

**THE NATIONAL COMMERCIAL BANK**

(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED**

**30 JUNE 2017**



**Ernst & Young & Co. (Public Accountants)**  
13th Floor - King's Road Tower  
King Abdulaziz Road  
P. O. Box 1994  
Jeddah 21441  
Kingdom of Saudi Arabia  
Registration Number: 45



**KPMG Al Fozan & Partners**  
**Certified Public Accountants**  
9th Floor, Tower A, Zahran Business Centre  
Prince Sultan Street  
P. O. Box 55078, Jeddah 21534  
Kingdom of Saudi Arabia  
License No. 46/11/323 issued 11/3/1992

## **Independent Auditors' Report on Review of Interim Condensed Consolidated Financial Statements**

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

### ***Introduction***

We have reviewed the accompanying interim condensed consolidated statement of financial position of The National Commercial Bank and its subsidiaries (collectively referred to as the "Group") as at 30 June 2017 and the related interim condensed consolidated statements of income and comprehensive income for the three months and six months periods then ended and the interim condensed consolidated statements of changes in equity and cash flows for the six months period then ended and the notes from 1 to 20, which form an integral part of these interim condensed consolidated financial statements. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ('IAS 34') and Saudi Arabian Monetary Authority ('SAMA') guidance on accounting for Zakat and Tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### ***Scope of review***

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as endorsed in the Kingdom of Saudi Arabia. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of the persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing ('ISAs'), as endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Conclusion***

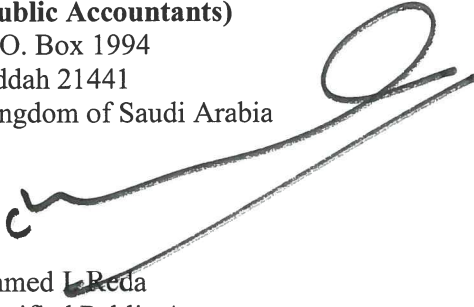
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 and SAMA guidance on accounting for Zakat and Tax.

**Other regulatory matters**

As required by SAMA, certain capital adequacy information has been disclosed in note 18 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 18 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

**for Ernst & Young  
(Public Accountants)**

P. O. Box 1994  
Jeddah 21441  
Kingdom of Saudi Arabia



Ahmed I. Reda  
Certified Public Accountant  
License No. 356

**for KPMG Al Fozan & Partners  
Certified Public Accountants**

P. O. Box 55078  
Jeddah 21534  
Kingdom of Saudi Arabia



Ebrahim Oboud Baeshen  
Certified Public Accountant  
License No. 382

26 Shawwal 1438H  
(Corresponding to 20 July 2017)



**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Notes	30 June 2017 (Unaudited) SR '000	31 December 2016 (Audited) SR '000	30 June 2016 (Unaudited) (Restated) SR '000
<b>ASSETS</b>				
Cash and balances with SAMA		41,515,121	43,441,291	31,427,918
Due from banks and other financial institutions		18,434,939	19,213,063	25,901,227
Investments, net	3	114,633,524	111,508,971	114,727,592
Financing and advances, net	4	256,900,749	253,592,141	264,765,969
Positive fair value of derivatives, net	5	2,489,932	2,666,249	2,949,461
Investments in associates, net		431,989	431,156	426,489
Other real estate, net		816,434	849,180	881,616
Property and equipment, net		4,681,302	4,363,076	3,835,242
Goodwill and other intangible assets, net		326,590	325,733	434,220
Other assets		9,545,193	5,100,460	7,263,786
<b>Total assets</b>		<b>449,775,773</b>	<b>441,491,320</b>	<b>452,613,520</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks and other financial institutions		51,261,668	45,474,171	56,052,398
Customers' deposits	6	314,690,004	315,617,907	314,707,913
Debt securities issued	17	9,926,449	9,917,765	10,223,298
Negative fair value of derivatives, net	5	1,915,315	1,469,280	1,717,824
Other liabilities		10,829,984	9,086,479	10,848,881
<b>Total liabilities</b>		<b>388,623,420</b>	<b>381,565,602</b>	<b>393,550,314</b>
<b>EQUITY</b>				
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK</b>				
Share capital	13	20,000,000	20,000,000	20,000,000
Treasury shares	14	(121,011)	(121,011)	-
Statutory reserve		20,230,366	20,230,366	19,383,697
Other reserves (cumulative changes in fair values)		429,167	730,088	1,096,001
Employees'	14	51,665	34,443	
Retained earnings		15,662,016	13,549,488	14,126,937
Proposed dividend	16	-	1,996,904	-
Foreign currency translation reserve		(3,376,069)	(3,382,663)	(2,701,401)
<b>Equity attributable to shareholders of the Bank</b>		<b>52,876,134</b>	<b>53,037,615</b>	<b>51,905,234</b>
Tier 1 Sukuk	11	7,000,000	5,700,000	5,700,000
<b>Equity attributable to equity holders of the Bank</b>		<b>59,876,134</b>	<b>58,737,615</b>	<b>57,605,234</b>
<b>NON-CONTROLLING INTERESTS</b>		<b>1,276,219</b>	<b>1,188,103</b>	<b>1,457,972</b>
<b>Total equity</b>		<b>61,152,353</b>	<b>59,925,718</b>	<b>59,063,206</b>
<b>Total liabilities and equity</b>		<b>449,775,773</b>	<b>441,491,320</b>	<b>452,613,520</b>

  
**Lama A. Ghazzaoui**  
 Chief Financial Officer

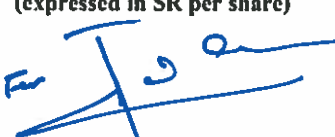
  
**Saeed M. Al-Ghamdi**  
 Chief Executive Officer

  
**Mansour S. Al Maiman**  
 Chairman

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)**  
**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE**

	Notes	For the three months ended		For the six months ended	
		30 June 2017 SR '000	30 June 2016 SR '000	30 June 2017 SR '000	30 June 2016 SR '000
Special commission income		4,267,508	4,329,212	8,489,109	8,726,128
Special commission expense		(794,030)	(981,033)	(1,655,218)	(1,942,127)
<b>Net special commission income</b>		<b>3,473,478</b>	<b>3,348,179</b>	<b>6,833,891</b>	<b>6,784,001</b>
Fee income from banking services, net		789,570	910,493	1,591,695	1,829,585
Exchange income, net		285,074	293,253	609,706	568,696
Income (loss) from FVIS investments, net		4,964	10,471	36,477	(43,349)
Trading income, net		8,968	83,891	70,046	41,239
Dividend income		6,120	54,855	11,846	79,859
Gains on non-trading investments, net		57,766	44,093	417,598	274,477
Other operating (expenses), net		(147,598)	(84,989)	(233,096)	(150,293)
<b>Total operating income</b>		<b>4,478,342</b>	<b>4,660,246</b>	<b>9,338,163</b>	<b>9,384,215</b>
Salaries and employee-related expenses		834,624	900,110	1,675,050	1,765,672
Rent and premises-related expenses		187,529	193,510	371,457	384,140
Depreciation of property and equipment	2.1	153,563	169,511	348,704	333,992
Amortisation of intangible assets			47,334		94,668
Other general and administrative expenses		345,157	511,726	813,866	942,204
Impairment charge for financing and advances losses, net		473,145	381,295	895,126	727,920
Impairment charge on investments, net		1,525	12,010	2,283	13,150
<b>Total operating expenses</b>		<b>1,995,543</b>	<b>2,215,496</b>	<b>4,106,486</b>	<b>4,261,746</b>
<b>Income from operations, net</b>		<b>2,482,799</b>	<b>2,444,750</b>	<b>5,231,677</b>	<b>5,122,469</b>
<b>Other (expenses) income, net</b>					
Other non-operating (expenses) income, net		(31,418)	14,620	(46,825)	(9,375)
<b>Other (expenses) income, net</b>		<b>(31,418)</b>	<b>14,620</b>	<b>(46,825)</b>	<b>(9,375)</b>
<b>Net income for the period</b>		<b>2,451,381</b>	<b>2,459,370</b>	<b>5,184,852</b>	<b>5,113,094</b>
<b>Net income for the period attributable to:</b>					
Equity holders of the Bank		2,417,421	2,437,541	5,119,980	5,068,355
Non-controlling interests		33,960	21,829	64,872	44,739
<b>Net income for the period</b>		<b>2,451,381</b>	<b>2,459,370</b>	<b>5,184,852</b>	<b>5,113,094</b>
<b>Basic and diluted earnings per share</b> (expressed in SR per share)	10	<b>1.17</b>	<b>1.18</b>	<b>2.49</b>	<b>2.47</b>



**Lama A. Ghazzaoui**  
Chief Financial Officer



**Saeed M. Al-Ghamdi**  
Chief Executive Officer



**Mansour S. Al Maiman**  
Chairman

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**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE**

	For the three months ended		For the six months ended	
	30 June	30 June	30 June	30 June
	2017	2016	2017	2016
	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
<b>Net income for the period</b>	<u>2,451,381</u>	<u>2,459,370</u>	<u>5,184,852</u>	<u>5,113,094</u>
<b>Other comprehensive income/(loss) items that are or may be reclassified to the interim condensed consolidated statement of income in subsequent periods:</b>				
Foreign currency translation reserve gains/(losses)	147,487	(77,703)	9,415	125,289
<b>Available for sale investments:</b>				
- Net change in fair values	30,708	109,292	14,029	456,623
- Transfers to interim condensed consolidated statement of income	(66,547)	36,149	(320,238)	(94,686)
<b>Cash flow hedges:</b>				
- Effective portion of change in fair values	(13,249)	10,708	48,222	92,982
- Net transfers to interim condensed consolidated statement of income	(16,908)	(3,657)	(27,264)	(97,210)
<b>Total other comprehensive income/(loss)</b>	<u>81,491</u>	<u>74,789</u>	<u>(275,836)</u>	<u>482,998</u>
<b>Total comprehensive income for the period</b>	<u><u>2,532,872</u></u>	<u><u>2,534,159</u></u>	<u><u>4,909,016</u></u>	<u><u>5,596,092</u></u>
<b>Attributable to:</b>				
Equity holders of the Bank	2,445,950	2,526,049	4,825,653	5,523,408
Non-controlling interests	86,922	8,110	83,363	72,684
<b>Total comprehensive income for the period</b>	<u><u>2,532,872</u></u>	<u><u>2,534,159</u></u>	<u><u>4,909,016</u></u>	<u><u>5,596,092</u></u>



**Lama A. Ghazzaoui**  
Chief Financial Officer



**Saeed M. Al-Ghamdi**  
Chief Executive Officer



**Mansour S. Al Maiman**  
Chairman

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**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE**

Attributable to equity holders of the Bank

Notes	Attributable to equity holders of the Bank														Total equity SR' 000
	Share capital SR' 000	Treasury shares SR' 000	Statutory reserve SR' 000	Available for sale financial assets reserve SR' 000	Cash flow hedge reserves SR' 000	Other reserves	Employees' share based payments reserve SR' 000	Retained earnings SR' 000	Proposed dividend SR' 000	Foreign currency translation reserve SR' 000	Equity attributable to shareholders of the Bank SR' 000	Tier 1 Sukuk SR' 000	Equity attributable to equity holders of the Bank SR' 000	Non-controlling interests SR' 000	
Balance as at 1 January 2017	20,000,000	(121,011)	20,230,366	720,507	9,581	-	34,443	13,549,488	1,996,904	(3,182,663)	53,037,615	5,700,000	58,737,615	1,188,103	59,925,718
Total comprehensive (loss)/income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign currency translation reserve - gains	-	-	-	-	-	-	-	-	-	6,594	6,594	-	6,594	2,821	9,415
Net changes in fair value of cash flow hedges	-	-	-	-	45,711	-	-	-	-	-	45,711	-	45,711	2,511	48,222
Net changes in fair values of available for sale investments	-	-	-	1,682	-	-	-	-	-	-	1,682	-	1,682	12,347	14,029
Net transfers to interim condensed consolidated statement of income	-	-	-	(320,238)	(28,076)	-	-	-	-	-	(348,314)	-	(348,314)	812	(347,502)
Net income for the period	-	-	-	-	-	-	5,119,980	-	-	-	5,119,980	-	5,119,980	64,872	5,184,852
	-	-	-	(318,556)	17,635	-	5,119,980	-	-	6,594	4,825,653	-	4,825,653	83,363	4,909,016
Adjustments in non-controlling interests	-	-	-	-	-	-	(290)	-	-	(290)	-	-	(290)	4,753	4,463
Tier 1 Sukuk related costs	11	-	-	-	-	-	(150,568)	-	-	(150,568)	-	-	(150,568)	-	(150,568)
Tier 1 Sukuk issuance	11	-	-	-	-	-	-	-	-	-	1,300,000	1,300,000	-	1,300,000	
Employees' share based payments reserve - charged to interim condensed consolidated statement of income	14	-	-	-	-	17,222	-	-	-	17,222	-	-	17,222	-	17,222
Zakat	12	-	-	-	-	-	(660,000)	-	-	(660,000)	-	-	(660,000)	-	(660,000)
Final dividend paid for 2016	-	-	-	-	-	-	-	(1,996,904)	-	(1,996,904)	-	-	(1,996,904)	-	(1,996,904)
Interim dividend payable for 2017	16	-	-	-	-	-	(2,196,594)	-	-	(2,196,594)	-	-	(2,196,594)	-	(2,196,594)
<b>Balance as at 30 June 2017</b>	<b>20,000,000</b>	<b>(121,011)</b>	<b>20,230,366</b>	<b>401,951</b>	<b>27,216</b>	<b>-</b>	<b>51,665</b>	<b>15,662,016</b>	<b>-</b>	<b>(3,376,069)</b>	<b>52,876,134</b>	<b>7,000,000</b>	<b>59,876,134</b>	<b>1,276,219</b>	<b>61,152,353</b>
Balance as at 1 January 2016	20,000,000	(190,510)	19,383,697	729,084	(2,537)	-	9,833,777	1,495,975	(2,787,000)	48,462,486	5,700,000	54,162,486	1,383,071	55,545,557	
Total comprehensive (loss)/income for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign currency translation reserve - gains	-	-	-	-	-	-	-	-	85,599	85,599	-	85,599	39,690	125,289	
Net changes in fair value of cash flow hedges	-	-	-	-	88,991	-	-	-	-	88,991	-	88,991	3,991	92,982	
Net changes in fair values of available for sale investments	-	-	-	472,359	-	-	-	-	-	472,359	-	472,359	(15,736)	456,623	
Net transfers to interim condensed consolidated statement of income	-	-	-	(94,686)	(97,210)	-	-	-	-	(191,896)	-	(191,896)	-	(191,896)	
Net income for the period	-	-	-	-	-	-	5,068,355	-	-	5,068,355	-	5,068,355	44,739	5,113,094	
	-	-	-	377,673	(8,219)	-	5,068,355	-	85,599	5,523,408	-	5,523,408	72,684	5,596,092	
Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	-	(294)	-	-	(294)	-	(294)	2,217	1,923	
Premium on acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Disposal of treasury shares	14.2(b)	-	190,510	-	-	-	-	-	-	190,510	-	190,510	-	190,510	
Gain on disposal of treasury shares	14.2(b)	-	-	-	-	-	8,717	-	-	8,717	-	8,717	-	8,717	
Tier 1 Sukuk related costs	11	-	-	-	-	-	(138,561)	-	-	(138,561)	-	(138,561)	-	(138,561)	
Adjustments in proposed final dividend for 2015	-	-	-	-	-	-	(4,025)	4,025	-	-	-	-	-	-	
Zakat	2 & 12	-	-	-	-	-	(641,032)	-	-	(641,032)	-	(641,032)	-	(641,032)	
Final dividend paid for 2015	-	-	-	-	-	-	-	(1,500,000)	-	(1,500,000)	-	(1,500,000)	-	(1,500,000)	
<b>Balance as at 30 June 2016 (Restated)</b>	<b>20,000,000</b>	<b>-</b>	<b>19,383,697</b>	<b>1,106,757</b>	<b>(10,756)</b>	<b>-</b>	<b>14,126,957</b>	<b>-</b>	<b>(2,701,401)</b>	<b>51,905,234</b>	<b>5,700,000</b>	<b>57,605,234</b>	<b>1,457,972</b>	<b>59,063,206</b>	

Lama A. Ghazzaoui  
Chief Financial Officer

Saeed M. Al-Ghamdi  
Chief Executive Officer

Mansour S. Al Maiman  
Chairman

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements.



**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE**

	<u>Notes</u>	<u>2017</u> <u>SR' 000</u>	<u>2016</u> <u>SR' 000</u>
<b>OPERATING ACTIVITIES</b>			
Net income for the period		5,184,852	5,113,094
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium on non-trading investments, net		172,768	257,233
(Gains) on non-trading investments, net		(417,598)	(274,477)
(Gains) on disposal of property and equipment, net		(8,089)	(34,599)
(Gains) on disposal of other real estate, net		(19,310)	(3,985)
Loss on disposal of other repossessed assets		101,631	30,040
Depreciation of property and equipment		348,704	333,992
Amortisation of intangible assets		-	94,668
Impairment charge on investments, net		2,283	13,150
Impairment charge for financing and advances losses, net		895,126	727,920
Share of results of associates		(835)	(2,749)
Share based payment expense		17,222	-
		<u>6,276,754</u>	<u>6,254,287</u>
Net decrease/(increase) in operating assets:			
Statutory deposits with SAMA		215,552	955,806
Due from banks and other financial institutions with original maturity of more than three months		(2,842,964)	2,480,727
Held as fair value through income statement (FVIS) investments		175,730	449,501
Financing and advances, net		(4,536,935)	(12,564,778)
Positive fair value of derivatives, net		174,702	(266,479)
Other real estate		54,043	75,864
Other assets		(4,135,777)	(1,796,048)
Net (decrease)/increase in operating liabilities:			
Due to banks and other financial institutions		5,768,190	7,085,100
Customers' deposits		(986,358)	(9,111,445)
Negative fair value of derivatives, net		444,963	152,635
Other liabilities		(1,116,570)	389,296
Net cash (used in) operating activities		<u>(508,670)</u>	<u>(5,895,534)</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale and maturities of non-trading / non-FVIS investments		16,269,858	43,446,014
Purchase of non-trading / non-FVIS investments		(19,603,601)	(24,110,051)
Purchase of property and equipment		(695,321)	(1,072,889)
Proceeds from disposal of property and equipment		36,915	661,594
Net cash (used in) from investing activities		<u>(3,992,149)</u>	<u>18,924,668</u>
<b>FINANCING ACTIVITIES</b>			
Net movement in debt securities	17	(6,518)	205,311
Net movement in non-controlling interests		4,460	1,927
Tier I Sukuk issuance	11	1,300,000	-
Tier I Sukuk related costs	11	(150,568)	(138,561)
Proceeds from sale of treasury shares		-	199,227
Final dividend paid		(1,996,904)	(1,500,000)
Net cash (used in) financing activities		<u>(849,530)</u>	<u>(1,232,096)</u>
Net (decrease)/increase in cash and cash equivalents		(5,350,349)	11,797,038
Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the period		7,468	29,909
Cash and cash equivalents at the beginning of the period		35,661,453	15,805,052
Cash and cash equivalents at the end of the period	8	<u>30,318,572</u>	<u>27,631,999</u>
Special commission income received during the period		8,149,140	8,481,533
Special commission expense paid during the period		<u>1,397,400</u>	<u>1,434,539</u>
<b>Supplemental non-cash information</b>			
Movement in other reserve and transfers to consolidated statement of income		<u>(285,251)</u>	<u>357,709</u>

  
Lama A. Ghazzaoui  
Chief Financial Officer

  
Saeed M. Al-Ghamdi  
Chief Executive Officer

  
Mansour S. Al Maiman  
Chairman

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements.



# The National Commercial Bank

## (A Saudi Joint Stock Company)

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2017 and 2016 (UNAUDITED)

#### 1. GENERAL

##### (1.1) Introduction

The National Commercial Bank (the Bank) is a Saudi Joint Stock Company formed pursuant to 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 No. 4030001588 issued on 27 Dhul Hijjah 1376H (24 July 1957). 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'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, Saudi Arabia  
www.alahli.com

The objective of the Group is to provide a full range of banking 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.

The interim condensed consolidated financial statements comprise the financial statements of The National Commercial Bank and its subsidiaries (the Group) (see note 1.2).

The Board of Directors in their meeting dated 23 November 2015 resolved to close the Bank's branch operations domiciled in Beirut, Lebanon (the branch). The required regulatory approvals have been received and the closure is expected to be completed in due course.

##### (1.2) Group's subsidiaries

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

###### (a) NCB Capital Company (NCBC)

The Bank formed a capital market company, namely, NCBC, a Saudi Joint Stock Company formed in accordance with Capital Market Authority's and registered in the Kingdom of Saudi Arabia to manage the Bank's investment services and asset management activities. The Bank has a 90.71% (31 December 2016: 90.71% and 30 June 2016: 90.71%) direct ownership interest in NCBC and an indirect ownership of 6.69% (31 December 2016: 7.14% and 30 June 2016: 6.97%) (the indirect ownership is held via an intermediary trust for future grant to NCBC employees).

###### (b) NCB Capital Dubai Inc. (formerly Eastgate Capital Holdings Inc.)

The Group has a 97.40% (31 December 2016: 97.85% and 30 June 2016: 97.68%) ownership interest in NCB Capital Dubai Inc. (exempt company with limited liability incorporated in the Cayman Islands). The objective of NCB Capital Dubai Inc. is to source, structure and invest in attractive private equity and real estate development opportunities across emerging markets, with a particular focus on the MENA region.

# The National Commercial Bank

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2017 and 2016 (UNAUDITED)

#### 1. GENERAL (continued)

##### (1.2) Group's subsidiaries (continued)

###### (c) NCBC Investment Management Umbrella Company Plc

The Group has a 97.40% (31 December 2016: 97.85% and 30 June 2016: 97.68%) effective aggregate ownership in NCB Capital Saudi Arabian Equity Fund and NCB Capital GCC Equity Fund both of which are registered in Dublin, Ireland under NCBC Investment Management Umbrella Company Plc. The Funds have been established for investments in GCC and KSA based equities via two special purpose entities (SPEs) incorporated in the Kingdom of Bahrain, namely, NCB Capital KSA Equity Company W.L.L. and NCB Capital GCC Equity Company W.L.L.

The Shareholders of the NCBC Investment Management Umbrella Company Plc on 29 August 2016 resolved to voluntarily liquidate its operations with immediate effect. At 30 June 2017, the legal proceedings to liquidate the company are under process. Moreover, as of 30 June 2017, NCB Capital KSA Equity Fund and NCB Capital GCC Equity Fund and the related SPEs stand liquidated.

###### (d) Türkiye Finans Katılım Bankası A.Ş. (TFK)

The Bank has a 67.03% (31 December 2016: 67.03% and 30 June 2016: 67.03%) ownership interest in Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). The Turkish Bank operates as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships.

At 30 June 2017, TFK 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 sukuk by TFK.

###### (e) Real Estate Development Company (REDCO)

The Bank formed REDCO as a Limited Liability Company registered in the Kingdom of Saudi Arabia. The Bank has a 100% ownership (31 December 2016: 100% and 30 June 2016: 100%) in REDCO. The objectives of REDCO primarily include keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.

###### (f) Alahli Insurance Service Marketing Company

The Bank has 100% (31 December 2016: 100% and 30 June 2016: 100%) effective ownership in Alahli Insurance Service Marketing Company, a Limited Liability Company registered in the Kingdom of Saudi Arabia. The Company is engaged as an insurance agent for distribution and marketing of Islamic insurance products in Saudi Arabia.

###### (g) Saudi NCB Markets Limited

The Bank formed Saudi NCB Markets Limited as a Limited Liability Company registered in the Cayman Islands. The Bank has 100% ownership. The objectives of Saudi NCB Markets Limited is trading in derivatives and Repos/Reverse Repos on behalf of Bank.

###### (h) Eastgate MENA Direct Equity L.P.

On 4 April 2016, the Group completed 100% buy-out of Eastgate MENA Direct Equity L.P. (the "Fund"), a private equity fund domiciled in Cayman Islands and managed by NCB Capital Dubai. The transaction was approved by the relevant regulatory authorities and the acquisition price has been duly paid out to the divesting shareholders. Accordingly, the Group management re-assessed its control over the Fund in view of the increase in its effective aggregated economic interest and other related factors, pursuant to which the Fund has been consolidated in these interim condensed consolidated financial statements. The Fund's investment objective is to generate returns via investments in Shari'ah compliant direct private equity opportunities in high growth businesses in countries within Middle East and North Africa.

# The National Commercial Bank

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2017 and 2016 (UNAUDITED)

#### 1. GENERAL (continued)

##### (1.2) Group's subsidiaries (continued)

###### (i) AlAhli Esnad Company

The Bank has 100% (31 December 2016: 100% and 30 June 2016: Nil) effective ownership in AlAhli Esnad Company, a Limited Liability Company registered in the Kingdom of Saudi Arabia. The Company is engaged in recruitment services in the Kingdom of Saudi Arabia.

#### 2. BASIS OF PREPARATION

##### (2.1) Statement of compliance

During 2017, Saudi Arabian Monetary Authority (SAMA) issued a Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for Zakat and income tax. The impact of these amendments are as follows:

- i) the Accounting Standards for Commercial Banks promulgated by SAMA are no longer applicable from 1 January 2017; and
- ii) Zakat and income tax are to be accrued on a quarterly basis and recognized in consolidated statement of shareholders' equity with a corresponding liability recognized in the consolidated statement of financial position

Applying the above framework, the interim condensed consolidated financial statements of the Group for the six months period ended 30 June 2017 have been prepared using the International Accounting Standard 34 "Interim Financial Reporting" (IAS 34) and SAMA guidance on accounting for Zakat and Income Tax.

Until 2016, the consolidated financial statements of the Group were prepared in accordance with the Accounting Standards for Commercial Banks promulgated by SAMA and International Financial Reporting Standards (IFRS). This change in framework resulted in a change in accounting policy for Zakat and Income Tax (as disclosed in note 2.5) and the effects of this change are disclosed in note 12 to the interim condensed consolidated financial statements.

The Bank also prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Companies Law in the Kingdom of Saudi Arabia. The interim condensed consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2016.

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgments, estimates and assumptions made by management are the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2016, except for change in the estimated useful lives of certain equipment. This revision of the useful life was based on the operational efficiency review of these equipment. As a result, the corresponding equipment which were previously depreciated over a period from 4 to 6 years, are now estimated to be in use for a period of 8 to 10 years. This change has been accounted for prospectively commencing 1 April 2017. The impact of change in useful life of the equipment did not have a material impact on the interim condensed consolidated financial statements of the Bank.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2017 and 2016 (UNAUDITED)**

**2. BASIS OF PREPARATION (continued)**

**(2.2) Basis of measurement**

These interim condensed consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held for trading, held at fair value through income statement (FVIS) and available for sale investments. 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.

**(2.3) Functional and presentation currency**

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

**(2.4) Basis of consolidation**

These interim condensed consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Group, using consistent accounting policies.

**(a) Subsidiaries**

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

- i) the Group has power over an 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 Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim condensed consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

**(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 interim condensed consolidated statement of income and within equity in the interim condensed 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 Bank exercises significant influence. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting and are carried in the interim condensed consolidated statement of financial position at the lower of the equity-accounted or the recoverable amount.

Equity-accounted value represents the cost plus post-acquisition changes in the Bank'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 recognized impairment loss in respect of investment in associate can be reversed through the interim condensed consolidated statement of income, such that the carrying amount of the investment in the statement of financial position remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount. On derecognition the difference between the carrying amount of investment in associate and the fair value of the consideration received is recognized in the interim condensed consolidated statement of income.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**30 June 2017 and 2016 (UNAUDITED)**

**2. BASIS OF PREPARATION (continued)**

**(2.4) Basis of consolidation (continued)**

**(d) Transactions eliminated on consolidation**

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the interim condensed consolidated financial statements.

**(2.5) Significant accounting policies**

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for:

**Change in the accounting policy in relation to accounting for Zakat:**

As mentioned in note 2.1(ii), the Group amended its accounting policy relating to Zakat and has started to accrue Zakat on a quarterly basis with a corresponding charge to retained earnings. Previously, Zakat was recorded at the year end in the consolidated statement of changes in equity with a corresponding liability recorded in the consolidated statement of financial position. The Group has accounted for this change in the accounting policy relating to Zakat retrospectively and the effects of the above change are disclosed in note 12 to the interim condensed consolidated financial statements.

**a. Amendments to existing standards:**

- Amendments to IAS 7 Statement of Cash Flows: The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The amendments are intended to provide information to help investors better understand changes in an entity's debt.

- Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 12 Disclosure of Interests in Other Entities)

- The amendments clarify that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale or distribution. These amendments apply retrospectively.



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**3. INVESTMENTS, NET**

	30 June 2017 (Unaudited) SR '000	31 December 2016 (Audited) SR '000	30 June 2016 (Unaudited) SR '000
Held as FVIS (Fair Value through Income Statement) (see note (a))	2,351,639	2,527,369	2,391,814
Available for sale, net	19,911,997	20,435,502	20,300,377
Held to maturity, net	748,438	1,432,432	1,591,658
Other investments held at amortized cost, net (see note (b))	91,621,450	87,113,668	90,443,743
<b>Total</b>	<b>114,633,524</b>	<b>111,508,971</b>	<b>114,727,592</b>

- a) FVIS investments include investments held for trading amounting to SR 776 million (31 December 2016: SR 708 million and 30 June 2016: SR 494 million).
- b) Other investments held at amortized cost include investments having an amortized cost of SR 11,723 million (31 December 2016: SR 4,207 million and 30 June 2016: SR 5,382 million) which are held under a fair value hedge relationship. As at 30 June 2017, the fair value of these investments amounts to SR 11,758 million (31 December 2016: SR 4,239 million and 30 June 2016: SR 5,113 million).
- c) Investments, net, include securities that are issued by the Ministry of Finance of Saudi Arabia amounting to SR 35,948 million, (31 December 2016: SR 25,549 million and 30 June 2016: SR 22,531 million) and also include investment in sukuk amounting to SR 29,879 million (31 December 2016: SR 28,979 million and 30 June 2016: SR 29,306 million).

**4. FINANCING AND ADVANCES, NET**

	30 June 2017 (Unaudited) SR '000	31 December 2016 (Audited) SR '000	30 June 2016 (Unaudited) SR '000
Consumer and credit card	87,679,539	85,311,089	83,805,846
Corporate	136,954,176	133,907,164	138,123,979
International	26,490,283	28,174,761	36,363,797
Others	7,942,414	8,202,052	8,201,910
Performing financing and advances	259,066,412	255,595,066	266,495,532
Non-performing financing and advances	4,331,677	3,925,482	3,834,193
<b>Total financing and advances</b>	<b>263,398,089</b>	<b>259,520,548</b>	<b>270,329,725</b>
Allowance for financing and advances losses	(6,497,340)	(5,928,407)	(5,563,756)
<b>Financing and advances, net</b>	<b>256,900,749</b>	<b>253,592,141</b>	<b>264,765,969</b>

- a) Financing and advances, net, include financing products in compliance with Shariah rules mainly Murabaha, Tayseer and Ijara amounting to SR 212,304 million (31 December 2016: SR 208,918 million and 30 June 2016: SR 223,250 million).
- b) Non-performing financing and advances include SR 1,499 million (31 December 2016: SR 1,483 million and 30 June 2016: SR 1,623 million) relating to international segment, with corresponding allowance for financing and advances losses of SR 1,294 million (31 December 2016: SR 1,263 million and 30 June 2016: SR 1,322 million).

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**5. DERIVATIVES**

The tables below show the positive and negative fair values of derivative financial instruments, together with the notional amounts analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, 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.

	<u>30 June 2017 (Unaudited)</u>			<u>31 December 2016 (Audited)</u>			<u>30 June 2016 (Unaudited)</u>		
	<u>SR'000</u>			<u>SR'000</u>			<u>SR'000</u>		
	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>	<u>Positive fair value</u>	<u>Negative fair value</u>	<u>Notional amount</u>
<b>Held for trading:</b>									
Special commission rate instruments	1,810,693	(1,519,622)	119,235,803	1,540,395	(1,365,467)	98,996,336	1,822,677	(1,660,685)	83,845,864
Forward foreign exchange contracts	372,301	(75,843)	85,060,078	419,845	(121,199)	83,576,806	430,365	(229,571)	83,618,342
Options	35,053	(68,856)	8,425,266	61,550	(29,797)	523,504	35,159	(33,678)	8,130,993
Structured derivatives	108,805	(108,141)	28,954,062	278,803	(278,803)	48,547,647	430,800	(430,800)	73,673,581
<b>Held as fair value hedges:</b>									
Special commission rate instruments	228,891	(332,715)	14,822,628	221,128	(280,887)	7,217,146	121,876	(578,996)	8,305,629
<b>Held as cash flow hedges:</b>									
Special commission rate instruments	167,265	(479,768)	11,832,207	144,745	(559,037)	11,645,102	108,801	(471,649)	10,246,815
<b>Total</b>	<b>2,723,008</b>	<b>(2,584,945)</b>	<b>268,330,044</b>	<b>2,666,466</b>	<b>(2,635,190)</b>	<b>250,506,541</b>	<b>2,949,678</b>	<b>(3,405,380)</b>	<b>267,821,224</b>
Provision for counterparty risk	(2,098)	-		(217)	-		(217)	-	
Margin deposits	(230,978)	669,630		-	1,165,910		-	1,687,554	
<b>Fair values after netting</b>	<b>2,489,932</b>	<b>(1,915,315)</b>		<b>2,666,249</b>	<b>(1,469,280)</b>		<b>2,949,461</b>	<b>(1,717,826)</b>	



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**6. CUSTOMERS' DEPOSITS**

	30 June 2017 (Unaudited) <u>SR '000</u>	31 December 2016 (Audited) <u>SR '000</u>	30 June 2016 (Unaudited) <u>SR '000</u>
Current accounts	247,531,118	223,632,826	219,542,731
Savings	144,598	162,044	158,349
Time	54,597,128	79,010,150	81,481,773
Others	12,417,160	12,812,887	13,525,060
<b>Total</b>	<b><u>314,690,004</u></b>	<b><u>315,617,907</u></b>	<b><u>314,707,913</u></b>

International segment deposits included in customers' deposits comprise of:

Current accounts	6,002,310	6,140,329	7,166,549
Savings	-	-	-
Time	15,190,259	15,539,602	21,545,899
Others	578,214	572,069	983,734
<b>Total</b>	<b><u>21,770,783</u></b>	<b><u>22,252,000</u></b>	<b><u>29,696,182</u></b>

**7. CREDIT RELATED COMMITMENTS AND CONTINGENCIES**

	30 June 2017 (Unaudited) <u>SR '000</u>	31 December 2016 (Audited) <u>SR '000</u>	30 June 2016 (Unaudited) <u>SR '000</u>
Letters of credit	10,151,830	8,330,546	9,017,384
Guarantees	43,706,301	45,218,054	48,686,953
Acceptances	2,724,814	2,716,738	2,805,197
Irrevocable commitments to extend credit	11,841,315	11,715,673	10,435,108
<b>Total</b>	<b><u>68,424,260</u></b>	<b><u>67,981,011</u></b>	<b><u>70,944,642</u></b>

**8. CASH AND CASH EQUIVALENTS**

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

	30 June 2017 (Unaudited) <u>SR '000</u>	31 December 2016 (Audited) <u>SR '000</u>	30 June 2016 (Unaudited) <u>SR '000</u>
Cash and balances with SAMA excluding statutory deposits	23,399,848	25,110,465	13,402,627
Due from banks and other financial institutions with original maturity of three months or less	6,918,724	10,550,988	14,229,372
<b>Total</b>	<b><u>30,318,572</u></b>	<b><u>35,661,453</u></b>	<b><u>27,631,999</u></b>

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**9. 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.

- |                       |  |
|-----------------------|--|
| <b>Retail</b>         | - Provides banking services, including lending and current accounts in addition to products in compliance with <i>Shariah</i> rules which are supervised by the independent <i>Shariah</i> Board, to individuals and private banking customers.  |
| <b>Corporate</b>      | - Provides banking services including all conventional credit-related products and financing products in compliance with <i>Shariah</i> rules to small sized businesses, medium and large establishments and companies.  |
| <b>Treasury</b>       | - 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). |
| <b>Capital Market</b> | - Provides wealth management, asset management, investment banking and shares brokerage services (local, regional and international).  |
| <b>International</b>  | - Comprises banking services provided outside Saudi Arabia including TFK.  |

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

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

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**9. OPERATING SEGMENTS (continued)**

The Group's total assets and liabilities at period end, its operating income and expenses (total and main items) and net income for the period, by operating segments, are as follows:

<u>30 June 2017</u>	<u>SR '000</u>					<u>Total</u>
	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	
Total assets	109,354,432	143,320,337	156,203,366	1,464,727	39,432,911	449,775,773
Total liabilities	218,898,868	65,369,480	70,838,639	190,044	33,326,389	388,623,420
Total operating income from external customers	3,004,199	3,500,516	1,687,675	307,818	837,955	9,338,163
- Intersegment operating income (expense)	953,130	(1,157,415)	258,140	-	(53,855)	-
Total operating income	3,957,329	2,343,101	1,945,815	307,818	784,100	9,338,163
of which:						
<i>Net special commission income</i>	3,256,283	1,749,169	1,161,190	1,100	666,149	6,833,891
<i>Fee income from banking services, net</i>	590,548	509,650	47,526	299,839	144,132	1,591,695
Total operating expenses	2,124,340	987,354	242,623	174,630	577,539	4,106,486
of which:						
- Depreciation of property and equipment	219,914	47,236	27,276	12,221	42,057	348,704
- Impairment charge for financing losses, net	249,567	506,857	-	-	138,702	895,126
- Impairment charge on investments, net	-	-	2,283	-	-	2,283
Net income (Equity holders of the Bank and non-controlling interests)	1,827,399	1,348,661	1,693,024	134,084	181,684	5,184,852

<u>30 June 2016</u>	<u>SR '000</u>					<u>Total</u>
	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	
Total assets	110,448,040	142,694,034	145,915,958	1,528,135	52,027,353	452,613,520
Total liabilities	205,033,468	80,838,833	62,151,665	171,794	45,354,554	393,550,314
Total operating income from external customers	3,141,066	2,984,821	1,773,251	306,869	1,178,208	9,384,215
- Intersegment operating income (expense)	814,418	(889,383)	126,856	-	(51,891)	-
Total operating income	3,955,484	2,095,438	1,900,107	306,869	1,126,317	9,384,215
of which:						
<i>Net special commission income</i>	3,059,343	1,523,111	1,236,833	160	964,554	6,784,001
<i>Fee income from banking services, net</i>	751,358	508,025	58,766	304,264	207,172	1,829,585
Total operating expenses	2,161,501	711,757	230,174	171,999	986,315	4,261,746
of which:						
- Depreciation of property and equipment	200,872	44,060	26,191	16,197	46,672	333,992
- Impairment charge for financing losses, net	133,619	230,293	3,000	-	361,008	727,920
- Impairment charge on investments, net	-	-	13,150	-	-	13,150
Net income (Equity holders of the Bank and non-controlling interests)	1,794,105	1,383,793	1,670,057	137,607	127,532	5,113,094

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**10. BASIC AND DILUTED EARNINGS PER SHARE**

Basic earnings per share for the six months periods ended 30 June 2017 and 30 June 2016 is calculated by dividing the net income attributable to common equity holders of the Bank (adjusted for Tier 1 sukuk costs) for the periods by the weighted average number of shares outstanding during the period. Diluted earning per share approximates basic earning per share (EPS).

**11. TIER 1 SUKUK**

During the six months period ended 30 June 2017, the Bank through a *Shariah* compliant arrangement ("the arrangement") issued further Tier 1 Sukuk (the "Sukuk"), amounting to SR 1.3 billion. The initial issue amounting to SR 5.7 billion took place during the year ended 31 December 2015 under the similar arrangement. These arrangements were approved by the regulatory authorities and the shareholders of the Bank.

These Sukuk are perpetual securities in respect of which there is no fixed redemption dates and represents an undivided ownership interest of the Sukukholders 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 Sukuk in a specific period of time, subject to the terms and conditions stipulated in the Sukuk Agreement.

The applicable profit rate on the Sukuk is payable quarterly in arrears on each periodic distribution dates, except upon the occurrence of a non-pay 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.

**12. ZAKAT**

Zakat assessments have been finalized with the General Authority of Zakat and Tax (GAZT) for all years up to 2011. The Bank has submitted Zakat returns for the years 2012 to 2016 and obtained final Zakat certificates. The Zakat returns for the years 2012 to 2016 are currently under review by GAZT and Zakat assessment for these years is awaited.

The change in the accounting policy for Zakat (as explained in note 2.5) has resulted in a quarterly provision for Zakat (included under other liabilities) with a corresponding debit to retained earnings for the six months periods ended 30 June 2017 and 30 June 2016. The foregoing change in accounting policy did not have an impact on interim condensed consolidated statements of income, comprehensive income and cash flows for any of the periods presented.

**13. SHARE CAPITAL**

The authorized, issued and fully paid share capital of the Bank consists of 2,000,000,000 shares of SR 10 each (31 December 2016: 2,000,000,000 shares of SR 10 each and 30 June 2016: 2,000,000,000 shares of SR 10 each). The capital of the Bank excluding treasury shares consists of 1,996,903,527 shares of SR 10 each (31 December 2016: 1,996,903,527 shares of SR 10 each and 30 June 2016: 2,000,000,000 shares of SR 10 each).

**14. EMPLOYEES' SHARE BASED PAYMENTS RESERVE AND TREASURY SHARES**

**14.1 Employees' share based payment plan**

On 18 October 2016, the Bank established a share based compensation plan ("equity settled share based payment plan") for its key management that entitles the related personnel to award shares in the Bank subject to successfully meeting certain service and performance conditions ("plan conditions"). The vesting period shall be three years commencing 1 January 2016.

**14.2 Treasury shares**

a) During the year ended 31 December 2016, the bank in connection with its employee share based payment plan (see note 14.1), purchased its own shares amounting to SR 121 million to be held for the employee share based payment plan which have been classified as treasury shares and presented under shareholders' equity in the interim condensed consolidated statement of equity.

b) During the period ended 30 June 2016, the Bank disposed of treasury shares amounting to SR 191 million (previously acquired in satisfaction of debt), at a net gain of SR 8.7 million.

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**15. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES 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 or identical instrument that an entity can access at the measurement date;

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 the fair values of financial assets and financial liabilities carried at fair value, including their levels in the fair value hierarchy.

(SR '000)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>30 June 2017 (Unaudited)</b>				
<b><u>Financial assets</u></b>				
Derivative financial instruments	-	2,489,932	-	2,489,932
Financial assets designated at FVIS	-	1,471,764	103,506	1,575,270
Financial assets available for sale	13,145,035	6,315,404	451,558	19,911,997
Held for trading	776,369	-	-	776,369
Other investments held at amortized cost, net - fair value hedged	-	11,758,050	-	11,758,050
<b>Total</b>	<b>13,921,404</b>	<b>22,035,150</b>	<b>555,064</b>	<b>36,511,618</b>
<b><u>Financial liabilities</u></b>				
Derivative financial instruments	-	1,915,315	-	1,915,315
<b>Total</b>	<b>-</b>	<b>1,915,315</b>	<b>-</b>	<b>1,915,315</b>

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**15. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES AND FAIR VALUE HIERARCHY (continued)**

**a. Fair value information for financial instruments at fair value (continued)**

	(SR '000)			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
31 December 2016 (Audited)				
<u>Financial assets</u>				
Derivative financial instruments	-	2,666,249	-	2,666,249
Financial assets designated at FVIS	-	1,713,941	105,076	1,819,017
Financial assets available for sale	12,513,409	7,507,573	414,520	20,435,502
Held for trading	708,352	-	-	708,352
Other investments held at amortized cost, net - fair value hedged	-	4,239,300	-	4,239,300
<b>Total</b>	<b>13,221,761</b>	<b>16,127,063</b>	<b>519,596</b>	<b>29,868,420</b>
<u>Financial liabilities</u>				
Derivative financial instruments	-	1,469,280	-	1,469,280
<b>Total</b>	<b>-</b>	<b>1,469,280</b>	<b>-</b>	<b>1,469,280</b>

	(SR '000)			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
30 June 2016 (Unaudited)				
<u>Financial assets</u>				
Derivative financial instruments	-	2,949,461	-	2,949,461
Financial assets designated at FVIS	-	1,766,587	130,883	1,897,470
Financial assets available for sale	15,723,576	1,201,269	528,783	17,453,628
Held for trading	494,344	-	-	494,344
Other investments held at amortized cost, net - fair value hedged	-	5,113,374	-	5,113,374
<b>Total</b>	<b>16,217,920</b>	<b>11,030,691</b>	<b>659,666</b>	<b>27,908,277</b>
<u>Financial liabilities</u>				
Derivative financial instruments	-	1,717,824	-	1,717,824
<b>Total</b>	<b>-</b>	<b>1,717,824</b>	<b>-</b>	<b>1,717,824</b>

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**15. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES AND FAIR VALUE HIERARCHY (continued)**

**b. Fair value information for financial instruments not measured at fair value**

The fair value of financing and advances, net amounts to SR 258,659 million (31 December 2016: SR 249,953 million and 30 June 2016: SR 263,958 million).

The fair values of due from banks and other financial institutions, held to maturity investments, other investments held at amortized cost, due to banks and other financial institutions, customers deposits and debt securities issued at 30 June 2017, 31 December 2016 and 30 June 2016 approximate their carrying values.

**c. Valuation technique and significant unobservable inputs for financial instruments at fair value**

The Group uses various valuation techniques for determination of fair values for financial instruments classified under levels 2 and 3 of the fair value hierarchy. These techniques and the significant unobservable inputs used therein are analysed below.

The Group utilises fund manager reports (and appropriate discounts or haircuts where required) for the determination of fair values of private equity funds and hedge funds. The fund manager deploys various techniques (such as discounted cash flow models and multiples method) for the valuation of underlying financial instruments classified under level 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 30 June 2017 (31 December 2016: Nil and 30 June 2016: Nil).

**6. DIVIDEND**

On 14 June 2017, the Board of Directors have approved the distribution of interim dividend of SR 2,197 million (SR 1.1 per share), (30 June 2016: SR 1,200 million, SR 0.60 per share). Management intends to pay-out the dividend in full during the third quarter 2017.

Final dividend for the year ended 31 December 2016 (31 December 2015) was approved by the shareholders in their annual general meeting held on 3 May 2017 (5 April 2016) and was duly paid.

**17. DEBT SECURITIES**

As at the reporting date, debt securities issues comprise of non-convertible sukuks issued by the Bank and TFK, carrying profit at fixed rates, with maturities up to 2024. Below is a reconciliation of liabilities arising from financing activities:

	30 June 2017 (Unaudited) <u>SR '000</u>	31 December 2016 (Audited) <u>SR '000</u>	30 June 2016 (Unaudited) <u>SR '000</u>
<b>Debt securities issued:</b>			
At beginning of the period	9,917,765	9,940,717	9,940,717
Net movement in debt securities	(6,518)	53,048	205,311
Foreign currency translation adjustment	15,202	(76,000)	77,270
<b>At end of the period</b>	<u><u>9,926,449</u></u>	<u><u>9,917,765</u></u>	<u><u>10,223,298</u></u>



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**18. CAPITAL ADEQUACY**

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 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.

	<b>Risk weighted assets</b>		
	<b>30 June 2017 (Unaudited) SR '000</b>	<b>31 December 2016 (Audited) SR '000</b>	<b>30 June 2016 (Unaudited) (Restated) SR '000</b>
Credit risk	336,383,767	311,695,219	326,177,352
Operational risk	33,656,643	32,802,763	31,099,164
Market risk	9,492,350	8,048,978	7,486,910
<b>Total Pillar-1 - risk weighted assets</b>	<b>379,532,760</b>	<b>352,546,960</b>	<b>364,763,426</b>
Core capital (Tier 1)	60,697,179	59,670,175	58,592,713
Supplementary capital (Tier 2)	8,229,900	8,025,155	7,721,675
<b>Core and supplementary capital (Tier 1 and Tier 2)</b>	<b>68,927,079</b>	<b>67,695,330</b>	<b>66,314,388</b>
<b>Capital Adequacy Ratio (Pillar 1):-</b>			
Core capital (Tier 1)	<b>16.0%</b>	16.9%	16.1%
Core and supplementary capital (Tier 1 and Tier 2)	<b>18.2%</b>	19.2%	18.2%

Tier 1 capital of the Group comprises share capital, statutory reserve, other reserves, proposed dividend, retained earnings, tier 1 eligible debt securities and non-controlling interests less treasury shares, goodwill, intangible assets, foreign currency translation reserve 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.

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**19. COMPARATIVE FIGURES**

Except for as described in note 2.1, certain prior period figures have been reclassified to conform to current period presentation, which are not material in nature.

**20. BOARD OF DIRECTORS' APPROVAL**

The interim condensed consolidated financial statements were approved by the Board of Directors on 20 July 2017 (corresponding to 26 Shawwal 1438H).



For

**Lama A. Ghazzaoui**  
**Chief Financial Officer**



**Saeed M. Al-Ghamdi**  
**Chief Executive Officer**



**Mansour S. Al Maiman**  
**Chairman**