

THE NATIONAL COMMERCIAL BANK

(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED
31 MARCH 2016**



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

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 (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 March 2016 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three months period then ended and the notes from 1 to 22, which form an integral part of these interim condensed consolidated financial statements. We have not reviewed note 19, nor the information related to "Disclosures under Basel III framework" cross-referenced therein, which is not required to be within the scope of our review. The Bank's management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with applicable Accounting Standards for Financial Institutions and certain capital adequacy disclosure requirements issued by the Saudi Arabian Monetary Agency ("SAMA") and with International Accounting Standard No. 34 "Interim Financial Reporting". 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 generally accepted standards in the Kingdom of Saudi Arabia applicable to review engagements and with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed consolidated financial statements consists of making inquiries, primarily of 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 generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing 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.

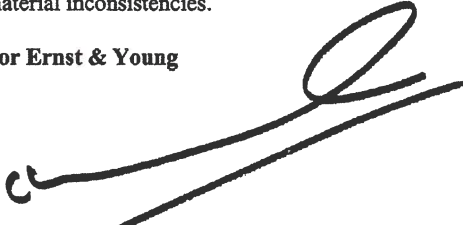
Conclusion

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 applicable Accounting Standards for Financial Institutions issued by SAMA and with International Accounting Standard No. 34.

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


Ahmed I. Reda
Certified Public Accountant
Registration No. 356



12 Rajab 1437H
19 April 2016
Jeddah

For KPMG Al Fozan & Partners Certified Public Accountants



Ebrahim Oboud Baeshen
Certified Public Accountant
Registration No. 382




INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 March 2016 (Unaudited) SR '000	31 December 2015 (Audited) SR '000	31 March 2015 (Unaudited) SR '000
	Notes			
ASSETS				
Cash and balances with SAMA		30,117,477	27,559,154	27,244,343
Due from banks and other financial institutions		22,326,139	20,147,962	23,367,880
Investments, net	3	119,886,253	134,102,445	160,545,305
Financing and advances, net	4	265,341,147	252,940,091	227,128,207
Positive fair value of derivatives, net	7	2,821,686	2,682,982	1,626,805
Investments in associates, net		427,580	423,740	407,835
Other real estate, net		874,163	876,264	835,038
Property and equipment, net		3,756,660	3,716,091	3,621,222
Goodwill and other intangible assets, net		466,027	470,282	595,123
Other assets		7,250,158	6,421,418	4,432,157
Total assets		453,267,290	449,340,429	449,803,915
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		45,194,673	47,777,582	38,670,586
Customers' deposits	5	326,097,965	323,459,669	342,853,422
Debt securities issued	6	10,192,459	9,940,717	10,068,579
Negative fair value of derivatives, net	7	3,586,584	3,252,744	2,192,167
Other liabilities		9,449,032	9,364,160	6,989,665
Total liabilities		394,520,713	393,794,872	400,774,419
EQUITY				
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK				
Share capital		20,000,000	20,000,000	20,000,000
Treasury shares	15	-	(190,510)	(190,510)
Statutory reserve		19,383,697	19,383,697	17,172,081
Other reserves (cumulative changes in fair values)		952,277	726,547	1,706,685
Retained earnings		12,401,051	9,833,777	9,960,880
Proposed dividend	17	1,500,000	1,495,975	1,296,512
Foreign currency translation reserve		(2,646,185)	(2,787,000)	(2,460,204)
Equity attributable to shareholders of the Bank		51,590,840	48,462,486	47,485,444
Tier 1 Sukuk	12	5,700,000	5,700,000	-
Equity attributable to equity holders of the Bank		57,290,840	54,162,486	47,485,444
NON-CONTROLLING INTERESTS		1,455,737	1,383,071	1,544,052
Total equity		58,746,577	55,545,557	49,029,496
Total liabilities and equity		453,267,290	449,340,429	449,803,915

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.


Lama A. Ghazal
Chief Financial Officer


Saeed M. Al-Ghamdi
Chief Executive Officer



Mansour S. Al Maiman
Chairman

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH**

	<u>Note</u>	<u>2016</u> <u>SR '000</u>	<u>2015</u> <u>SR '000</u>
Special commission income		4,137,566	3,689,459
Special commission expense		(802,362)	(655,899)
Net special commission income		<u>3,335,204</u>	<u>3,033,560</u>
Fee income from banking services, net		919,092	835,368
Exchange income, net		275,443	241,330
(Loss) income from FVIS investments, net		(53,820)	83,420
Trading income, net		50,904	104,450
Dividend income		25,004	67,335
Gains on non-trading investments, net		230,384	198,747
Other operating (expenses), net		(88,351)	(116,669)
Total operating income		<u>4,693,860</u>	<u>4,447,541</u>
Salaries and employee-related expenses		861,766	994,142
Rent and premises-related expenses		190,630	168,515
Depreciation of property and equipment		164,481	142,534
Amortisation of intangible assets		47,334	47,334
Other general and administrative expenses		404,165	237,269
Impairment charge for financing and advances losses, net		346,625	218,327
Impairment charge on investments, net		1,140	686
Total operating expenses		<u>2,016,141</u>	<u>1,808,807</u>
Income from operations, net		<u>2,677,719</u>	<u>2,638,734</u>
Other expenses			
Other non-operating expenses, net		(23,995)	(15,834)
Net other expenses		<u>(23,995)</u>	<u>(15,834)</u>
Net income for the period		<u>2,653,724</u>	<u>2,622,900</u>
Net income for the period attributable to:			
Equity holders of the Bank		2,630,814	2,605,570
Non-controlling interests		22,910	17,330
Net income for the period		<u>2,653,724</u>	<u>2,622,900</u>
Basic and diluted earnings per share (expressed in SR per share)	11	<u>1.32</u>	<u>1.31</u>

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.


Lama A. Ghazzaoui
 Chief Financial Officer


Saeed M. Al-Ghamdi
 Chief Executive Officer

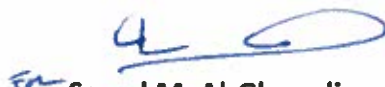

Mansour S. Al Maiman
 Chairman

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH**

	<u>2016</u>	<u>2015</u>
	<u>SR '000</u>	<u>SR '000</u>
Net income for the period	<u>2,653,724</u>	<u>2,622,900</u>
Other comprehensive income (loss) items that are or may be reclassified to the interim condensed consolidated statement of income in subsequent periods:		
Foreign currency translation reserve gains (losses)	202,992	(579,343)
Available for sale financial assets:		
- Net change in fair values	347,331	226,416
- Transfers to interim condensed consolidated statement of income	(130,835)	(100,990)
- Impairment charge on available for sale investments	-	686
Cash flow hedges:		
- Effective portion of change in fair values	82,274	(42,691)
- Net transfers to interim condensed consolidated statement of income	(93,553)	(2,661)
Total comprehensive income for the period	<u><u>3,061,933</u></u>	<u><u>2,124,317</u></u>
Attributable to:		
Equity holders of the Bank	2,997,359	2,288,432
Non-controlling interests	64,574	(164,115)
Total comprehensive income for the period	<u><u>3,061,933</u></u>	<u><u>2,124,317</u></u>

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.


Lama A. Ghazzaoui
 Chief Financial Officer


Saeed M. Al-Ghamdi
 Chief Executive Officer


Mansour S. Al Maiman
 Chairman

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH

Attributable to equity holders of the Bank

	Other reserves											Total equity attributable to shareholders of the Bank SR'000	Tier 1 Sukuk SR'000	Total SR'000	Non-controlling interests SR'000	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	Retained earnings SR'000	Proposed dividend SR'000	Foreign currency translation reserve SR'000	Total equity attributable to shareholders of the Bank SR'000	Tier 1 Sukuk SR'000	Total SR'000					
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	-	-	-	-	-	-	-	140,815	140,815	-	140,815	62,177	202,992			
Exchange difference on translating foreign operations	-	-	-	-	-	-	-	-	78,741	-	78,741	3,533	82,274			
Net changes in fair value of cash flow hedges	-	-	-	-	-	-	-	-	371,377	-	371,377	(24,046)	347,331			
Net changes in fair values of available for sale investments	-	-	-	-	-	-	-	-	-	-	-	-	-			
Net transfers to interim condensed consolidated statement of income	-	-	-	(130,835)	(93,553)	-	-	-	(224,388)	-	(224,388)	-	(224,388)			
Net income for the period	-	-	-	-	-	2,630,814	-	-	2,630,814	-	2,630,814	22,910	2,653,724			
Adjustments in non-controlling interests and subsidiaries	-	-	-	240,542	(14,812)	2,630,814	-	140,815	2,997,359	-	2,997,359	64,574	3,061,933			
Premium on acquisition of non-controlling interests	-	-	-	-	-	(1,063)	-	-	(1,063)	-	(1,063)	8,092	7,029			
Disposal of treasury shares	-	190,510	-	-	-	-	-	-	-	-	190,510	-	190,510			
Gain on disposal of treasury shares	-	-	-	-	-	8,717	-	-	8,717	-	8,717	-	8,717			
Tier 1 Sukuk related costs	-	-	-	-	-	(67,169)	-	-	(67,169)	-	(67,169)	-	(67,169)			
Adjustments in proposed final dividend for 2015	-	-	-	-	-	(4,025)	4,025	-	-	-	-	-	-			
Balance as at 31 March 2016	20,000,000	-	19,383,697	969,626	(17,349)	12,401,051	1,500,000	(2,646,185)	51,590,840	5,700,000	57,290,840	1,455,737	58,746,577			
Balance as at 1 January 2015	20,000,000	(190,510)	17,172,081	1,580,874	37,014	7,371,935	1,296,512	(2,054,269)	45,213,637	-	45,213,637	1,707,254	46,920,891			
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	-	(405,935)	(405,935)	-	(405,935)	(173,408)	(579,343)			
Exchange difference on translating foreign operations	-	-	-	-	-	-	-	-	(34,912)	-	(34,912)	(7,779)	(42,691)			
Net changes in fair value of cash flow hedges	-	-	-	-	-	-	-	-	226,674	-	226,674	(258)	226,416			
Net changes in fair values of available for sale investments	-	-	-	226,674	-	-	-	-	-	-	-	-	-			
Net transfers to interim condensed consolidated statement of income	-	-	-	(100,304)	(2,661)	-	-	-	(102,965)	-	(102,965)	-	(102,965)			
Net income for the period	-	-	-	-	-	2,605,570	-	-	2,605,570	-	2,605,570	17,330	2,622,900			
Adjustments in non-controlling interests and subsidiaries	-	-	-	126,370	(37,573)	2,605,570	-	(405,935)	2,288,432	-	2,288,432	(164,115)	2,124,317			
Premium on acquisition of non-controlling interests	-	-	-	-	-	(1,053)	-	-	(1,053)	-	(1,053)	1,807	754			
Balance as at 31 March 2015	20,000,000	(190,510)	17,172,081	1,707,244	(559)	9,960,880	1,296,512	(2,460,204)	47,485,444	-	47,485,444	1,544,052	49,029,496			

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.


Lama A. Al-Sazzawi
Chief Financial Officer


Saeed M. Al-Ghamdi
Chief Executive Officer


Mansour S. Al-Mallam
Chairman

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH**

	<u>Notes</u>	2016 SR' 000	2015 SR' 000
OPERATING ACTIVITIES			
Net income for the period		2,653,724	2,622,900
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium on non-trading investments, net		141,828	90,606
(Gains) on non-trading investments, net		(230,384)	(198,747)
(Gains) on disposal of property and equipment, net		(5,530)	(7,223)
(Gains) on disposal of other real estate, net		-	(606)
Loss on disposal of other repossessed assets		6,494	4,266
Depreciation of property and equipment		164,481	142,534
Amortisation of intangible assets		47,334	47,334
Impairment charge for financing losses, net		346,625	218,327
(Reversal) of impairment allowance and share of results of associates		(3,780)	-
Impairment charge on investments, net		1,140	686
		<u>3,121,932</u>	<u>2,920,077</u>
Net decrease/(increase) in operating assets:			
Statutory deposits with SAMA		1,375,885	(705,205)
Due from banks and other financial institutions with original maturity of more than three months		1,294,949	(3,533,721)
Held as fair value through income statement (FVIS) investments		94,741	(86,199)
Financing and advances, net		(11,607,029)	(9,728,960)
Other real estate		31,951	19,521
Positive fair value of derivatives		(138,704)	(587,757)
Other assets		(713,411)	(631,294)
Net (decrease)/increase in operating liabilities:			
Due to banks and other financial institutions		(2,863,764)	4,796,642
Customers' deposits		1,581,639	12,419,684
Negative fair value of derivatives		333,840	831,460
Other liabilities		133,099	(866,098)
		<u>(7,354,872)</u>	<u>4,848,150</u>
Net cash (used in) from operating activities		<u>(7,354,872)</u>	<u>4,848,150</u>
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading / non-FVIS investments		16,193,796	19,740,063
Purchase of non-trading / non-FVIS investments		(1,641,126)	(26,464,939)
Purchase of property and equipment		(800,569)	(396,075)
Proceeds from disposal of property and equipment		620,026	8,421
		<u>14,372,127</u>	<u>(7,112,530)</u>
Net cash from (used in) investing activities		<u>14,372,127</u>	<u>(7,112,530)</u>
FINANCING ACTIVITIES			
Net movement in debt securities	6	24,762	957,406
Net movement in non-controlling interests		(15,882)	(15,713)
Tier 1 Sukuk related costs		(67,169)	-
Proceeds from sale of treasury shares		199,227	-
		<u>140,938</u>	<u>941,693</u>
Net cash from financing activities		<u>140,938</u>	<u>941,693</u>
Net increase/(decrease) in cash and cash equivalents		7,158,193	(1,322,687)
Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the period		87,858	(525,772)
Cash and cash equivalents at the beginning of the period		15,805,052	17,980,403
		<u>23,051,104</u>	<u>16,131,944</u>
Cash and cash equivalents at the end of the period	9	<u>23,051,104</u>	<u>16,131,944</u>
Special commission income received during the period		4,217,838	3,739,922
Special commission expense paid during the period		649,481	620,815
		<u>3,568,357</u>	<u>3,119,107</u>
Supplemental non-cash information			
Movement in other reserve and transfers to consolidated statement of income		205,217	80,760

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.


 Lama A. Ghazzawi
 Chief Financial Officer


 Saeed M. Al-Ghamdi
 Chief Executive Officer


 Mansour S. Al Maiman
 Chairman

The National Commercial Bank

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 31 March 2016 and 2015 (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 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"). During the three months period ended 31 March 2016, 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 subsidiaries are as follows:

(a) NCB Capital Company (NCBC)

In April 2007, the Bank formed a capital market company, namely, NCBC, a Saudi Joint Stock Company formed in accordance with Capital Market Authority's Resolution No. 2-83-2005 dated 21 Jumad Awal 1426H (28 June 2005), 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 March 2015: 90.71%) direct ownership interest in NCBC and an indirect ownership of 6.46% (31 March 2015: 3.93%) (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 97.17% (31 March 2015: 85.18%) effective ownership interest in NCB Capital Dubai Inc. a Middle East-based private equity firm acquired through its subsidiary, NCBC. NCBC initially acquired a 77% direct ownership interest in NCB Capital Dubai Inc., which was reduced to 70% on 5 September 2013 without losing control. During the year ended 31 December 2015, NCBC completed the buy-out of the residual 30% from the non-controlling shareholders.

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2016 and 2015 (UNAUDITED)

(1.2) Group's subsidiaries (continued)

(c) NCBC Investment Management Umbrella Company Plc

The Group has a 97.17% (31 March 2015: 71.26%) 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.

During the three months period ended 31 March 2016, NCB Capital GCC Equity Company W.L.L along with the underlying fund was liquidated and NCB Capital KSA Equity Company W.L.L along with the underlying fund is under liquidation.

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

The Bank has a 67.03% (31 March 2015: 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 31 March 2015, 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 sukuks by TFK.

(e) Real Estate Development Company (Redco)

The Bank formed Real Estate Development Company (Redco) as a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030146558 dated 21 Dhul Qida 1424H (corresponding to 13 January 2004). The Bank has a 100% ownership (31 March 2015: 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 March 2015: 100%) effective ownership in Alahli Insurance Service Marketing Company, a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030195150 dated Dhul Hijjah 21, 1430H, corresponding to December 8, 2009. The Company is engaged as an insurance agent for distribution and marketing of Islamic insurance products in Saudi Arabia.

(g) Saudi NCB Markets Limited

91 The Bank formed Saudi NCB Markets Limited as a Limited Liability Company registered in the Cayman Islands under Commercial Registration number 866144671587 dated 26 Safar 1437H (corresponding to 8 December 2015). The Bank has 100% ownership. The objectives of Saudi NCB Markets Limited is trading in derivatives and Repos/Reverse Repos on behalf of Bank.

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2016 and 2015 (UNAUDITED)

2. BASIS OF PREPARATION

(2.1) Statement of compliance

These interim condensed consolidated financial statements are prepared in accordance with the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Accounting Standard (IAS) 34 - Interim Financial Reporting. The Bank prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies 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 2015.

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 made by management in applying the Group's accounting policies are the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2015.

(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 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.

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2016 and 2015 (UNAUDITED)

2. BASIS OF PREPARATION (continued)

(2.4) Basis of consolidation (continued)

(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.

(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) Accounting policies

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended 31 December 2015 except for the adoption of the following new standards and other amendments to existing standards mentioned below which had no significant financial impact on the interim condensed consolidated financial statements of the Group on the current period or prior period and is expected to have no significant effect in future periods:

a. New standards

- IFRS 14 – “Regulatory Deferral Accounts”, applicable for the annual periods beginning on or after 1 January 2016, allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first time adoption of IFRS. The standard does not apply to existing IFRS preparers. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS.

b. Amendments to existing standards

- Amendments to IFRS 10 – “Consolidated Financial Statements”, IFRS 12 – “Disclosure of Interests in Other Entities” and IAS 28 – “Investments in Associates”, applicable for the annual periods beginning on or after 1 January 2016, address three issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2016 and 2015 (UNAUDITED)

2. BASIS OF PREPARATION (continued)

b. Amendments to existing standards (continued)

- Amendments to IFRS 11 – “Joint Arrangements”, applicable for the annual periods beginning on or after 1 January 2016, require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 – “Business Combinations” and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

- Amendments to IAS 1 – “Presentation of Financial Statements”, applicable for the annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to;

- The materiality requirements in IAS 1.
- That specific line items in the statement(s) of profit or loss and other comprehensive income (“OCI”) and the statement of financial position may be disaggregated.
- That entities have flexibility as to the order in which they present the notes to financial statements.
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

- Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 38 – “Intangible Assets”, applicable for the annual periods beginning on or after 1 January 2016, restricts the use of ratio of revenue generated to total revenue expected to be generated to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

- Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 41 – “Agriculture”, applicable for the annual periods beginning on or after 1 January 2016, change the scope of IAS 16 to include biological assets that meet the definition of bearer plants. Agricultural produce growing on bearer plants will remain within the scope of IAS 41. In addition, government grants relating to bearer plants will be accounted for in accordance with IAS 20 – “Accounting for Government Grants and Disclosure of Government Assistance”, instead of IAS 41.

- Amendments to IAS 27 – “Separate Financial Statements”, applicable for the annual periods beginning on or after 1 January 2016, allows an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2016 and 2015 (UNAUDITED)

2. BASIS OF PREPARATION (continued)

(2.5) Accounting policies (continued)

- Annual improvements to IFRS 2012-2014 cycle, applicable for annual periods beginning on or after 1 January 2016.
A summary of the amendments is as follows;

- IFRS 5 – “Non-current Assets Held for Sale and Discontinued Operations”, amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.
- IFRS 7 – “Financial Instruments: Disclosures” has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.
- IAS 19 – “Employee Benefits” – amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- IAS 34 – “Interim Financial Reporting” – amendment clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-referencing to the interim financial report (e.g., in the management commentary or risk report). However, the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2016 and 2015 (UNAUDITED)

3. INVESTMENTS, NET

	31 March 2016 (Unaudited) SR '000	31 December 2015 (Audited) SR '000	31 March 2015 (Unaudited) SR '000
Held as FVIS (Fair Value through Income Statement) (see note (a))	2,746,575	2,841,315	3,200,811
Available for sale, net	25,507,022	30,602,034	31,613,520
Held to maturity, net	1,604,493	1,721,891	1,842,984
Other investments held at amortized cost, net (see note (b))	90,028,163	98,937,205	123,887,990
Total	119,886,253	134,102,445	160,545,305

- a) FVIS investments include investments held for trading amounting to SR 781 million (31 December 2015: SR 737 million and 31 March 2015: SR 993 million).
- b) Other investments held at amortized cost include investments having an amortized cost of SR 8,685 million (31 December 2015: SR 8,491 and 31 March 2015: SR 7,908 million) which are held under a fair value hedge relationship. As at 31 March 2015, the fair value of these investments amounts to SR 9,039 million (31 December 2015: SR 8,567 million and 31 March 2015: SR 8,154 million).

Investments, net, include securities that are issued by the Ministry of Finance of Saudi Arabia amounting to SR 5,788 million, (31 December 2015: SR 5,819 million and 31 March 2015: SR 27,183 million) and also include investment in sukuks amounting to SR 32,785 million, (31 December 2015: SR 34,167 million and 31 March 2015: SR 33,778 million).

4. FINANCING AND ADVANCES, NET

	31 March 2016 (Unaudited) SR '000	31 December 2015 (Audited) SR '000	31 March 2015 (Unaudited) SR '000
Credit cards	3,546,149	3,391,463	2,856,047
Consumer	84,646,784	79,649,911	73,141,657
Corporate	170,112,807	162,833,089	143,487,696
Others	8,860,857	8,947,301	9,703,740
Performing financing and advances	267,166,597	254,821,764	229,189,140
Non-performing financing and advances	3,962,347	3,681,949	3,128,652
Total financing and advances	271,128,944	258,503,713	232,317,792
Allowance for financing and advances losses	(5,787,797)	(5,563,622)	(5,189,585)
Financing and advances, net	265,341,147	252,940,091	227,128,207

Financing and advances, net, include financing products in compliance with Shariah rules mainly Murabaha, Tayseer and Ijara amounting to SR 219,812 million, (31 December 2015: SR 205,671 million and 31 March 2015: SR 180,793 million).

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2016 and 2015 (UNAUDITED)

5. CUSTOMERS' DEPOSITS

	31 March 2016 (Unaudited) <u>SR '000</u>	31 December 2015 (Audited) <u>SR '000</u>	31 March 2015 (Unaudited) <u>SR '000</u>
Current accounts	230,664,796	228,518,314	263,405,281
Savings	156,377	160,239	156,767
Time	80,730,059	76,166,443	62,588,228
Others	14,546,733	18,614,673	16,703,146
Total	<u>326,097,965</u>	<u>323,459,669</u>	<u>342,853,422</u>

6. DEBT SECURITIES ISSUED

<u>Issuer</u>	<u>Period of issue</u>	<u>Tenure</u>	<u>Particulars</u>	31 March 2016 (Unaudited) <u>SR '000</u>	31 December 2015 (Audited) <u>SR '000</u>	31 March 2015 (Unaudited) <u>SR '000</u>
National Commercial Bank	Feb 2014	10 years	Non-convertible unlisted sukuk, callable on the 5th anniversary of the issue date, carrying profit payable semi-annually.	5,014,656	5,035,968	5,009,555
Türkiye Finans Katılım Bankası A.Ş.	May 2013	5 years	Non-convertible sukuk listed on the Irish Stock Exchange, carrying profit at a fixed rate payable semi-annually.	1,556,094	1,517,135	1,535,677
	April 2014	5 years	Non-convertible sukuk listed on the Irish Stock Exchange, carrying profit at a fixed rate payable semi-annually.	1,919,517	1,871,024	1,918,854
	June 2014	5 years	Non-convertible unlisted sukuk, carrying profit at a fixed rate payable semi-annually.	780,525	698,513	820,713
	December 2014	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable quarterly.	-	-	86,172
	January 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable in a lump at maturity.	-	-	69,796
	February 2015	5 years	Non-convertible unlisted sukuk, carrying profit payable semi-annually.	145,249	132,108	152,778
	February 2015	4 months	Non-convertible unlisted sukuk, carrying profit payable in a lump at maturity.	-	-	359,050
	February 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable quarterly.	-	-	115,984

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016 and 2015 (UNAUDITED)

6. DEBT SECURITIES ISSUED (continued)

<u>Issuer</u>	<u>Period of issue</u>	<u>Tenure</u>	<u>Particulars</u>	<u>March 2016 (Unaudited) SR '000</u>	<u>December 2015 (Audited) SR '000</u>	<u>March 2015 (Unaudited) SR '000</u>
Türkiye Finans Katılım Bankası A.Ş.	May 2015	5 years	Non-convertible unlisted sukuk, carrying profit at a fixed rate payable semi-annually.	205,906	186,307	-
	July 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable at maturity.	-	88,562	-
	August 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable quarterly.	-	124,534	-
	November 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable quarterly.	199,941	190,206	-
	December 2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit payable at maturity.	103,066	96,360	-
	January 2016	7 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit at a fixed rate payable at maturity.	136,222	-	-
	February 2016	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit at a fixed rate payable quarterly.	131,283	-	-
Total				10,192,459	9,940,717	10,068,579

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2016 and 2015 (UNAUDITED)

7. 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>31 March 2016 (Unaudited)</u>			<u>31 December 2015 (Audited)</u>			<u>31 March 2015 (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>
Held for trading:									
Special commission rate swaps	1,171,182	(1,041,713)	64,055,884	565,286	(477,919)	55,968,253	610,635	(559,029)	40,440,974
Special commission rate options and futures	80,633	(80,634)	3,019,342	43,843	(43,895)	1,363,040	43,333	(43,438)	1,436,139
Forward foreign exchange contracts	290,582	(270,645)	97,308,866	235,340	(147,937)	120,780,866	149,102	(136,699)	136,792,820
Options	913	(1)	132,188	6,499	(6,499)	469,269	2,789	(2,789)	203,147
Structured derivatives	1,021,983	(1,021,873)	98,720,333	1,580,554	(1,580,541)	100,677,103	571,825	(571,896)	101,460,382
Held as fair value hedges:									
Special commission rate swaps	164,014	(732,043)	12,815,042	165,376	(456,864)	11,404,632	81,984	(526,942)	9,378,106
Held as cash flow hedges:									
Special commission rate swaps	92,379	(439,675)	12,175,476	86,084	(539,089)	12,088,637	167,137	(351,374)	12,503,598
Total	2,821,686	(3,586,584)	288,227,131	2,682,982	(3,252,744)	302,751,800	1,626,805	(2,192,167)	302,215,166

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2016 and 2015 (UNAUDITED)

8. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	31 March 2016 (Unaudited) <u>SR '000</u>	31 December 2015 (Audited) <u>SR '000</u>	31 March 2015 (Unaudited) <u>SR '000</u>
Letters of credit	10,349,890	11,334,792	17,809,251
Guarantees	50,348,731	51,392,691	53,025,647
Acceptances	3,661,494	4,435,091	4,005,810
Irrevocable commitments to extend credit	12,129,440	14,244,547	10,184,073
Total	76,489,555	81,407,121	85,024,781

9. CASH AND CASH EQUIVALENTS

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

	31 March 2016 (Unaudited) <u>SR '000</u>	31 December 2015 (Audited) <u>SR '000</u>	31 March 2015 (Unaudited) <u>SR '000</u>
Cash and balances with SAMA excluding statutory deposits	12,512,271	8,578,063	7,237,028
Due from banks and other financial institutions with original maturity of three months or less	10,538,833	7,226,989	8,894,916
Total	23,051,104	15,805,052	16,131,944

The National Commercial Bank

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 31 March 2016 and 2015 (UNAUDITED)

10. 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

- | | |
|-----------------------|--|
| Retail | - Provides banking services, including lending and current accounts in addition to products in compliance with Shariah rules which are supervised by the independent Shariah Board, to individuals and private banking customers. |
| Corporate | - Provides banking services including all conventional credit-related products and financing products in compliance with Shariah rules to small sized businesses medium and large establishments and companies. |
| Treasury | - Provides a full range of treasury products and services, including money market and foreign exchange, to the Group's clients, in addition to carrying out investment and trading activities (local and international) and managing liquidity risk, market risk and credit risk (related to investments). |
| Capital Market | - Provides wealth management, asset management, investment banking and shares brokerage services (local, regional and international). |
| International | - Comprises banking services provided outside Saudi Arabia including TFK and the Bank's Beirut branch. |

Transactions between the operating segments are recorded as per the Bank's transfer pricing system.

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

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2016 and 2015 (UNAUDITED)

10. 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:

31 March 2016	SR '000					
	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
Total assets	103,376,401	151,786,170	145,606,384	1,484,039	51,014,296	453,267,290
Total liabilities	198,318,814	99,566,563	52,066,327	206,920	44,362,089	394,520,713
Operating income from external customers	1,577,315	1,450,456	944,471	159,511	562,107	4,693,860
Inter-segment operating income (expense)	347,106	(353,046)	31,625	-	(25,685)	-
Fee income from banking services, net	388,495	265,414	-	163,402	101,781	919,092
Operating income	1,924,421	1,097,411	976,095	159,511	536,422	4,693,860
Operating expenses	996,988	385,650	86,969	85,886	460,648	2,016,141
of which:						
- Depreciation of property and equipment	92,386	29,397	11,897	7,933	22,868	164,481
- Impairment charge for financing and advances losses, net	113,219	79,981	-	-	153,425	346,625
- Impairment charge on investments, net	-	-	1,140	-	-	1,140
Net income (Bank and non-controlling interests)	922,774	705,345	885,665	77,405	62,535	2,653,724

31 March 2015	SR '000					
	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
Total assets	91,198,523	128,032,495	176,963,135	1,630,284	51,979,478	449,803,915
Total liabilities	156,495,592	157,666,295	41,383,831	258,592	44,970,109	400,774,419
Operating income from external customers	1,332,963	1,193,609	1,169,293	166,739	584,937	4,447,541
Inter-segment operating income (expense)	115,990	(152,507)	55,036	-	(18,519)	-
Fee income from banking services, net	219,909	307,246	-	176,355	131,858	835,368
Operating income	1,448,953	1,041,102	1,224,329	166,739	566,418	4,447,541
Operating expenses	986,467	152,354	69,307	88,760	511,919	1,808,807
of which:						
- Depreciation of property and equipment	79,671	23,594	9,694	5,883	23,692	142,534
- Impairment charge (reversal) for financing and advances losses, net	192,402	(145,243)	-	-	171,168	218,327
- Impairment charge on investments, net	-	-	-	686	-	686
Net income (Bank and non-controlling interests)	463,338	885,616	1,155,959	77,980	40,007	2,622,900

The National Commercial Bank

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 31 March 2016 and 2015 (UNAUDITED)

11. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the periods ended 31 March 2016 and 31 March 2015 is calculated by dividing the net income attributable to equity holders of the Bank for the periods by the weighted average number of shares outstanding during the period.

The calculation of diluted earnings per share is not applicable to the Group.

12. TIER 1 SUKUK

The Bank through a Shari'a compliant arrangement ("the arrangement") issued Tier 1 Sukuks (the "Sukuks"), aggregating to SR 5.7 billion. The arrangement was approved by the regulatory authorities and the shareholders of the Bank.

These Sukuks 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 Sukuks in a specific period of time, subject to the terms and conditions stipulated in the Sukuk Agreement.

The applicable profit rate on the Sukuks is payable quarterly in arrears on each periodic distribution 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.

13. ZAKAT

Zakat assessments have been finalized with the Department of Zakat and Income Tax (DZIT) for all years up to 2011. The Bank has submitted Zakat returns for the years 2012, 2013 and 2014 and obtained a final Zakat certificate. The Zakat returns for the years 2012, 2013 and 2014 are currently under review by DZIT and Zakat assessment for these years is awaited.

14. 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 2015: 2,000,000,000 shares of SR 10 each and 31 March 2015: 2,000,000,000 shares of SR 10 each) wholly owned by Saudi shareholders. The capital of the Bank excluding treasury shares consists of 2,000,000,000 shares of SR 10 each (31 December 2015: 1,994,633,531 shares of SR 10 each and 31 March 2015: 1,994,633,531 shares of SR 10 each).

15. TREASURY SHARES

During the three months period ended 31 March 2016, the Bank disposed of its treasury shares (previously acquired in satisfaction of a debt) via regular market transactions as well as put through trades at a net gain of SR 8.7 million.

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2016 and 2015 (UNAUDITED)

16. 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.

	<u>(SR '000)</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
31 March 2016 (Unaudited)				
<u>Financial assets</u>				
Derivative financial instruments	-	2,821,686	-	2,821,686
Financial assets designated at FVIS	-	1,817,160	148,897	1,966,057
Financial assets available for sale	19,213,082	5,582,850	711,090	25,507,022
Held for trading	780,518	-	-	780,518
Other investments held at amortized cost, net - fair value hedged	-	9,039,277	-	9,039,277
Total	<u>19,993,600</u>	<u>19,260,973</u>	<u>859,987</u>	<u>40,114,560</u>
<u>Financial liabilities</u>				
Derivative financial instruments	-	3,586,584	-	3,586,584
Total	<u>-</u>	<u>3,586,584</u>	<u>-</u>	<u>3,586,584</u>

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2016 and 2015 (UNAUDITED)

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

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

	<u>(SR '000)</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
31 March 2015 (Unaudited)				
<u>Financial assets</u>				
Derivative financial instruments	-	1,626,805	-	1,626,805
Financial assets designated at FVIS	-	1,614,731	593,134	2,207,865
Financial assets available for sale	26,312,325	4,309,373	991,822	31,613,520
Held for trading	992,946	-	-	992,946
Other investments held at amortized cost, net - fair value hedged	-	8,054,230	-	8,054,230
Total	27,305,271	15,605,139	1,584,956	44,495,366
<u>Financial liabilities</u>				
Derivative financial instruments	-	2,192,167	-	2,192,167
Total	-	2,192,167	-	2,192,167

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

The fair value of financing and advances, net amounts to SR 263,400 million (31 December 2015: SR 253,101 million and 31 March 2015: SR 225,504 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 31 March 2016, 31 December 2015 and 31 March 2015 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 cashflow 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 the three months period ended 31 March 2016 (31 March 2015: Nil).

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2016 and 2015 (UNAUDITED)

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

e. Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

	31 March 2016 (Unaudited) <u>SR '000</u>	31 March 2015 (Unaudited) <u>SR '000</u>
Movement of level 3 is as follows:		
Balance at beginning of the period	988,553	1,543,370
Total gains/(losses) (realized and unrealized) in interim condensed consolidated statement of income	18,857	27,313
Purchases	2,269	111,958
(Sales) / (Distributions)	(153,780)	(97,685)
Settlements	4,088	-
Balance at end of the period	<u>859,987</u>	<u>1,584,956</u>

Transfer out of level 3

There were no transfers out of level 3 during the three months period ended 31 March 2016 (31 March 2015: Nil).

f. Sensitivity analysis for significant unobservable inputs in valuation of financial instruments at fair value

No significant unobservable inputs were applied in the valuation of hedge funds and private equities for the three months period ended 31 March 2016 and hence sensitivity analysis is not applicable for the period (31 March 2015: 10% change in the discount/hair cut used in the determination of fair values of private equities and hedge funds would have resulted in +/- SR 376 thousand change in the respective carrying values and total comprehensive income).

17. DIVIDEND

On 5 April 2016 the shareholders in the general assembly meeting has approved the distribution of final dividend of SR 1,500 million (SR 0.75 per share), (31 March 2015: SR 1,297 million, SR 0.65 per share) and accordingly, the dividend will be paid in full during second quarter 2016.

The National Commercial Bank
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2016 and 2015 (UNAUDITED)

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.

	Risk weighted assets		
	31 March 2016 (Unaudited) SR 000	31 December 2015 (Audited) SR 000	31 March 2015 (Unaudited) SR 000
Credit risk	337,521,764	328,281,725	291,320,054
Operational risk	29,606,328	29,525,304	27,420,068
Market risk	7,534,979	7,347,137	8,465,088
Total Pillar-1 - risk weighted assets	374,663,071	365,154,166	327,205,210
Core capital (Tier 1)	58,267,492	55,101,066	48,206,706
Supplementary capital (Tier 2)	7,768,695	7,707,197	7,634,126
Core and supplementary capital (Tier 1 and Tier 2)	66,036,187	62,808,263	55,840,832
Capital Adequacy Ratio (Pillar 1):-			
Core capital (Tier 1)	15.6%	15.1%	14.7%
Core and supplementary capital (Tier 1 and Tier 2)	17.6%	17.2%	17.1%

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
31 March 2016 and 2015 (UNAUDITED)

19. DISCLOSURES UNDER BASEL III FRAMEWORK

Certain additional disclosures are required under the Basel III framework. These disclosures will be published on the Bank's website www.alahli.com within the prescribed time as required by SAMA. Such disclosures are not subject to review/audit by the external auditors of the Bank.

20. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to confirm to current period presentation, which are not material in nature.


21. SUBSEQUENT EVENT/NON-ADJUSTING

On 4 April 2016, the Group completed the 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 has been approved by the relevant regulatory authorities and the acquisition price has been duly paid out to the divesting shareholders. Subsequent to the acquisition, the Group management has 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 shall be consolidated prospectively in the financial statements of the Group.

22. BOARD OF DIRECTORS' APPROVAL

The interim condensed consolidated financial statements were approved by the Board of Directors on 12 Rajab 1437H (corresponding to 19 April 2016).


Lama A. Ghazzaoui
Chief Financial Officer


Saeed M. Al-Ghamdi
Chief Executive Officer


Mansour S. Al Maiman
Chairman