

THE NATIONAL COMMERCIAL BANK
(A Saudi Joint Stock Company)

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

30 JUNE 2014

Ernst & Young

KPMG Al Fozan & Al Sadhan



Other regulatory matters

As required by SAMA, certain capital adequacy information has been disclosed in note 19 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 19 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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23 July 2014
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The National Commercial Bank
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2014 (Unaudited) SR '000	31 December 2013 (Audited) SR '000	30 June 2013 (Unaudited) SR '000
	<u>Notes</u>			
ASSETS				
Cash and balances with SAMA		32,080,815	39,089,688	31,417,055
Due from banks and other financial institutions		20,919,042	14,831,332	12,715,077
Investments, net	3	163,635,227	125,294,012	129,357,824
Loans and advances, net	4	206,194,657	187,687,037	178,207,814
Investments in associates, net	5	407,835	828,915	830,563
Other real estate, net	6	861,144	216,001	215,610
Property and equipment, net		3,438,311	2,761,528	2,483,811
Goodwill and other intangible assets, net		817,611	873,636	1,024,438
Other assets		7,175,398	5,698,185	6,544,061
Total assets		435,530,040	377,280,334	362,796,253
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		26,198,484	24,725,314	24,248,932
Customers' deposits	7	345,597,090	300,601,675	288,045,084
Debt securities issued	8	9,501,714	1,511,250	1,511,250
Other liabilities		7,878,324	7,905,915	7,368,665
Total liabilities		389,175,612	334,744,154	321,173,931
EQUITY				
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK				
Share capital	16	20,000,000	15,000,000	15,000,000
Treasury shares		(190,510)	(177,093)	(177,093)
Statutory reserve		15,102,989	15,102,989	13,623,678
Other reserves (cumulative changes in fair values)		1,712,209	1,353,948	1,482,032
Retained earnings		7,976,455	9,699,260	11,382,058
Proposed dividend	9	1,595,707	1,645,573	-
Foreign currency translation reserve		(1,589,119)	(1,690,770)	(1,398,534)
Total equity attributable to equity holders of the Bank		44,607,731	40,933,907	39,912,141
NON-CONTROLLING INTERESTS		1,746,697	1,602,273	1,710,181
Total equity		46,354,428	42,536,180	41,622,322
Total liabilities and equity		435,530,040	377,280,334	362,796,253

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

	<u>Notes</u>	For the three months ended		For the six months ended	
		2014	2013	2014	2013
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>	<u>SR '000</u>
Special commission income		3,434,236	2,988,972	6,567,268	5,943,829
Special commission expense		(579,966)	(442,884)	(1,067,112)	(864,696)
Net special commission income		2,854,270	2,546,088	5,500,156	5,079,133
Fee income from banking services, net		921,196	787,730	1,715,334	1,651,670
Exchange income, net		182,388	171,241	360,987	324,612
Income (expense) from FVIS investments, net		31,564	(2,346)	60,500	62,480
Trading income, net		4,026	28,403	50,816	53,129
Dividend income		72,466	10,530	87,782	62,111
Gains on non-trading investments, net		201,349	173,285	341,395	526,938
Other operating (expenses) income, net		(52,177)	(15,053)	(37,597)	5,577
Total operating income		4,215,082	3,699,878	8,079,373	7,765,650
Salaries and employees'-related expenses		798,977	816,418	1,584,274	1,527,690
Rent and premises-related expenses		161,188	153,952	315,051	305,095
Depreciation of property and equipment		129,544	116,136	244,807	232,207
Amortisation of intangible assets		47,334	47,334	94,668	94,668
Other general and administrative expenses		392,218	381,185	736,005	701,858
(Reversal) impairment charge for credit losses, net		(91,768)	156,079	113,883	415,909
Impairment charge on investments, net		97,827	-	97,827	22,157
Total operating expenses		1,535,320	1,671,104	3,186,515	3,299,584
Income from operations, net		2,679,762	2,028,774	4,892,858	4,466,066
Other (expenses) income, net					
Other non-operating (expenses) income, net	5	(224,347)	(7,097)	141,499	(61,105)
Other (expenses) income, net		(224,347)	(7,097)	141,499	(61,105)
Net income for the period		2,455,415	2,021,677	5,034,357	4,404,961
Net income for the period attributable to:					
Equity holders of the Bank		2,425,408	1,992,106	4,960,714	4,324,064
Non-controlling interests		30,007	29,571	73,643	80,897
Net income for the period		2,455,415	2,021,677	5,034,357	4,404,961
Basic and diluted earnings per share					
(expressed in SR per share)	15	1.22	1.00	2.49	2.17

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended		For the six months ended	
	2014	2013	2014	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	SR '000	SR '000	SR '000	SR '000
Net income for the period	2,455,415	2,021,677	5,034,357	4,404,961
Other comprehensive income (losses) that are or may be reclassified to the interim condensed consolidated statement of income in subsequent periods:				
Foreign currency translation reserve - gains (losses)	101,571	(355,730)	153,224	(354,421)
Available for sale financial assets:				
- Net change in fair values	162,302	(151,056)	584,154	62,624
- Transfers to interim condensed consolidated statement of income	(196,300)	(128,118)	(259,517)	(451,288)
- Impairment charge on available for sale investments	48,148	-	48,148	22,157
Cash flow hedges:				
- Effective portion of change in fair values	(4,610)	(44,159)	36,221	(5,853)
- Transfers to interim condensed consolidated statement of income	(3,137)	(9,646)	(12,716)	(19,682)
Total comprehensive income for the period	2,563,389	1,332,968	5,583,871	3,658,498
Attributable to:				
Equity holders of the Bank	2,475,904	1,425,973	5,420,626	3,697,790
Non-controlling interests	87,485	(93,005)	163,245	(39,292)
Total comprehensive income for the period	2,563,389	1,332,968	5,583,871	3,658,498

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Bank										
	Share capital SR' 000	Treasury shares SR' 000	Statutory reserve SR' 000	Other reserves		Retained earnings SR' 000	Proposed dividend SR' 000	Foreign currency translation reserve SR' 000	Total SR' 000	Non-controlling interests SR' 000	Total equity SR' 000
				Available for sale financial assets SR' 000	Cash flow hedge SR' 000						
For the six month period ended 30 June 2014 (Unaudited)											
Balance as at 1 January 2014	15,000,000	(177,093)	15,102,989	1,323,153	30,795	9,699,260	1,645,573	(1,690,770)	40,933,907	1,602,273	42,536,180
Total comprehensive income for the period	-	-	-	334,757	23,504	4,960,714	-	101,651	5,420,626	163,245	5,583,871
Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	(608)	-	-	(608)	(18,821)	(19,429)
Bonus issue (see note 16)	5,000,000	(13,417)	-	-	-	(4,986,583)	-	-	-	-	-
Proposed interim dividend for 2014	-	-	-	-	-	(1,595,707)	1,595,707	-	-	-	-
Zakat - NCB and NCBC	-	-	-	-	-	(100,621)	-	-	(100,621)	-	(100,621)
Final dividend paid for 2013	-	-	-	-	-	-	(1,645,573)	-	(1,645,573)	-	(1,645,573)
Balance as at 30 June 2014 (Unaudited)	20,000,000	(190,510)	15,102,989	1,657,910	54,299	7,976,455	1,595,707	(1,589,119)	44,607,731	1,746,697	46,354,428
For the six month period ended 30 June 2013 (Unaudited)											
Balance as at 1 January 2013	15,000,000	(177,093)	13,623,678	1,765,983	91,359	7,051,299	1,495,975	(1,147,570)	37,703,631	1,700,514	39,404,145
Total comprehensive (loss)/income for the period	-	-	-	(349,775)	(25,535)	4,324,064	-	(250,964)	3,697,790	(39,292)	3,658,498
Adjustments in non-controlling interests and subsidiaries	-	-	-	-	-	6,695	-	-	6,695	(16,580)	(9,885)
Capital injection	-	-	-	-	-	-	-	-	-	65,539	65,539
Final dividend paid for 2012	-	-	-	-	-	-	(1,495,975)	-	(1,495,975)	-	(1,495,975)
Balance as at 30 June 2013 (Unaudited)	15,000,000	(177,093)	13,623,678	1,416,208	65,824	11,382,058	-	(1,398,534)	39,912,141	1,710,181	41,622,322

The accompanying notes 1 to 23 form an integral part of these interim condensed consolidated financial statements.

The National Commercial Bank
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	30 June	30 June
	2014	2013
	(Unaudited)	(Unaudited)
Notes	SR' 000	SR' 000
OPERATING ACTIVITIES		
Net income for the period	5,034,357	4,404,961
Adjustments to reconcile net income to net cash from operating activities:		
Amortisation of premium on non-trading investments, net	97,578	97,769
(Gains) on non-trading investments, net	(341,395)	(526,938)
(Gains) on disposal of property and equipment, net	(15,170)	(9,063)
(Gains) on disposal of other real estate, net	5 (146,681)	-
Loss on disposal of other repossessed assets	8,009	2,048
Depreciation of property and equipment	244,807	231,603
Amortisation of intangible assets	94,668	94,668
Impairment charge for credit losses, net	113,883	415,909
Bank's share in associates' (losses) and reversal (impairment), net	5 (52,370)	2,069
Impairment charge on investments, net	97,827	22,157
	5,135,513	4,735,183
Net (increase)/decrease in operating assets:		
Statutory deposits with SAMA	(3,087,748)	(2,307,048)
Due from banks and other financial institutions with original maturity of more than three months	(5,413,980)	(3,686,214)
Held as fair value through income statement (FVIS) investments	(150,214)	87,765
Loans and advances	(18,806,461)	(17,246,976)
Other real estate	20,214	19,133
Other assets	(1,173,528)	(2,456,575)
Net increase/(decrease) in operating liabilities:		
Due to banks and other financial institutions	1,468,061	(891,686)
Customers' deposits	44,980,207	16,247,257
Other liabilities	(194,964)	586,770
Net cash from (used in) operating activities	22,777,100	(4,912,391)
INVESTING ACTIVITIES		
Proceeds from sale and maturities of non-trading / non-FVIS investments	39,492,244	45,546,307
Purchase of non-trading / non-FVIS investments	(77,114,939)	(58,646,186)
Purchase of property and equipment	(1,014,144)	(184,685)
Proceeds from disposal of property and equipment	107,894	9,158
Net cash (used in) investing activities	(38,528,945)	(13,275,406)
FINANCING ACTIVITIES		
Debt securities issued	8 7,989,402	1,511,250
Net movement in non-controlling interests	(19,426)	70,034
Dividends paid (final)	(1,645,573)	(1,495,975)
Net cash from financing activities	6,324,403	85,309
Net (decrease) in cash and cash equivalents	(9,427,442)	(18,102,488)
Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the period	4,551	(459,352)
Cash and cash equivalents at the beginning of the period	30,594,562	38,088,205
Cash and cash equivalents at the end of the period	12 21,171,671	19,526,365
Special commission received during the period	6,664,846	6,085,129
Special commission paid during the period	1,067,112	873,247
Supplemental non-cash information		
Movement in other reserve and transfers to consolidated statement of income	396,290	414,199

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

The National Commercial Bank

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2014 and 2013 (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 Bank 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).

In an extraordinary general assembly meeting held on 31 March 2014, the shareholders approved an Initial Public Offering (IPO) of 15% of the Bank's share capital (after capital increase). The shares offered for the IPO will be from part of the shareholding of a majority shareholder of the Bank. The IPO is subject to required regulatory approvals.

(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% (2013: 90.71%) direct ownership interest in NCBC and an indirect ownership of 4.74% (2013: 1.51%) (the indirect ownership is held via an intermediary trust for future grant to NCBC employees).

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

The Bank has a 66.27% (2013: 66.27%) 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. During the year ended 31 December 2012, the shareholders of TFK, resolved to increase the capital by TL 975 million, which was subsequently endorsed by the Central Bank of Turkey (BRSA). Accordingly, the share capital of Turkish Bank has been increased to TL 1,775 million through capitalization of retained earnings and cash contribution. The Bank's share of such cash contribution was TL 206 million (SR 431 million).

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014 and 2013 (UNAUDITED)

1. GENERAL (continued)

(1.2) Group's subsidiaries (continued)

(c) Eastgate Capital Holdings Inc. (Eastgate)

The Group has a 66.82% (2013: 71.01%) effective ownership interest in Eastgate Capital Holdings Inc., a Middle East-based private equity firm acquired through its subsidiary, NCBC. NCBC acquired a 77% direct ownership interest and the remaining 23% is owned by the management of Eastgate. On 5 September 2013, NCBC disposed of 7% of its ownership interest in Eastgate Capital Holdings Inc. for a consideration of SR 656 thousands, without losing control.

(d) NCBC Investment Management Umbrella Company Plc

The Group has a 95.45% (2013: 93.5%) effective ownership in NCBC Investment Management Umbrella Company Plc, which was formed by NCBC in Ireland. NCBC Investment Management Umbrella Company Plc is the Undertaking Company for Collective Investment in Transferable Securities (UCITS) under the provisions of the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulation 2011.

(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 (2013: 100%) in Redco. The objectives of Redco primarily include keeping and managing title deeds and collateralized real estate properties on behalf of the Bank.

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 2013.

The preparation of interim condensed consolidated 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 2013.

(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.

The National Commercial Bank

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2014 and 2013 (UNAUDITED)

2. BASIS OF PREPARATION (continued)

(2.4) Basis of consolidation

These interim condensed consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries - NCB Capital Company and its subsidiaries, Turkiye Finans Katilim Bankasi A.S (TFK) and Real Estate Development Company (see note 1.2). NCB Capital also consolidates the financial statements of Eastgate and NCBC Investment Management Umbrella Company Plc in its interim condensed consolidated financial statements. The financial statements of the subsidiaries are prepared for the same reporting period 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.

(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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2014 and 2013 (UNAUDITED)

2. BASIS OF PREPARATION (continued)

(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 2013 except for the adoption of the following new standards and other amendments to existing standards mentioned below which had no financial impact on the interim condensed consolidated financial statements of the Group for current period or prior period and are expected to have an insignificant effect in future periods:

Amendments to existing standards

- Amendments to IFRS 10, IFRS 12 and IAS 27 that provides consolidation relief for investment funds applicable from 1 January 2014. This mandatory consolidation relief provides that a qualifying investment entity is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss provided it fulfils certain conditions with an exception being subsidiaries that are considered an extension of the investment entity's investing activities.
- IAS 32 amendment applicable from 1 January 2014 clarifies that a) an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and processes receivables and payables in a single settlement process or cycle.
- IAS 36 amendment applicable retrospectively from 1 January 2014 addresses the disclosure of information about the recoverable amount of impaired assets under the amendment. The recoverable amount of every cash generating unit to which goodwill or indefinite-lived intangible assets have been allocated is required to be disclosed only when an impairment loss has been recognized or reversed.
- IAS 39 amendment applicable from 1 January 2014 added a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation, that was not contemplated in the original hedging documentation, meets specified criteria.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014 and 2013 (UNAUDITED)

3. INVESTMENTS, NET

	30 June 2014 (Unaudited) SR '000	31 December 2013 (Audited) SR '000	30 June 2013 (Unaudited) SR '000
Held as FVIS (Fair Value through Income Statement) (see note (a))	2,895,305	2,745,092	2,610,323
Available for sale, net	28,352,317	27,661,828	27,384,035
Held to maturity, net	1,180,097	1,030,246	1,033,117
Other investments held at amortized cost, net (see note (b))	131,207,508	93,856,846	98,330,349
Total	163,635,227	125,294,012	129,357,824

- a) FVIS investments above include investments held for trading amounting to SR 793 million (31 December 2013: SR 673 million and 30 June 2013: SR 579 million).
- b) Other investments held at amortized cost include investments having an amortized cost of SR 6,461 million (31 December 2013: Nil and 30 June 2013: Nil) which are held under a fair value hedge relationship. As at 30 June 2014, the fair value of these investments amounts to SR 6,544 million (31 December 2013: Nil and 30 June 2013: Nil).

4. LOANS AND ADVANCES, NET

	30 June 2014 (Unaudited) SR '000	31 December 2013 (Audited) SR '000	30 June 2013 (Unaudited) SR '000
Credit cards	2,692,701	2,421,326	2,257,789
Consumer	67,866,498	60,344,450	57,822,371
Corporate	134,290,113	123,901,275	118,865,582
Others	3,609,108	2,942,721	1,447,749
Performing loans and advances	208,458,420	189,609,772	180,393,491
Non-performing loans and advances	2,875,820	2,919,449	3,590,187
Total loans and advances	211,334,240	192,529,221	183,983,678
Provision for credit losses	(5,139,583)	(4,842,184)	(5,775,864)
Loans and advances, net	206,194,657	187,687,037	178,207,814

5. INVESTMENT IN ASSOCIATES, NET

During the six month period ended 30 June 2014, an associate of the Bank (Al Behar Real Estate Investment Company (“the associate”)) distributed its capital among the shareholders as a part of its liquidation process and as a consideration transferred the title of certain real estate properties to the Bank. Accordingly, the Bank received properties having a value of SR 473.4 million, as a result of this, the Bank has reversed previously recognized impairment losses in respect of the associate amounting to SR 253.7 million. Subsequent to the transfer of legal title, the Bank has leased these properties (“leased properties”) under an Ijara arrangement for a period of 5 years and recognized a gain on derecognition of the leased properties amounting to SR 146.6 million which is recognised in the consolidated statement of income as a part of ‘other non-operating (expenses) income, net’

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6. OTHER REAL ESTATE, NET

During the six month period ended 30 June 2014, the Bank received certain real estate properties, amounting to SR 0.6 billion, as full and final settlement against a previously written-off loan.

7. CUSTOMERS' DEPOSITS

	30 June 2014 (Unaudited) SR '000	31 December 2013 (Audited) SR '000	30 June 2013 (Unaudited) SR '000
Current accounts	262,806,990	234,988,516	220,575,296
Savings	155,834	148,015	146,641
Time	66,320,728	53,095,364	53,771,919
Others	16,313,538	12,369,780	13,551,228
Total	345,597,090	300,601,675	288,045,084

8. DEBT SECURITIES ISSUED

a) SUKUK ISSUED BY THE BANK

During the six month period ended 30 June 2014, the Bank issued a 10 year floating rate Sukuk certificate amounting to SR 5 billion through a private placement. The Sukuk is callable by Bank on the 5th anniversary of the issue date and carries profit at SIBOR plus 100bps payable semi-annually.

b) SUKUKS ISSUED BY TFK

During May 2013, TFK issued 5 year fixed rate non-convertible Sukuk certificate amounting to US \$500 million (SR 1,875 million). The certificates are listed on the Irish Stock Exchange and carry a fixed rate of 3.95% payable semi-annually.

During January 2014, TFK issued 6 months fixed rate non-convertible sukuk certificates amounting to TRY 100 million (SR 176 million). The certificates are listed on the Borsa Istanbul and carry a fixed rate of 10.10% payable quarterly.

During April 2014, TFK issued 5 year fixed rate non-convertible sukuk certificates amounting to US \$500 million (SR 1,875 million). The certificates are listed on the Irish Stock Exchange and carry a fixed rate of 5.37% payable semi-annually.

During June 2014, TFK issued 5 year fixed rate non-convertible sukuk certificates amounting to Malaysian Ringgit 800 million (SR 938 million) through private placement. The certificates carry a fixed rate of 6% payable semi-annually.

9. NET DIVIDEND AND ZAKAT

On 17 July 2014, the Board of Directors approved an interim dividend of SR 1,595.7 million (SR 0.80 per share), (30 June 2013: SR 1,196.8 million, SR 0.80 per share). In accordance with the requirement of International Financial Reporting Standards, interim dividends declared by the Board of Directors after the balance sheet date will be accounted for in the third quarter of 2014.

Zakat assessments have been finalized with the Department of Zakat and Income Tax (DZIT) for all years up to 2011, requiring an additional Zakat charge of SR 100.6 million. The Bank has submitted zakat returns for the years 2012 and 2013 and obtained limited zakat certificates. The zakat returns for the years 2012 and 2013 are currently under review by DZIT and the zakat assessment for these years is awaited.

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

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10. DERIVATIVES

The table below show the positive and negative fair values of derivative financial instruments, together with their notional amounts. 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 of market risk.

	<u>30 June 2014 (Unaudited)</u>			<u>31 December 2013 (Audited)</u>			<u>30 June 2013(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	264,799	(243,774)	32,930,498	197,790	(187,164)	18,630,107	161,955	(149,977)	12,956,717
Special commission rate options and futures	27,470	(27,725)	1,074,537	-	-	-	-	-	-
Forward foreign exchange contracts	66,776	(40,201)	75,358,137	117,001	(90,446)	59,929,689	105,451	(91,444)	63,617,143
Options	5,597	(5,023)	566,951	1,860	(1,860)	660,509	20,746	(20,729)	3,202,803
Structured derivatives	207,786	(208,692)	72,233,190	155,251	(155,664)	42,491,314	94,098	(94,738)	31,635,980
Held as fair value hedges:									
Special commission rate swaps	528	(258,696)	7,151,296	-	(155,041)	843,750	-	(150,477)	843,750
Held as cash flow hedges:									
Special commission rate swaps	69,515	(58,380)	9,742,728	31,831	(48,246)	7,349,059	79,768	(18,592)	10,194,754
Total	642,471	(842,491)	199,057,337	503,733	(638,421)	129,904,428	462,018	(525,957)	122,451,147

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11. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	30 June 2014 (Unaudited) <u>SR '000</u>	31 December 2013 (Audited) <u>SR '000</u>	30 June 2013 (Unaudited) <u>SR '000</u>
Letters of credit	18,633,403	20,473,480	16,797,283
Guarantees	50,695,382	48,153,836	48,282,225
Acceptances	3,742,518	3,381,020	3,939,373
Irrevocable commitments to extend credit	8,458,327	9,665,846	9,648,185
Total	<u>81,529,630</u>	<u>81,674,182</u>	<u>78,667,066</u>

12. CASH AND CASH EQUIVALENTS

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

	30 June 2014 (Unaudited) <u>SR '000</u>	31 December 2013 (Audited) <u>SR '000</u>	30 June 2013 (Unaudited) <u>SR '000</u>
Cash and balances with SAMA excluding statutory deposits	12,188,603	22,285,224	14,559,502
Due from banks and other financial institutions with original maturity of three months or less	8,983,068	8,309,338	4,966,863
Total	<u>21,171,671</u>	<u>30,594,562</u>	<u>19,526,365</u>

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13. OPERATING SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's management.

The Group has five reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

Retail	-	Provides banking services, including lending and current accounts in addition to products in compliance with <i>Shariah</i> rules which are supervised by the independent <i>Shariah</i> Board, to individuals and private banking customers.
Corporate	-	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.
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.

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13. 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:

30 June 2014 (Unaudited)	<u>SR '000</u>					
	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
Total assets	84,929,301	116,345,498	180,693,682	1,314,441	52,247,118	435,530,040
Total liabilities	151,898,832	169,359,794	23,301,341	186,692	44,428,953	389,175,612
Fee income from banking services, net	523,398	544,505	-	373,165	274,266	1,715,334
Operating income	2,839,957	1,826,376	1,990,059	393,603	1,029,378	8,079,373
Operating expenses	2,182,495	(229,737)	264,538	177,368	791,851	3,186,515
of which:						
- Depreciation of property and equipment	149,939	24,592	16,272	9,402	44,602	244,807
- Impairment charge for credit losses, net	630,080	(621,271)	-	-	105,074	113,883
- Impairment charge on investments, net	-	-	84,656	13,171	-	97,827
Net income (Bank and non-controlling interests)	603,551	2,381,364	1,649,850	203,678	195,914	5,034,357

30 June 2013 (Unaudited)	<u>SR '000</u>					
	<u>Retail</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Capital Market</u>	<u>International</u>	<u>Total</u>
Total assets	71,599,519	101,796,853	146,789,102	1,204,737	41,406,042	362,796,253
Total liabilities	142,586,703	126,220,210	18,106,951	219,326	34,040,741	321,173,931
Fee income from banking services, net	543,744	507,442	-	310,814	289,670	1,651,670
Operating income	2,694,362	1,708,775	1,916,841	328,505	1,117,167	7,765,650
Operating expenses	1,644,893	456,337	196,562	203,574	798,218	3,299,584
of which:						
- Depreciation of property and equipment	146,844	25,233	15,764	7,957	36,409	232,207
- Impairment charge for credit losses, net	169,417	90,306	-	-	156,186	415,909
- Impairment charge on investments, net	-	-	22,157	-	-	22,157
Net income (Bank and non-controlling interests)	1,078,337	1,248,682	1,727,823	129,253	220,866	4,404,961

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14. LEGAL PROCEEDINGS

The Bank was named as one of many Saudi and non-Saudi defendants in certain lawsuits initiated in the United States commencing in 2002. These lawsuits were consolidated in a Federal Court in New York for preliminary pre-trial purposes. During 2004, the Bank filed motions to dismiss the lead lawsuits and asserted a number of threshold jurisdictional and legal defenses. In July 2008, the Bank made a renewed motion to dismiss all of these lawsuits based on a lack of United States jurisdiction over the Bank. On 16 June 2010, the Presiding Judge granted the Bank's renewed motion to dismiss all of plaintiffs' claims against the Bank, finding that the evidence did not support the exercise of United States jurisdiction over the Bank, either generally, or specifically in connection with the plaintiffs' claims.

On 14 July 2011, the Clerk of the Court issued a formal judgment of dismissal of claims against the Bank and numerous other defendants. Through a series of notices filed on or before 15 August 2011, the plaintiffs in all lawsuits against the Bank commenced appeals of the judgment of dismissal of the Bank and numerous other defendants. Following oral argument of the appeals in December 2012, the Court of Appeals on 16 April 2013 affirmed the trial court's judgment dismissing the claims against the Bank for lack of jurisdiction. On 10 May 2013, the plaintiffs filed a petition for rehearing of the appeal which the Court of Appeals denied on 10 June 2013.

Although the judgment dismissing plaintiffs' claims against the Bank became final upon denial of the petition for rehearing, the plaintiffs on 9 September 2013 sought a discretionary further (and final) review of the Court of Appeals' decision by way of a petition to the United States Supreme Court for a writ of certiorari. The Bank joined with other similarly situated defendants (those dismissed for lack of jurisdiction) in a common brief in opposition to the plaintiffs' petition for certiorari, which was filed in November 2013. In an order entered on 16 December 2013, the Supreme Court invited the Solicitor General of the United States to submit the views of the U.S.

In a brief filed on 27 May 2014, the Solicitor General expressed "the view of the United States [that] the petition for certiorari should be denied." The plaintiffs filed a supplemental brief on 9 June 2014 disagreeing with the views of the United States.

On 30 June 2014, the Supreme Court issued an order denying the plaintiffs' petition for a writ of certiorari ("order of denial"). The plaintiffs may submit a petition for rehearing of the order of denial not later than 25 July 2014. However, the Court's rules provide that the order of denial "will not be suspended pending disposition of a petition for rehearing" absent a further order of the Court, and that a petition for rehearing must be limited strictly to "intervening circumstances of a substantial or controlling effect or to other substantial grounds not previously presented."

The Bank's legal counsel believes that plaintiffs cannot in good faith satisfy the rule governing a petition for rehearing given that the Court's order of denial was entered shortly after plaintiffs' response to the Solicitor General's brief, which addressed all relevant issues. Further, the Bank's legal counsel believes that the Court would not suspend its order of denial in the unlikely event that plaintiffs submit a petition for rehearing. The Bank accordingly has been advised that these legal proceedings were substantively concluded as against it as of the 30 June 2014 date of the Court's order of denial.

15. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the six month period ended 30 June 2014 and 30 June 2013 is calculated by dividing the net income attributable to equity holders of the Bank for the period by the weighted average number of shares outstanding during the period. The comparative figure has been recalculated to account for the impact of the bonus issue.

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

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16. 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 2013: 1,500,000,000 shares of SR 10 each) wholly owned by Saudi shareholders. The capital of the Bank excluding treasury shares (see note 20) consists of 1,994,633,531 shares of SR 10 each (31 December 2013: 1,495,975,148 shares of SR 10 each).

The Board of Directors in its meeting held on 29 January 2014 (corresponding to 28 Rabi Al-Awal 1435H) proposed to increase the authorised and issued share capital of the Bank from SR 15 billion to SR 20 billion through capitalization of retained earnings and issuance of 33.33% bonus shares (one share for each three shares held as at 31 December 2013). During the six month period ended 30 June 2014, the increase was approved by SAMA, Ministry of Commerce and Industry and the shareholders of the Bank.

17. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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.

The fair values of on-balance sheet financial instruments, except for other investments held at amortised cost and held-to-maturity investments which are carried at amortised cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements. The fair values of loans and advances, commission bearing customers' deposits, due from/to banks and other financial institutions and debt securities issued which are carried at amortised cost, are not significantly different from the carrying values at which they are included in the interim condensed consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from/to banks and other financial institutions. The estimated fair values of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds respectively. The fair values of these investments are disclosed below.

The fair values of derivatives and other off-balance sheet financial instruments are based on the quoted market prices when available or by using appropriate valuation techniques.

	30 June 2014 (Unaudited)		30 June 2013 (Unaudited)	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Held to maturity, net	1,180,097	1,242,402	1,033,117	1,129,112
Other investments held at amortized cost, net	131,207,508	132,282,901	98,330,349	98,961,171
Total	132,387,605	133,525,303	99,363,466	100,090,283

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18. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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 an analysis of financial instruments recorded at fair value by level of the fair value

	(SR '000)			
30 June 2014 (Unaudited)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>				
Derivative financial instruments	-	642,471	-	642,471
Financial assets designated at FVIS	6,682	1,619,070	476,226	2,101,978
Financial assets available for sale	12,489,487	14,747,877	1,114,953	28,352,317
Held for trading	793,327	-	-	793,327
Other investments held at amortized cost, net - fair value hedged	-	6,544,415	-	6,544,415
Total	<u>13,289,496</u>	<u>23,553,833</u>	<u>1,591,179</u>	<u>38,434,508</u>
<u>Financial liabilities</u>				
Derivative financial instruments	-	842,491	-	842,491

	(SR '000)			
30 June 2013 (Unaudited)	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial assets</u>				
Derivative financial instruments	-	462,018	-	462,018
Financial assets designated at FVIS	-	1,691,749	424,385	2,116,134
Financial assets available for sale	15,207,655	10,949,076	1,227,304	27,384,035
Held for trading	494,189	-	-	494,189
Total	<u>15,701,844</u>	<u>13,102,843</u>	<u>1,651,689</u>	<u>30,456,376</u>
<u>Financial liabilities</u>				
Derivative financial instruments	-	525,957	-	525,957

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18. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy in respect of financial assets designated as FVIS and available for sale.

	30 June	30 June
	2014	2013
	(Unaudited)	(Unaudited)
	<u>SR '000</u>	<u>SR '000</u>
Balance as at 1 January	1,546,058	1,606,133
Total gains in the interim condensed consolidated statements of income and of comprehensive income	122,290	31,190
Purchases	14,711	15,560
(Sales)	(91,880)	(240,007)
(Settlements)	-	(3,364)
Transfer from level 2	-	242,177
Balance as at 30 June	<u>1,591,179</u>	<u>1,651,689</u>

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19. 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.

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		
	30 June 2014 (Unaudited) SR 000	31 December 2013 (Audited) SR 000	30 June 2013 (Unaudited) SR 000
Credit risk	259,985,267	226,641,233	215,686,874
Operational risk	25,631,642	24,479,624	23,362,103
Market risk	7,006,605	5,707,726	6,771,467
Total Pillar-1 - risk weighted assets	292,623,514	256,828,583	245,820,444
Core capital (Tier 1)	45,344,206	41,630,086	40,565,426
Supplementary capital (Tier 2)	7,667,675	2,375,797	2,574,333
Core and supplementary capital (Tier 1 and Tier 2)	53,011,881	44,005,883	43,139,759
Capital Adequacy Ratio (Pillar 1):-			
Core capital (Tier 1)	15.5%	16.2%	16.5%
Core and supplementary capital (Tier 1 and Tier 2)	18.1%	17.1%	17.5%

Tier 1 capital of the Group comprises share capital, statutory reserve, other reserves, retained earnings 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 amounts and ratios disclosed above have been calculated based on Basel III.

20. 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.

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21. TREASURY SHARES

The Bank acquired its own equity shares in 2009 from a customer as a result of partial set-off of debt.

During the period ended 30 June 2014, as a result of the bonus issue (see note 15), the number of treasury shares increased from 4,024,852 to 5,366,469 (SR 177 million to SR 190.5 million).

22. COMPARATIVE FIGURES

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

23. BOARD OF DIRECTORS' APPROVAL

The interim condensed consolidated financial statements were approved by the Board of Directors on 23 July 2014 (corresponding to 26 Ramadan 1435H).