments. Moreover, working hours are organized according to prayer times. For example, in the KSA, all branches of the National Commercial Bank are closed during prayer times. The National Commercial Bank also builds mosques as part of its charitable initiatives and donations to society. The National Commercial Bank also provides financial donations to associations concerned with cleaning, building and maintaining mosques.

Secondly, are Alms (Zakat). The National Commercial Bank participates in national and social charitable initiatives and made significant contributions in this field. For example, the National Commercial Bank provided 33.000.000 SR thirty-three million Saudi riyals to the Health Endowment Fund to combat the Corona virus. This fund was established by the Ministry of Health in the government of the KSA to open the way for individuals, companies and institutions to support efforts to combat Corona virus (Saudi24 News, April 17, 2020).

Zakat is a distinct Islamic behaviour and style for social solidarity whereby every individual company or corporation must pay a fixed part of the value of its wealth to the seven types of *Zakat* due to it. Governments organize the method of disbursing this aid and the types for those entitled to receive *Zakat*. There are eight categories of *Asnaf*s who qualify to receive *zakats*. They are as follows:

1. The poor and the needy, and the poor who does not have enough and the destitute who does not have anything.
2. *Almasakeen*: A *miskeen* who is a destitute and very poor person. He/she is the one who finds half of sufficiency, or more than half. For example if someone have a hundred, and he/she needs two hundred. He or she is given enough of the *Zakat* money for his family during the year for survival.
3. *A'mil*: Those working on it; they are the ones who collect *zakat* from people.
4. Pay the ransom to free Muslim slaves. Likewise, he paid the ransom to free the Muslim prisoners of war.
5. *Zakat* may be paid for the release of prisoners who are unable to pay their debts.
6. In the field of preaching Islam, *zakat* funds may be paid to non-Muslims to increase their motivation to convert into Islam.
7. Ibn al-Sabeel, a traveler who has been stranded, and does not have any money to return to his country. So he will be given *zakat* money for him to travel back to his country even though he may be rich in his home country.
8. For the sake of Allah (*fi sabilillah*).

Thirdly, is Fasting (Saum). The shift times for employees in all the branches and buildings of the National and Commercial Banks are flexible to suit Muslims during the blessed month of Ramadhan. The National Commercial Bank participates in projects and initiatives to provide meals to the poor in the holy month of Ramadhan. The National Commercial Bank provides banking and financing facilities for individuals, companies and institutions to meet the increasing consumption pattern in the holy month of Ramadhan.

Finally, is Hajj. The National Commercial Bank provides financial facilities, credit and loans to individuals who wish to perform the Hajj. The National Commercial Bank also provides financial and credit facilities and loans to companies and institutions that provide hospitality, transportation and organization services during the Hajj period. In addition, the National Commercial Bank assists the government in collecting government taxes for Hajj through its financial systems.

Islamic Concepts implementation by the National Commercial Bank:

The National Commercial Bank is an international organization whose employees are of diverse nationalities and religions. This requires professional dealings as regards inculcation of the Islamic concepts in its management especially as Islam preaches to distribute responsibilities and duties fairly without any kind of discrimination. The National Commercial Bank shows a great commitment to implement the Islamic concepts efficiently. Among the major concepts that Islam stresses are:

- **Patience:** Ability to work under stress is one of the most critical qualifications that are needed in the employees of the National Commercial Bank and the management often contests the employees to be patient during hard times as Allah will reward them.
- **Truthfulness:** Being honest and sincere in the workplace is a vital qualification in the employees of the National Commercial Bank and the management always emphasise truthfulness as a virtuous behaviour among its employees.
- **Faith:** Faith in Allah plays an important part of self-confidence and trustworthiness in achieving the targeted goals of the management of the National Commercial Bank. The management motivates its employees that Allah will never let their spent effort goes for nothing and will reward them in different ways such as good health and monetary gains. And that their work is part of their faith in Allah and as mentioned by Prophet Mohamed (s.a.w) in his prophetic tradition.
- **Loyalty:** The National Commercial Bank is devoted to its employees and compensates them by commensurate financial rewards or fulfills their psychological needs to guarantee their high performance and loyalty to the company.
- **Justice:** all the employees are pre-identified by their duties and responsibilities and they partake with sufficient rewards or fair punishments depending on the occasions and clear analysis of the performance.
- **Service to community:** the benefit of the individual is a part of the community's benefit and the role of the employees is *semantic*? to increase socio-economic level of different people's standards. The management implants this concept in the employees and often shows them the results of hard works on tangible examples, in addition to the voluntary civil service that is done in supporting other

organizations or sponsoring community's projects such as building hospitals in developing countries in Africa.

Servant and Guardian Leadership

It is normal to find a good management but it is hard to find effective leaders and National Commercial Bank considers servant and guardian characteristics as the main source to guarantee highly quality leadership. Furthermore, the company's structure is effectively established and depends on decentralization of power to integrate the concept of *Shura* in the process of decision-taking. This involves major concepts like:

- **Listening:** the head of each department is required to pay attention to the employees effectively to evaluate the range of acceptance or satisfaction and analyze the development of the employees' performance in an identified period of time. (Wajdi, 2017).
- **Empathy:** the intentions and perspectives of students and employees is essential to gather different viewpoints with open minds. This motivates them to increase their creativity to produce more productive ideas and highly spent effort. (Wajdi, 2017).
- **Persuasion:** it is common to find conflicts among employees or between the management and employees. Thus, the management needs to discuss the rationales behind the decisions made and persuade the conflicting sides to accept the decisions. Also, employees' opinions could be expressed broadly (Wajdi, 2017).
- **Commitment to the growth of people:** servant leaders in NCB consider the employees as the most important column of the stakeholders, so the company's management provides them with trainings and courses to develop their career development effectively (Wajdi, 2017).

As one of the objectives of Islam that is to make Islam a peaceful religion therefore it is vital to eliminate discrimination of people based on their personal features such as religion, skin colour, etc. Thus, non-Muslims should never feel any kind of discrimination or that Muslims are getting more benefits than them. These malpractices reflect non-conformance of the Islamic concept of justice, mercy, and peace (Wajdi, 2017).

Islam covers all facets of life functions. So righteous Muslims who are committed by the basic concepts, are often featured in their work and effectively performs their respective positions.

Consequently, based on all the above concepts and Islamic norms, NCB launched its *shari'ah* compliant and *shari'ah*-based products. The products are totally based on the Islamic legal concepts as it encourages the risk-sharing transactions instead of interest-based transactions. NCB applies Islamic *shari'ah* for structured finance, trade services and management of cash. Among the NCB's Islamic instruments are *murabahah* (*shari'ah* compliant financing), *musharakah* (profit and loss sharing), *ijarah* (convenient leasing options) and *tawaruq* (buying and selling commodities).

CONCLUSION

In conclusion, the National Commercial Bank is considered as one of the best Saudi banks, with a distinguished history of success for several decades now. The National Commercial Bank institutes the Islamic concepts and principles as a major source of legislation within the company and between the external environments. It is strongly

influenced by the Saudi culture which is governed by religious teachings in its customs, traditions and overall community behaviours. Finally, the application of the Islamic management tools in the National Commercial Bank reflects positively on the entire employee high performance, commitment and loyalty towards it. The positive internal environment of the bank, as well as its corporate culture in serving the local community well through many different ways such as donating to develop social institutions, providing financial and credit facilities and loans to them. Economically, the bank has been contributing to the growth of the national economy of the KSA. Internationally, the bank builds homes for the homeless in developing countries, sponsors humanitarian organizations to eliminate global problems and assist in achieving sustainable development goals for the countries in which it operates. Indeed NCB has proven itself to be still Saudi Arabia's Prominent Bank not only locally but globally.

QUESTIONS

1. Do you think that the Islamic concepts applied by the National Commercial Bank contributed to its success in the given environment of the Kingdom of Saudi Arabia and why?
2. Can the National Commercial Bank expand globally by working under Islamic *shar'iah* rules and regulations? What is the best country for expansion?
3. Given the increased level of total assets of SAR 452,177 to SAR 507, 264 million during 2018-2019, the total liabilities also increased from SAR 386,508 to SAR 437,476 million and subsequent decrease in operating expenses from SAR 8,082 in 2018 to SAR 7,751 in 2019, what is the likely impact on the overall profitability ratio of the National Commercial Bank?
4. What capabilities does the National Commercial Bank need to develop in order to maximize its chance of further financial and non-financial success in subsequent years?

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